



*FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORT*
City of Rehoboth Beach

Sussex County, Delaware

March 31, 2012

CITY OF REHOBOTH BEACH

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INDEPENDENT AUDITORS' REPORT

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November 14, 2012

To the Honorable Mayor and Commissioners
City of Rehoboth Beach
Rehoboth Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rehoboth Beach's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated November 7, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of March 31, 2012, and the respective changes in its financial position and its cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the Financial Statements, the City adopted the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," in the year ended March 31, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012 on our consideration of the City of Rehoboth Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 and budgetary comparison schedule - general fund on pages 36-37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rehoboth Beach's financial statements as a whole. The combining nonmajor fund financial statements on pages 38-39 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED
MARCH 31, 2012**

This discussion and analysis of the City of Rehoboth Beach, Delaware ("the City") provides an overview of the City's financial performance for the fiscal year ended March 31, 2012. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at March 31, 2012 by \$59.2 million (net assets). Of this amount, \$6.6 million (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net assets decreased by \$151 thousand.

As of March 31, 2012, the City's governmental funds reported combined ending fund balances of \$2.8 million, an increase of \$733 thousand as compared to the prior year. The current year increase in fund balance can be attributed to higher than budgeted revenues and transfers from the Water Fund and Sewer Fund.

As of March 31, 2012, the City's proprietary funds reported combined net assets of \$22.4 million, an increase of \$339 thousand compared to the prior year. The increase can be attributed to the following: a) \$482 thousand increase in operating revenues that was offset by a \$45 thousand increase in operating expenses; b) \$90 thousand increase in non-operating revenues/expenses; c) \$444 thousand increase in capital contributions from Dewey Beach and Henlopen Acres for the ocean outfall engineering expenses; and d) \$726 thousand of transfers to the General Fund.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements and required supplementary information. The discussion and analysis is intended to serve as an introduction to the City of Rehoboth Beach's basic financial statements. The City of Rehoboth Beach's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are entity-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the entity-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Entity-wide Financial Statements. The entity-wide financial statements are designed to provide readers with a broad overview of the City of Rehoboth Beach's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 only in future fiscal periods.

Both of the entity-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Rehoboth Beach include general government, public safety, public works, and recreation and culture. Business-type activities are limited to the City's water and sewer system.

Fund Financial Statements. Traditional readers of government financial statements will find the fund financial statement presentation more familiar where the focus is on the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. The City uses governmental and proprietary fund financial statements to provide more detailed information about the City's most significant funds rather than the City as a whole.

Governmental Funds. Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in reconciliation.

Proprietary Funds. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like entity-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the City's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the entity-wide financial statements. The City uses proprietary funds to account for its water and sewer operations.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City. A budgetary comparison schedule has been provided for the General Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Entity-wide Financial Analysis

The following table presents a summary of the Statement of Net Assets for the City as of March 31, 2011 and 2012.

Table 1 – Condensed Statement of Net Assets

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | | | |
| Current and other assets | \$ 3,278,198 | \$ 2,565,707 | \$ 5,394,986 | \$ 5,607,736 | \$ 8,673,184 | \$ 8,173,443 |
| Capital assets, net | 38,490,918 | 40,138,728 | 22,509,947 | 22,756,261 | 61,000,865 | 62,894,989 |
| TOTAL ASSETS | 41,769,116 | 42,704,435 | 27,904,933 | 28,363,997 | 69,674,049 | 71,068,432 |
| LIABILITIES | | | | | | |
| Other liabilities | 931,198 | 945,087 | 940,576 | 1,224,329 | 1,871,774 | 2,169,416 |
| Long-term debt | 4,055,050 | 4,486,200 | 4,566,255 | 5,080,888 | 8,621,305 | 9,567,088 |
| TOTAL LIABILITIES | 4,986,248 | 5,431,287 | 5,506,831 | 6,305,217 | 10,493,079 | 11,736,504 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 34,824,731 | 35,877,750 | 17,709,845 | 17,399,886 | 52,534,576 | 53,277,636 |
| Restricted | 78,111 | 38,771 | - | - | 78,111 | 38,771 |
| Unrestricted | 1,880,026 | 1,356,627 | 4,688,257 | 4,658,894 | 6,568,283 | 6,015,521 |
| TOTAL NET ASSETS | \$36,782,868 | \$37,273,148 | \$22,398,102 | \$22,058,780 | \$59,180,970 | \$59,331,928 |

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to residents and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

Table 2 – Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,186,773 | \$ 6,217,231 | \$ 4,733,494 | \$ 4,279,517 | \$10,920,267 | \$10,496,748 |
| Operating grants/contributions | 384,590 | 256,616 | 45,000 | 1,545 | 429,590 | 258,161 |
| Capital grants/contributions | 615,337 | 1,935,001 | 609,180 | 121,161 | 1,224,517 | 2,056,162 |
| General revenues: | | | | | | |
| Taxes | 3,124,278 | 3,075,002 | - | - | 3,124,278 | 3,075,002 |
| Investment earnings | 12,799 | 13,067 | 14,954 | 10,919 | 27,753 | 23,986 |
| Franchise fees | 72,634 | 71,429 | - | - | 72,634 | 71,429 |
| Miscellaneous | 80,788 | 160,331 | - | - | 80,788 | 160,331 |
| Transfers | 794,613 | 194,154 | - | - | 794,613 | 194,154 |
| TOTAL REVENUES | 11,271,812 | 11,922,831 | 5,402,628 | 4,413,142 | 16,674,440 | 16,335,973 |
| EXPENSES | | | | | | |
| General government | \$2,378,004 | 2,656,336 | - | - | 2,378,004 | 2,656,336 |
| Public safety | 2,534,353 | 2,532,298 | - | - | 2,534,353 | 2,532,298 |
| Public works | 5,497,358 | 5,338,462 | - | - | 5,497,358 | 5,338,462 |
| Recreation and culture | 1,230,865 | 1,074,271 | - | - | 1,230,865 | 1,074,271 |
| Interest on long-term debt | 121,512 | 212,996 | - | - | 121,512 | 212,996 |
| Water operations | - | - | 1,762,631 | 1,760,725 | 1,762,631 | 1,760,725 |
| Sewer operations | - | - | 2,506,062 | 2,490,364 | 2,506,062 | 2,490,364 |
| Transfers | - | - | 794,613 | 194,154 | 764,613 | 194,154 |
| TOTAL EXPENSES | 11,762,092 | 11,814,363 | 5,063,306 | 4,445,243 | 16,825,398 | 16,259,606 |
| INCREASE (DECREASE) IN NET ASSETS | (490,280) | 108,468 | 339,322 | (32,101) | (150,958) | 76,367 |
| NET ASSETS, BEGINNING OF YEAR | 37,273,148 | 37,164,680 | 22,058,780 | 22,090,881 | 59,331,928 | 59,255,561 |
| NET ASSETS, END OF YEAR | \$36,782,868 | \$37,273,148 | \$22,398,102 | \$22,058,780 | \$59,180,970 | \$59,331,928 |

Governmental Activities

The cost of all governmental activities in 2012 was \$11.8 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$3.1 million, or 27 percent. Other costs were paid by those who directly benefited from the programs (\$6.2 million, or 53 percent) or by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$1.0 million, or nine percent).

Capital grants and contributions decreased from the prior year by \$1.3 million. The decline was a result of the completion of the boardwalk project in the prior year and the reduction in the related capital grant funds. Property tax revenue increased by \$179 thousand as a result of a rate increase from \$1.55 to \$1.78 per hundred of assessed value. The increased property tax revenue did not fully offset the declines in transfer tax (\$190 thousand) and building permits (\$107 thousand). Charges for services directly associated with program functions decreased by \$30 thousand from the prior year.

As indicated by the governmental program expenses, general government programs accounted for 20.2 percent of the City's governmental activities. Increases for governmental activities are due to cost-of-living increases for wages, medical insurance inflation, legal and professional services. Public safety expenses accounted for 21.6 percent of the City's governmental activities during the year

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

ended March 31, 2012 and 21.4 percent in the prior year. The increased costs were due to cost-of-living increases for wages and inflation for benefit costs. Public works expenses accounted for 46.7 percent of the City's governmental activities and experienced an increase in depreciation expense of approximately \$71 thousand due to the placement of projects into service. Public works also experienced increases due to cost-of-living increases for wages and medical insurance inflation. Recreation and culture expenses accounted for 10.5 percent of the City's governmental activities and represented an increase of less than 14.6 percent from the prior year.

Business-type Activities

In addition to providing the residents of Rehoboth Beach with water and sewer services, the City has entered into operating agreements with Dewey Beach, Henlopen Acres and North Shores for wastewater treatment services and water distribution to Dewey Beach.

Charges for services represent the principal revenue source for the City's business-type activities. Current water rates were not increased during the fiscal year. The sewer surcharge imposed to pay for future projects was increased from twenty percent to thirty-five percent. The overall expense of business-type activities increased by less than one percent. The increases were primarily due to growth in supplies/materials and depreciation expenses. Salaries and utilities decreased by \$32 thousand and \$69 thousand, respectively. Grant revenue increased by \$36 thousand from the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the City's financing requirements. In particular, the 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.

As of March 31, 2012, the City's governmental funds reported combined ending fund balances of \$2.78 million, an increase of \$733 thousand as compared to the prior year. Less than three percent, or \$78 thousand, constitutes fund balance restricted for special purposes. The City has also assigned \$56 thousand of the fund balance for the Municipal Building Project and has \$189 thousand in net assets which are not in spendable form (prepaid expenses and inventory). The remaining \$2.46 million is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. As of March 31, 2012, the total fund balance of the General Fund was \$2.7 million, of which \$2.46 million is unassigned. The fund balance increased by \$693 thousand during the year ended March 31, 2012.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

Significant changes in revenue for the governmental funds are consistent with the prior analysis of the governmental activities revenues. Inter-governmental revenues consisted of proceeds from a capital grant used to pay for the energy efficiency projects at the municipal building and the public works buildings.

The City's departmental expenditures increased by approximately \$154 thousand from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average 3.0 percent wage increase for all City employees, effective April 1, 2011. In accordance with their collective bargaining agreement, police officers also received a three percent increase, effective April 1, 2011. There was a \$138.7 thousand increase in wage expense in the governmental funds. Medical and dental insurance costs increased from \$534 thousand to \$543 thousand, a \$9 thousand, or 1.75 percent, increase.
- The City experienced a decrease in electric costs of approximately \$17 thousand.
- In 2012, the City's outlay for capital expenditures decreased by \$716 thousand to \$1,671 thousand.

The major capital projects and items funded by the City's capital improvement program were as follows:

- \$609.4 thousand for roof and window improvements to city buildings
- \$161.9 thousand for improvements to the Baltimore Avenue restroom
- \$105.8 thousand for improvements to the Delaware Avenue restroom
- \$92.4 thousand for storm water drainage improvements in Country Club Estates
- \$69.7 thousand for improvements to the sidewalk ramps

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 36-37. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$390.7 thousand. Taxes, Licenses and Permits, Intergovernmental Revenues, Charges for Services and Fines and Forfeitures exceeded the budget by \$76 thousand, \$78 thousand, \$151 thousand, \$95 thousand and \$76 thousand, respectively.
- Revenues from Public Works grants, Rental Tax, Parking Meter revenue and Parking Fines exceeded the budget by \$65 thousand, \$56 thousand, \$88 thousand and \$128 thousand, respectively.
- Total General Fund expenditures were \$67 thousand less than budget.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

- Street Department expenditures, including charges for engineering services, sidewalk maintenance, and supplies exceeded the budget by \$36.6 thousand, \$16.1 thousand, and \$18.3 thousand, respectively.
- Additional expenditures for spare parts (\$107 thousand) and collection fees (\$18 thousand) in the Parking Department primarily contributed to expenditures exceeding the budget by \$140 thousand.
- Police Department expenditures were \$107 thousand less than budget. Lower than budgeted personnel expenses (\$80 thousand) and lower supplies costs (\$18 thousand) were primarily responsible for the favorable variance.
- Administrative expenditures were \$115 thousand below budget, primarily as a result of lower than budgeted amounts for contractual services.
- Additional expenditures for contractual services in the Parks Department contributed to expenditures exceeding the budget by \$79 thousand.
- All other fluctuations in revenues from budget to actual are deemed reasonable, based on the element of uncertainty when budgeting for such revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of March 31, 2012, amounted to \$61.0 million (net of accumulated depreciation). Capital assets include land, building and improvements, improvements other than buildings, machinery and equipment, vehicles and infrastructure. The total net decrease in the City's capital assets for the current fiscal year was approximately \$1.89 million. Current year depreciation of \$4.5 million exceeded capital asset additions by \$1.89 million. Construction-in-process of \$1.5 million consisted primarily of Ocean Outfall engineering costs, the Generator Replacement Project and the Delaware Avenue Restroom Project. The Generator Replacement Project was placed in service in fiscal year 2012-2013.

More detailed information about the City's capital assets is presented in the notes to the basic financial statements.

Debt Administration

During the year ended March 31, 2012, the City did not incur any additional debt. In addition, the City made debt service principal payments in the amount of \$1.15 million on its General Fund projects loan and Water Department loans. All general obligation notes are backed by the full faith and credit of the City. In fiscal year 2012-2013, the City expects to issue \$450,000 of bonds payable to the Delaware Water Pollution Control Revolving Fund for the sanitary sewer line replacement project. The bonds will mature on May 1, 2023 and bear interest at three percent.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2012**

More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- As a result of the general decline in real estate sales throughout our region, transfer taxes decreased by \$169 thousand as compared to the prior year.
- The 2012-2013 combined budgets for the governmental and proprietary funds reflect total appropriations in the amount of \$15,686,247, a \$928,545 increase from the prior year. With the completion of the Energy Competitive Project, the budget for capital outlays has declined by \$460,041.
- The 2012-2013 property tax rate was unchanged at \$1.78 per hundred of assessed property value.
- The wastewater surcharge will be increased from 35 percent to 50 percent of sewer bills.
- The 2012-2013 budget calls for three percent wage increase for all City employees.
- The City has allocated \$1.4 Million to the 2012-2013 capital improvement program budget. The largest components of the capital improvements budget are the Lake Avenue engineering project and the Delaware Avenue restroom upgrades. An \$80,000 grant is included in the budget for the Delaware Avenue restroom upgrades.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact Mr. Greg Ferrese, City Manager, City of Rehoboth Beach, 229 Rehoboth Avenue, P.O. Box 1163, Rehoboth Beach, Delaware 19971-2137.

CITY OF REHOBOTH BEACH
STATEMENT OF NET ASSETS
MARCH 31, 2012
(With Summarized Comparative Data for March 31, 2011)

| | Governmental Activities | Business-type Activities | Totals | |
|--|----------------------------|-----------------------------|----------------------------|----------------------------|
| | | | 2012 | 2011 |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,862,141 | \$ 4,516,427 | \$ 7,378,568 | \$ 7,001,727 |
| Taxes receivable | 4,665 | - | 4,665 | 8,175 |
| Accounts receivable | 162,945 | 403,896 | 566,841 | 463,348 |
| Interest receivable | - | 324 | 324 | 773 |
| Internal balances | (173,469) | 173,469 | - | - |
| Due from other governments | 63,713 | - | 63,713 | 53,558 |
| Prepaid expenses | 163,914 | 8,540 | 172,454 | 202,154 |
| Inventory | 25,539 | 292,330 | 317,869 | 249,958 |
| Loan receivable | 168,750 | - | 168,750 | 193,750 |
| CAPITAL ASSETS | | | | |
| Land | 2,814,959 | 192,936 | 3,007,895 | 3,007,895 |
| Construction-in-progress | 205,754 | 1,296,308 | 1,502,062 | 371,711 |
| Depreciable capital assets, net of depreciation | <u>35,470,205</u> | <u>21,020,703</u> | <u>56,490,908</u> | <u>59,515,383</u> |
| TOTAL ASSETS | <u>\$41,769,116</u> | <u>\$27,904,933</u> | <u>\$69,674,049</u> | <u>\$71,068,432</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 228,779 | \$ 65,639 | \$ 294,418 | \$ 534,919 |
| Accrued salaries and benefits | 56,736 | 13,255 | 69,991 | 46,558 |
| Accrued interest | 11,004 | 54,729 | 65,733 | 86,188 |
| Deposits | 38,851 | - | 38,851 | 39,268 |
| Deferred revenue | 1,000 | - | 1,000 | 1,000 |
| Contingency reserve | - | 244,587 | 244,587 | 310,382 |
| Note payable | 616,023 | 562,365 | 1,178,388 | 1,151,101 |
| Noncurrent Liabilities: | | | | |
| Note payable | 3,050,164 | 4,237,737 | 7,287,901 | 8,466,252 |
| Liability for other post-employment benefits | 548,444 | 145,289 | 693,733 | 479,258 |
| Compensated absences | <u>435,247</u> | <u>183,230</u> | <u>618,477</u> | <u>621,578</u> |
| TOTAL LIABILITIES | <u>4,986,248</u> | <u>5,506,831</u> | <u>10,493,079</u> | <u>11,736,504</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 34,824,731 | 17,709,845 | 52,534,576 | 53,277,636 |
| Restricted: | | | | |
| Police expenditures | 10,767 | - | 10,767 | 12,023 |
| Public works expenditures | 67,344 | - | 67,344 | 26,748 |
| Unrestricted | <u>1,880,026</u> | <u>4,688,257</u> | <u>6,568,283</u> | <u>6,015,521</u> |
| TOTAL NET ASSETS | <u>36,782,868</u> | <u>22,398,102</u> | <u>59,180,970</u> | <u>59,331,928</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$41,769,116</u> | <u>\$27,904,933</u> | <u>\$69,674,049</u> | <u>\$71,068,432</u> |

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

**CITY OF REHOBOTH BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012
(With Summarized Comparative Data for the Year Ended March 31, 2011)**

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|----------------------|------------------------------------|---|-------------------------|--------------------------|---------------------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Totals |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| General government | \$ 2,378,004 | \$ 19,034 | \$ 553,481 | \$ (565,828) | \$ - | \$ (1,307,590) |
| Public safety | 2,534,353 | 140,430 | - | (2,258,751) | - | (2,165,859) |
| Public works | 5,497,358 | 202,836 | 51,019 | (463,695) | - | 1,153,008 |
| Recreation and culture | 1,230,865 | 22,290 | 10,837 | (1,165,606) | - | (872,078) |
| Interest on general long-term debt | 121,512 | - | - | (121,512) | - | (212,996) |
| TOTAL GOVERNMENTAL ACTIVITIES | 11,762,092 | 384,590 | 615,337 | (4,575,392) | - | (3,405,515) |
| BUSINESS-TYPE ACTIVITIES: | | | | | | |
| Water | 1,762,631 | - | 164,853 | - | 532,088 | 372,910 |
| Sewer | 2,506,062 | 45,000 | 444,327 | - | 586,893 | (221,776) |
| TOTAL BUSINESS-TYPE ACTIVITIES | 4,268,693 | 45,000 | 609,180 | - | 1,118,981 | 151,134 |
| TOTAL PRIMARY GOVERNMENT | \$16,030,785 | \$ 429,590 | \$1,224,517 | (4,575,392) | 1,118,981 | (3,254,381) |
| GENERAL REVENUES: | | | | | | |
| Taxes | | | | 3,124,278 | - | 3,124,278 |
| Investment earnings | | | | 12,799 | 14,954 | 27,753 |
| Franchise fees | | | | 72,634 | - | 72,634 |
| Miscellaneous revenues | | | | 80,788 | - | 80,788 |
| TRANSFERS | | | | 794,613 | (794,613) | - |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | 4,085,112 | (779,659) | 3,305,453 |
| CHANGE IN NET ASSETS | | | | (490,280) | 339,322 | (150,958) |
| NET ASSETS, BEGINNING OF YEAR | | | | 37,273,148 | 22,058,780 | 59,331,928 |
| NET ASSETS END OF YEAR | | | | \$36,782,868 | \$22,398,102 | \$59,180,970 |

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

CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2012
(With Summarized Comparative Data for March 31, 2011)

| | General Fund | Nonmajor Governmental Funds | Totals | |
|--|--------------------|-----------------------------------|--------------------|--------------------|
| | | | 2012 | 2011 |
| ASSETS | | | | |
| Cash and cash equivalents | \$2,784,030 | \$ 78,111 | \$2,862,141 | \$2,037,692 |
| Taxes receivable | 4,665 | - | 4,665 | 8,175 |
| Accounts receivable | 162,945 | - | 162,945 | 99,593 |
| Grants receivable | 63,713 | - | 63,713 | 53,558 |
| Prepaid expenses | 163,914 | - | 163,914 | 154,029 |
| Inventory | 25,539 | - | 25,539 | 18,910 |
| Loan receivable | 168,750 | - | 168,750 | 193,750 |
| TOTAL ASSETS | \$3,373,556 | \$ 78,111 | \$3,451,667 | \$2,565,707 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 228,779 | \$ - | \$ 228,779 | \$ 244,496 |
| Due to other funds | 173,469 | - | 173,469 | - |
| Accrued salaries and benefits | 56,736 | - | 56,736 | 35,888 |
| Deposits | 38,851 | - | 38,851 | 39,268 |
| Deferred revenue | 169,750 | - | 169,750 | 194,750 |
| TOTAL LIABILITIES | 667,585 | - | 667,585 | 514,402 |
| FUND BALANCES: | | | | |
| Nonspendable | 189,453 | - | 189,453 | 172,939 |
| Restricted: | | | | |
| Police expenditures | - | 10,767 | 10,767 | 12,023 |
| Public works expenditures | - | 67,344 | 67,344 | 26,748 |
| Assigned: | | | | |
| Municipal building project | 56,335 | - | 56,335 | - |
| Unassigned | 2,460,183 | - | 2,460,183 | 1,839,595 |
| TOTAL FUND BALANCES | 2,705,971 | 78,111 | 2,784,082 | 2,051,305 |
| TOTAL LIABILITIES AND FUND BALANCES | \$3,373,556 | \$ 78,111 | \$3,451,667 | \$2,565,707 |

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

**CITY OF REHOBOTH BEACH
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
MARCH 31, 2012**

TOTAL GOVERNMENTAL FUND BALANCES \$ 2,784,082

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 38,490,918

Some of the City's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 168,750

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | |
|--------------------------------|--------------------|
| Accrued interest | (11,004) |
| Note payable | (3,666,187) |
| Other post-employment benefits | (548,444) |
| Compensated absences | (435,247) |
| | <u>(4,660,882)</u> |

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 36,782,868

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

CITY OF REHOBOTH BEACH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2012
(With Summarized Comparative Data for the Year Ended March 31, 2011)

| | General Fund | Nonmajor Governmental Funds | Totals | |
|--|---------------------|-----------------------------------|---------------------|---------------------|
| | | | 2012 | 2011 |
| REVENUES | | | | |
| Taxes | \$ 3,124,278 | \$ - | \$ 3,124,278 | \$ 3,075,002 |
| Licenses and permits | 877,546 | - | 877,546 | 980,766 |
| Franchise fees | 72,634 | - | 72,634 | 71,429 |
| Intergovernmental revenues | 875,001 | 124,927 | 999,928 | 2,191,618 |
| Charges for services | 3,970,147 | - | 3,970,147 | 3,880,600 |
| Fines and forfeitures | 944,833 | - | 944,833 | 956,722 |
| Investment earnings | 12,799 | - | 12,799 | 13,067 |
| Rents and concessions | 408,437 | - | 408,437 | 411,800 |
| Contributions and donations | 10,810 | - | 10,810 | 12,343 |
| Miscellaneous revenues | 80,787 | - | 80,787 | 160,330 |
| TOTAL REVENUES | <u>10,377,272</u> | <u>124,927</u> | <u>10,502,199</u> | <u>11,753,677</u> |
| EXPENDITURES | | | | |
| General government | 2,073,102 | - | 2,073,102 | 2,121,054 |
| Public safety | 2,343,763 | 11,768 | 2,355,531 | 2,372,148 |
| Public works | 2,519,111 | 80,165 | 2,599,276 | 2,513,238 |
| Recreation and culture | 1,130,486 | - | 1,130,486 | 997,999 |
| Debt service | 734,906 | - | 734,906 | 5,234,355 |
| Capital outlays | 1,670,734 | - | 1,670,734 | 2,386,407 |
| TOTAL EXPENDITURES | <u>10,472,102</u> | <u>91,933</u> | <u>10,564,035</u> | <u>15,625,201</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(94,830)</u> | <u>32,994</u> | <u>(61,836)</u> | <u>(3,871,524)</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from note payable | - | - | - | 4,438,818 |
| Transfers in | 788,267 | 6,346 | 794,613 | 194,154 |
| TOTAL OTHER FINANCING SOURCES | <u>788,267</u> | <u>6,346</u> | <u>794,613</u> | <u>4,632,972</u> |
| NET CHANGE IN FUND BALANCES | 693,437 | 39,340 | 732,777 | 761,448 |
| FUND BALANCES, BEGINNING OF YEAR | <u>2,012,534</u> | <u>38,771</u> | <u>2,051,305</u> | <u>1,289,857</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 2,705,971</u> | <u>\$ 78,111</u> | <u>\$ 2,784,082</u> | <u>\$ 2,051,305</u> |

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

**CITY OF REHOBOTH BEACH
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 732,777

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$3,154,188) exceeded capital outlays (\$1,506,378) in the period. (1,647,810)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (25,000)

Note payable proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. Payments of debt are reported as expenditures in the governmental funds. In the statement of net assets, however, issuance of debt increases liabilities and payment of debt decreases liabilities, and thus does not affect the statement of activities. 594,791

In the statement of activities, compensated absences (vacation and sick leave) and other post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences and other post-employment benefits are measured by the amount of financial resources used (essentially, the amounts actually paid). (163,641)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 18,603

CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES \$ (490,280)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
MARCH 31, 2012
(With Summarized Comparative Data for March 31, 2011)

| | Water Fund | Sewer Fund | Totals | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | | | 2012 | 2011 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 1,310,436 | \$ 3,205,991 | \$ 4,516,427 | \$ 4,964,035 |
| Accounts receivable | 164,458 | 239,438 | 403,896 | 363,755 |
| Due from other funds | 173,469 | - | 173,469 | - |
| Accrued interest | - | 324 | 324 | 773 |
| Prepaid expenses | 8,395 | 145 | 8,540 | 48,125 |
| Inventory | 237,266 | 55,064 | 292,330 | 231,048 |
| Noncurrent Assets: | | | | |
| Capital assets, net of depreciation | 11,281,644 | 11,228,303 | 22,509,947 | 22,756,261 |
| TOTAL ASSETS | <u>\$13,175,668</u> | <u>\$14,729,265</u> | <u>\$27,904,933</u> | <u>\$28,363,997</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 14,092 | \$ 51,547 | \$ 65,639 | \$ 290,423 |
| Accrued salaries and benefits | 3,892 | 9,363 | 13,255 | 10,670 |
| Accrued interest | 54,729 | - | 54,729 | 56,581 |
| Contingency reserve | - | 244,587 | 244,587 | 310,382 |
| Note payable | 562,365 | - | 562,365 | 556,273 |
| Noncurrent Liabilities: | | | | |
| Note payable | 4,237,737 | - | 4,237,737 | 4,800,102 |
| Other post-employment liability | 53,725 | 91,564 | 145,289 | 96,345 |
| Compensated absences | 81,258 | 101,972 | 183,230 | 184,441 |
| TOTAL LIABILITIES | <u>5,007,798</u> | <u>499,033</u> | <u>5,506,831</u> | <u>6,305,217</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 6,481,542 | 11,228,303 | 17,709,845 | 17,399,886 |
| Unrestricted | 1,686,328 | 3,001,929 | 4,688,257 | 4,658,894 |
| TOTAL NET ASSETS | <u>8,167,870</u> | <u>14,230,232</u> | <u>22,398,102</u> | <u>22,058,780</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$13,175,668</u> | <u>\$14,729,265</u> | <u>\$27,904,933</u> | <u>\$28,363,997</u> |

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

CITY OF REHOBOTH BEACH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2012
(With Summarized Comparative Data for the Year Ended March 31, 2011)

| | Water Fund | Sewer Fund | Totals | |
|--|--------------------|---------------------|---------------------|---------------------|
| | | | 2012 | 2011 |
| OPERATING REVENUES | | | | |
| Charges for services | \$1,965,507 | \$ 2,584,432 | \$ 4,549,939 | \$ 4,107,366 |
| Other operating revenues | 164,359 | 3,128 | 167,487 | 127,752 |
| Total Operating Revenues | <u>2,129,866</u> | <u>2,587,560</u> | <u>4,717,426</u> | <u>4,235,118</u> |
| OPERATING EXPENSES | | | | |
| Salaries and benefits | 390,652 | 753,341 | 1,143,993 | 1,176,042 |
| Materials and supplies | 111,760 | 355,251 | 467,011 | 392,036 |
| Administration expenses | 6,184 | 3,476 | 9,660 | 17,105 |
| Contractual services | 20,795 | 7,061 | 27,856 | 55,226 |
| Land and equipment rental | - | 36,225 | 36,225 | 38,160 |
| Repairs and maintenance | 396,557 | 194,954 | 591,511 | 599,514 |
| Utilities | 109,031 | 290,397 | 399,428 | 468,638 |
| Insurance | 46,116 | 60,977 | 107,093 | 152,883 |
| Depreciation | 539,532 | 804,380 | 1,343,912 | 1,182,119 |
| Total Operating Expenses | <u>1,620,627</u> | <u>2,506,062</u> | <u>4,126,689</u> | <u>4,081,723</u> |
| OPERATING INCOME | <u>509,239</u> | <u>81,498</u> | <u>590,737</u> | <u>153,395</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Water capitalization fees | 164,853 | - | 164,853 | 114,000 |
| Sewer impact fees | - | 16,068 | 16,068 | 44,399 |
| Investment income | 740 | 14,214 | 14,954 | 10,919 |
| Interest expense | (142,004) | - | (142,004) | (169,366) |
| Intergovernmental grants | - | 45,000 | 45,000 | 8,706 |
| Total Nonoperating Revenues | <u>23,589</u> | <u>75,282</u> | <u>98,871</u> | <u>8,658</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS | 532,828 | 156,780 | 689,608 | 162,053 |
| Capital contributions | - | 444,327 | 444,327 | - |
| Transfers out | (726,473) | (68,140) | (794,613) | (194,154) |
| CHANGE IN NET ASSETS | (193,645) | 532,967 | 339,322 | (32,101) |
| NET ASSETS, BEGINNING OF YEAR | <u>8,361,515</u> | <u>13,697,265</u> | <u>22,058,780</u> | <u>22,090,881</u> |
| NET ASSETS, END OF YEAR | <u>\$8,167,870</u> | <u>\$14,230,232</u> | <u>\$22,398,102</u> | <u>\$22,058,780</u> |

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

CITY OF REHOBOTH BEACH
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2012
(With Summarized Comparative Data for the Year Ended March 31, 2011)

| | Water Fund | Sewer Fund | Totals | |
|---|---------------------|---------------------|---------------------|---------------------|
| | | | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 2,125,401 | \$ 2,551,884 | \$ 4,677,285 | \$ 4,344,564 |
| Cash paid for goods and services | (948,048) | (1,176,481) | (2,124,529) | (1,517,708) |
| Cash paid to employees | (375,749) | (717,926) | (1,093,675) | (1,165,487) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>801,604</u> | <u>657,477</u> | <u>1,459,081</u> | <u>1,661,369</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Transfers out | (726,473) | (68,140) | (794,613) | (194,154) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>(726,473)</u> | <u>(68,140)</u> | <u>(794,613)</u> | <u>(194,154)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Capital assets purchased | (38,657) | (1,060,969) | (1,099,626) | (1,404,559) |
| Capital asset disposals | - | 2,028 | 2,028 | - |
| Proceeds received from capitalization and impact fees | 164,853 | 16,068 | 180,921 | 158,399 |
| Capital grants | - | 45,000 | 45,000 | 8,706 |
| Capital contributions | - | 444,327 | 444,327 | 8,707 |
| Principal paid on note payable | (556,273) | - | (556,273) | (550,347) |
| Interest paid on note payable | (143,855) | - | (143,855) | (183,737) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(573,932)</u> | <u>(553,546)</u> | <u>(1,127,478)</u> | <u>(1,962,831)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest income | 1,190 | 14,212 | 15,402 | 10,597 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>1,190</u> | <u>14,212</u> | <u>15,402</u> | <u>10,597</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | <u>(497,611)</u> | <u>50,003</u> | <u>(447,608)</u> | <u>(485,019)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,808,047</u> | <u>3,155,988</u> | <u>4,964,035</u> | <u>5,457,761</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,310,436</u> | <u>\$ 3,205,991</u> | <u>\$ 4,516,427</u> | <u>\$ 4,972,742</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income | \$ 509,239 | \$ 81,498 | \$ 590,737 | \$ 153,395 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 539,532 | 804,380 | 1,343,912 | 1,182,119 |
| (Increase) Decrease in assets: | | | | |
| Accounts receivable | (4,465) | (35,676) | (40,141) | 109,446 |
| Due from other funds | (173,469) | - | (173,469) | - |
| Inventory | (60,679) | (603) | (61,282) | 32,391 |
| Prepaid expenses | - | 39,585 | 39,585 | 42,422 |
| Increase (Decrease) in liabilities: | | | | |
| Accounts payable | (23,457) | (201,327) | (224,784) | 131,041 |
| Contingency reserve | - | (65,795) | (65,795) | - |
| Accrued salaries and benefits | 245 | 2,340 | 2,585 | (25,480) |
| Other post-employment benefits | 17,351 | 31,593 | 48,944 | 42,066 |
| Compensated absences | (2,693) | 1,482 | (1,211) | (6,031) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 801,604</u> | <u>\$ 657,477</u> | <u>\$ 1,459,081</u> | <u>\$ 1,661,369</u> |

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Rehoboth Beach, Delaware (the "City") is located in Sussex County and operates under a Mayor-Commissioners form of government. The City provides the following services: public safety, highways and streets (includes parking), sanitation, recreation and culture (includes lifeguards), public improvements, planning and zoning, water and sewer, and general administrative services.

The City's basic financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") recognized in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow private-sector standards of accounting and financial reporting issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply subsequent private-sector guidance issued after that date to its business-type activities and proprietary funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity

The City's basic financial statements include the accounts of all City operations. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic criteria includes the degree of oversight responsibility maintained by the City. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, there are no potential component units to be included in the basic financial statements.

Entity-wide and Fund Financial Statements

The City's basic financial statements include both entity-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the entity-wide and fund financial statements categorize primary activities as either governmental or business type. The City's general administrative services, public safety, public works and recreation and culture are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the entity-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by activity; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The entity-wide statement of activities reports both the gross and net cost of each of the City's functions and business-type activities that are otherwise being supported by general government revenues (general property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function or business-type activity. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses.

Operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) normally are covered by general revenue (general property taxes, intergovernmental revenues, interest income, etc.). The entity-wide statements include reclassification or elimination of internal activity between or within funds.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate entity, with a self-balancing set of accounts recording cash and/or other financing resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor governmental funds are presented in a single column on the governmental fund financial statements. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds normally are budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the entity-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the entity-wide financial statements.

The following is a brief description of the specific funds used by the City.

Governmental Funds

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed.

The City reports the following major governmental fund:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources except those properly accounted for in another fund. The principal sources of revenue are property taxes, intergovernmental grants and state-shared revenues.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Proprietary Funds – Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Proprietary fund net assets are segregated into invested in capital assets, net of related debt; restricted; and unrestricted.

The City reports the following major proprietary funds:

Water and Sewer Funds – Used to account for the operation of a water supply and sewage collection system.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund financial statements are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. The term "available" is limited to collection within 60 days of the fiscal year end. Property taxes and charges for services are the primary source of revenue susceptible to accrual. Permits, fees, fines and miscellaneous revenues are recorded when received, as they generally are not measurable until actually received. Any revenues received in advance are deferred. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred.

Expenditures are recorded when the related fund liabilities are incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated for payments to be made early in the new fiscal year.

The entity-wide statement of net assets and statement of activities, and proprietary fund statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities and proprietary fund statements are presented on the accrual basis of accounting. Under this method of accounting exchange, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the City's financial statements for the year ended March 31, 2011, from which the comparative data was derived.

Cash, Cash Equivalents And Investments

For purposes of statement presentation, all highly liquid investments with an original maturity of three months or less when acquired are considered to be cash equivalents.

Property Taxes Receivable

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on July 1 and are payable on or before August 31. Taxes paid after the payable date are assessed interest at 1-1/2 percent per month after the due date. The City bills and collects its own property taxes. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2012 was \$1.78 per \$100 of assessed value.

Compensated Absences

The liability for compensated absences reported in the entity-wide statement consists of unpaid, accumulated vacation, sick and compensatory leave balances. All vacation, sick and compensatory pay is accrued when incurred in the entity-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Inventories

Inventories in governmental activities consist of expendable supplies for consumption and souvenirs held for resale stated at cost on a first-in, first-out basis. Business-type activity inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$3,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value at time of receipt. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

GASB Statement No. 34 permits Phase III local governments to elect to not report infrastructure retroactively and to report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the City's infrastructure retroactively.

The service lives by type of asset are as follows:

| | |
|--------------------------------------|---------------|
| Infrastructure and land improvements | 15 - 50 years |
| Buildings and improvements | 15 - 50 years |
| Machinery and equipment | 5 - 20 years |
| Vehicles | 5 - 10 years |

Allowance For Doubtful Accounts

The City's water and sewer utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the City for its proprietary funds.

Change in Accounting Principle

During the year ended March 31, 2012, the City implemented the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Fund balance categories and balances in the governmental fund statements have been revised for the current and prior year to reflect the provisions of this new Statement. See Note N for additional information.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Commissioners adopt legal annual budgets for the General Fund and Proprietary Funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.
- c. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Commissioners. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2012, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended March 31, 2012, expenditures exceeded appropriations in the City's programs as follows:

| | | |
|------------------------|----|---------|
| Public works | \$ | 215,997 |
| Recreation and culture | \$ | 151,882 |
| Debt service | \$ | 266 |

NOTE C CASH AND CASH EQUIVALENTS

The City of Rehoboth Beach as a depositor and an investor generally requires full and continuous collateralization based upon fair value in the form of:

- Obligations of or guaranteed by the United States of America, or
- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority or an agency or instrumentality of the United States of America, or
- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities or any agency or instrumentality of the State of Delaware.

As an investor, the City may invest in any of the above-cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

The City maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net assets as cash and cash equivalents. Deposits and investments of governmental and proprietary funds are reported at fair value.

Cash and cash equivalents in the Water fund (\$1,310,436) and the Sewer fund (\$3,205,991) represent funds dedicated to future capacity related expenses.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At March 31, 2012, the carrying amount of the City's deposits was \$7,378,568 and the bank balance was \$7,387,629. Of the bank balance, \$2,636,003 was covered by federal depository insurance and \$4,751,626 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERFUND TRANSFERS

Interfund transfers for the year ended March 31, 2012 consisted of the following:

| <u>Transfers In</u> | | <u>Transfers Out</u> | |
|-----------------------------|-------------------|----------------------|-------------------|
| General Fund | \$ 726,473 | Water Fund | \$ 726,473 |
| General Fund | 68,140 | Sewer Fund | 68,140 |
| Nonmajor Governmental Funds | <u>6,346</u> | General Fund | <u>6,346</u> |
| Total | <u>\$ 800,959</u> | Total | <u>\$ 800,959</u> |

Transfers from the proprietary funds to the General Fund serve to subsidize the operations of the City's primary government. All other transfers represent the flow of resource to accommodate the costs of certain state projects.

NOTE E PROPERTY, PLANT AND EQUIPMENT, NET - GOVERNMENTAL ACTIVITIES

Capital asset activity for the year ended March 31, 2012 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| GOVERNMENTAL ACTIVITIES: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,814,959 | \$ - | \$ - | \$ 2,814,959 |
| Construction-in-progress | 48,881 | 156,873 | - | 205,754 |
| Total Capital Assets Not Being Depreciated | <u>2,863,840</u> | <u>156,873</u> | <u>-</u> | <u>3,020,713</u> |
| Capital assets being depreciated: | | | | |
| Infrastructure and land improvements | 46,805,782 | 116,795 | - | 46,922,577 |
| Buildings and improvements | 7,502,171 | 898,539 | - | 8,400,710 |
| Machinery and equipment | 4,345,975 | 167,243 | - | 4,513,218 |
| Vehicles | 1,450,198 | 166,928 | 60,765 | 1,556,361 |
| Total Capital Assets Being Depreciated | <u>60,104,126</u> | <u>1,349,505</u> | <u>60,765</u> | <u>61,392,866</u> |

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE E PROPERTY, PLANT AND EQUIPMENT, NET - GOVERNMENTAL ACTIVITIES (cont'd)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------------|---------------|----------------------|
| Less accumulated depreciation for: | | | | |
| Infrastructure and land improvements | 14,717,806 | 2,622,844 | - | 17,340,650 |
| Buildings and improvements | 3,189,506 | 195,107 | - | 3,384,613 |
| Machinery and equipment | 3,726,994 | 223,195 | - | 3,950,189 |
| Vehicles | <u>1,194,932</u> | <u>113,042</u> | <u>60,765</u> | <u>1,247,209</u> |
| Total accumulated depreciation | <u>22,829,238</u> | <u>3,154,188</u> | <u>60,765</u> | <u>25,922,661</u> |
| Total Capital Assets Being Depreciated, Net | <u>37,274,888</u> | <u>(1,804,683)</u> | - | <u>35,470,205</u> |
| Governmental Activities Assets, Net | <u>\$ 40,138,728</u> | <u>\$(1,647,810)</u> | <u>\$ -</u> | <u>\$ 38,490,918</u> |

Depreciation expense was charged to the functions as follows:

| | | |
|--|--|--------------------|
| Governmental Activities: | | |
| General government | | \$ 120,962 |
| Public Safety | | 65,268 |
| Public Works | | 2,867,579 |
| Recreation and Culture | | <u>100,379</u> |
| Total Depreciation Expense - Governmental Activities | | <u>\$3,154,188</u> |

NOTE F PROPERTY, PLANT AND EQUIPMENT, NET - BUSINESS-TYPE ACTIVITIES

Capital asset activity for the year ended March 31, 2012 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|----------------|---------------|-------------------|
| BUSINESS-TYPE ACTIVITIES: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 192,936 | \$ - | \$ - | \$ 192,936 |
| Construction-in-progress | <u>322,830</u> | <u>973,478</u> | <u>-</u> | <u>1,296,308</u> |
| Total Capital Assets Not Being Depreciated | <u>515,766</u> | <u>973,478</u> | <u>-</u> | <u>1,489,244</u> |
| Capital assets being depreciated: | | | | |
| Buildings, infrastructure and improvements | 42,871,977 | - | - | 42,871,977 |
| Machinery and equipment | 1,479,249 | 93,458 | - | 1,572,707 |
| Vehicles | <u>815,951</u> | <u>32,690</u> | <u>87,933</u> | <u>760,708</u> |
| Total Capital Assets Being Depreciated | <u>45,167,177</u> | <u>126,148</u> | <u>87,933</u> | <u>45,205,392</u> |

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE F PROPERTY, PLANT AND EQUIPMENT, NET - BUSINESS-TYPE ACTIVITIES (cont'd)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Less accumulated depreciation for: | | | | |
| Buildings, infrastructure and Improvements | 21,403,327 | 1,166,229 | - | 22,569,556 |
| Machinery and equipment | 781,014 | 149,467 | - | 930,481 |
| Vehicles | <u>742,341</u> | <u>28,216</u> | <u>85,905</u> | <u>684,652</u> |
| Total accumulated depreciation | <u>22,926,682</u> | <u>1,343,912</u> | <u>85,905</u> | <u>24,184,689</u> |
| Total Capital Assets Being Depreciated, Net | <u>22,240,495</u> | <u>(1,217,764)</u> | <u>2,028</u> | <u>21,020,703</u> |
| Business-type Activities Assets, Net | <u>\$ 22,756,261</u> | <u>\$ (244,286)</u> | <u>\$ 2,028</u> | <u>\$ 22,509,947</u> |

Depreciation expense was charged to the functions as follows:

Business-type Activities:

| | |
|-------|----------------|
| Water | \$ 539,532 |
| Sewer | <u>804,380</u> |

Total Depreciation Expense - Business-type Activities \$1,343,912

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2012 is composed of the following:

Governmental Activities

Commercial term loan, issued by Wilmington Savings Fund Society, FSB, to refinance existing debt. The loan matures on September 1, 2017 and bears interest at 3.41%; payable on March 1, June 1, September 1 and December 1 of each year.

\$ 3,666,187

Business-type Activities

Commercial term loan, issued by Wilmington Savings Fund Society, FSB, to refinance existing debt. The loan matures on December 1, 2012 and bears interest at 2.98%; payable on June 1 and December 1 of each year.

\$ 337,064

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

General Obligation Note of 2007, issued by the State of Delaware, to finance capital improvements in connection with the Lynch Well Improvement Project. The loan matures on November 1, 2027 and bears interest at 2.76%; payable on May 1 and November 1.

4,463,038

Total Business-type Activities

\$ 4,800,102

Annual requirements to retire long-term debt of all funds at March 31, 2012 are as follows:

| <u>March 31,</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|------------------|--------------------------------|-------------------|---------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 616,023 | \$ 118,882 | \$ 562,365 | \$ 131,848 |
| 2014 | 637,599 | 97,307 | 231,563 | 115,375 |
| 2015 | 659,931 | 74,976 | 237,998 | 108,939 |
| 2016 | 682,927 | 51,980 | 244,612 | 102,325 |
| 2017 | 706,964 | 27,943 | 251,410 | 95,527 |
| 2018-2022 | 362,743 | 4,748 | 1,365,819 | 368,871 |
| 2023-2027 | - | - | 1,566,448 | 168,242 |
| 2028 | - | - | 339,887 | 7,052 |
| Total | <u>\$ 3,666,187</u> | <u>\$ 375,836</u> | <u>\$ 4,800,102</u> | <u>\$ 1,098,179</u> |

NOTE H CHANGES IN DEBT

The following is a summary of long-term debt activity and balances for the City for the year ended March 31, 2012:

| | <u>Balance April 1, 2011</u> | <u>Increase</u> | <u>Decreases</u> | <u>Balance March 31, 2012</u> |
|----------------------------------|--------------------------------------|-------------------|-------------------|---------------------------------------|
| Governmental Activities: | | | | |
| Note payable | \$ 4,260,978 | \$ - | \$ 594,791 | \$ 3,666,187 |
| OPEB | 382,913 | 165,531 | - | 548,444 |
| Compensated absences | 437,137 | - | 1,890 | 435,247 |
| Total | <u>\$ 5,081,028</u> | <u>\$ 165,531</u> | <u>\$ 596,681</u> | <u>\$ 4,649,878</u> |
| Business-type Activities: | | | | |
| Note payable | \$ 5,356,375 | \$ - | \$ 556,273 | \$ 4,800,102 |
| OPEB | 96,345 | 48,944 | - | 145,289 |
| Compensated absences | 184,441 | - | 1,211 | 183,230 |
| Total | <u>\$ 5,637,161</u> | <u>\$ 48,944</u> | <u>\$ 557,484</u> | <u>\$ 5,128,621</u> |

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS

Thrift Plan

The City offers its employees a Thrift Plan adopted and created to meet all requirements for profit-sharing calculation under the Internal Revenue Code. The Plan is administered by ITT Hartford Insurance Group. Participation in the Plan is voluntary and is available to all full-time employees completing six months of service. The Plan permits employees to defer two percent to six percent of their pretax compensation. Employees also have the option to contribute an additional six percent; however, the deferral is made from after-tax earnings. Employee contributions are matched at a rate of 50 percent by the City, not to exceed three percent. All employee contributions are 100 percent vested at the time of contribution; and employer contributions vest at the rate of 10 percent per year and become fully vested after six years of service. For the years ended March 31, 2012, 2011 and 2010, the City's employer contributions totaled \$65,624, \$67,560 and \$71,386, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

The City contributes to the Delaware County and Municipal Police/Firefighter Pension Plan, which is a cost-sharing multiple-employer defined-benefit plan administered by the Delaware Public Employees' Retirement System ("DPERS"). The Plan covers City police employees hired on or after February 1, 1993. Benefit provisions of the Plan are established under the provisions of State law and may be amended by an act of the State legislature. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute seven percent of base compensation. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The City's contributions to the Plan for the years ended March 31, 2012, 2011 and 2010 were \$124,126, \$109,017 and \$132,400, respectively. DPERS issues a separate plan financial report that includes financial statements for the Plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE J OPERATING LEASES

The City is currently involved in the following operating lease arrangements:

Lessee

The City leases a tract of land containing 85 acres located on or near Route 215 in Sussex County, Delaware. The lease was renewed in 2009 for an additional five years. The lease requires annual lease payments of \$34,000 payable on the first day of each lease year. Rental expense under this lease for the year ended March 31, 2012 was \$34,000.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE J OPERATING LEASES (cont'd)

Lessor

The City leases certain property designated as Lot 22, Rehoboth Avenue, Rehoboth Beach, Delaware. The lease expires on December 31, 2015. The lease calls for rental income to be adjusted each January based on the consumer price index and is paid in three installments due July 1, August 1 and September 1 of each year. Rental income for the year ended March 31, 2012 was \$71,584.

NOTE K CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The City participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the City. In the opinion of City management and legal counsel, the potential losses, if any, on such claims are not yet determinable.

Regulatory Matter

The City is currently receiving legal counsel regarding implementation of a consent order it has entered into with the Delaware Department of Natural Resources and Environmental Control ("DNREC"). This agreement is the result of the City's challenge to a regulation promulgated by DNREC which imposes a total daily maximum load on wastewater effluent discharges from the City's sewage treatment plant. Both the City and DNREC have agreed to cooperatively and voluntarily resolve and settle all issues regarding the implementation of a National Pollutant Discharge Elimination System ("NPDES") designed to protect the surrounding waters from wastewater discharge from the City's sewage treatment plant. The City is required to consider the feasibility of two different options for implementing NPDES. Such feasibility studies are in their preliminary expected completion date and total cost estimation of any NPDES project is not known as of March 31, 2012.

Construction Commitments

At March 31, 2012, the City had approved contracts for various capital projects totaling \$359,861 and payments for progress on contracts of \$58,341, resulting in outstanding commitments of \$300,134. In addition, the proprietary funds report another \$1,443,721 in engineering and related fees associated with a planned outfall project.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE L RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for worker's compensation, for which the City retains risk of loss. For insured programs, there were no significant changes in insurance coverages during the year. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years.

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The City has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits provided by the District. This Statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

The City's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of Commissioners assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

The City provides post-retirement benefits to all employees who retire on or after attaining age 60 and who have been employed by the City for a minimum of 25 continuous years prior to the date of retirement. Coverage is based on a formula that is based on years of completed service. The City also provides health insurance benefits for up to two years for those employees who are on disability. As of March 31, 2012, three individuals were receiving post-employment benefits.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of Commissioners. For fiscal year 2012, the City contributed \$24,583 to the plan for current premiums.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's OPEB cost for the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

| | |
|---|-----------------------|
| Annual required contribution | \$ 305,768 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | <u>-</u> |
| Annual OPEB cost (expense) | 305,768 |
| Contributions made | <u>(91,293)</u> |
| Increase in net OPEB obligation | 214,475 |
| Net OPEB obligation - beginning of year | <u>479,258</u> |
| Net OPEB obligation - end of year | <u>\$ 693,733</u> |

As of April 1, 2009, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$3,199,509, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$3,199,509. The covered payroll (annual payroll of active employees covered by the plan) was \$3,178,552, and the ratio of the UAAL to the covered payroll was 100.07 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of 10 percent in 2010, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2011 was 28 years.

NOTE N FUND BALANCES

As of March 31, 2012, fund balances of the governmental funds are classified, if applicable, as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Commissioners. The Board is the highest level of decision-making authority for City of Rehoboth Beach, Delaware. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Commissioners.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Manager may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

CITY OF REHOBOTH BEACH
 NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

As of March 31, 2012, fund balances are composed of the following:

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|----------------------------|-------------------------|--|---|
| Nonspendable | \$ 189,453 | \$ - | \$ 189,453 |
| Restricted: | | | |
| Police expenditures | - | 10,767 | 10,767 |
| Public works expenditures | - | 67,344 | 67,344 |
| Assigned: | | | |
| Municipal building project | 56,335 | - | 56,335 |
| Unassigned | <u>2,633,652</u> | <u>-</u> | <u>2,633,652</u> |
| Total Fund Balances | <u>\$ 2,879,440</u> | <u>\$ 78,111</u> | <u>\$ 2,957,551</u> |

NOTE O SUBSEQUENT EVENTS

In September 2012, the City commissioners approved a loan from the Delaware Water Pollution Control Revolving Fund in the amount of \$450,000. The bonds will be used for the sanitary sewer line replacement.

The City has evaluated all subsequent events through November 14, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2012**

| | Original and Final Appropriated Budget | Actual (GAAP Basis) | Variance Positive (Negative) |
|---|---|---------------------------|------------------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property tax | \$ 1,304,170 | \$ 1,307,748 | \$ 3,578 |
| Rental tax | 780,000 | 836,339 | 56,339 |
| Transfer tax | 950,000 | 956,390 | 6,390 |
| Construction tax | 12,000 | 21,004 | 9,004 |
| Penalties and interest | 2,100 | 2,797 | 697 |
| Total Taxes | 3,048,270 | 3,124,278 | 76,008 |
| Licenses and permits: | | | |
| Mercantile licenses | 403,000 | 408,719 | 5,719 |
| Building permits | 355,000 | 411,447 | 56,447 |
| Other | 41,700 | 57,380 | 15,680 |
| Total Licenses and Permits | 799,700 | 877,546 | 77,846 |
| Franchise fees | | | |
| | 70,800 | 72,634 | 1,834 |
| Intergovernmental revenues: | | | |
| General government | 500,000 | 514,396 | 14,396 |
| Public works | 74,400 | 139,201 | 64,801 |
| Public safety | 139,000 | 130,158 | (8,842) |
| Recreation and culture | 11,000 | 91,246 | 80,246 |
| Total Intergovernmental Revenues | 724,400 | 875,001 | 150,601 |
| Charges for services: | | | |
| Parking meters | 2,500,000 | 2,588,052 | 88,052 |
| Parking permits | 574,400 | 567,785 | (6,615) |
| Waste collection | 801,000 | 814,310 | 13,310 |
| Total Charges for Services | 3,875,400 | 3,970,147 | 94,747 |
| Fines and forfeitures: | | | |
| Parking | 682,000 | 809,661 | 127,661 |
| Court | 100,000 | 79,910 | (20,090) |
| Police | 87,000 | 55,262 | (31,738) |
| Total Fines and Forfeitures | 869,000 | 944,833 | 75,833 |
| Investment earnings | 4,000 | 12,799 | 8,799 |
| Rents and concessions | 381,375 | 408,437 | 27,062 |
| Contributions and donations | 12,500 | 10,810 | (1,690) |
| Miscellaneous revenues | 201,103 | 80,787 | (120,316) |
| TOTAL REVENUES | 9,986,548 | 10,377,272 | 390,724 |
| EXPENDITURES | | | |
| General government: | | | |
| Mayor and Council | 79,318 | 68,660 | 10,658 |
| Assessors | 4,820 | 13,661 | (8,841) |
| Administrative | 1,085,743 | 970,724 | 115,019 |
| Alderman Court | 73,321 | 66,254 | 7,067 |
| Buildings and licensing | 349,362 | 375,492 | (26,130) |
| Information technology | 186,684 | 184,052 | 2,632 |
| Buildings and grounds | 393,499 | 394,259 | (760) |
| Total General Government | 2,172,747 | 2,073,102 | 99,645 |

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2012**

| | <u>Original and Final Appropriated Budget</u> | <u>Actual (GAAP Basis)</u> | <u>Variance Positive (Negative)</u> |
|--|---|------------------------------------|---|
| EXPENDITURES (cont'd) | | | |
| Public safety: | | | |
| Police | 1,967,294 | 1,860,268 | 107,026 |
| Dispatch | 486,736 | 453,061 | 33,675 |
| Volunteer fire | 78,600 | 30,434 | 48,166 |
| Total Public Safety | <u>2,532,630</u> | <u>2,343,763</u> | <u>188,867</u> |
| Public works: | | | |
| Streets | 771,288 | 845,139 | (73,851) |
| Waste collection | 907,930 | 910,020 | (2,090) |
| Parking | 623,896 | 763,952 | (140,056) |
| Total Public Works | <u>2,303,114</u> | <u>2,519,111</u> | <u>(215,997)</u> |
| Recreation and culture: | | | |
| Comfort stations | 159,524 | 184,604 | (25,080) |
| Parks | 162,588 | 241,732 | (79,144) |
| Lifeguards | 531,219 | 523,196 | 8,023 |
| Library | 12,000 | 12,000 | - |
| Recreation | 113,273 | 168,954 | (55,681) |
| Total Recreation and Culture | <u>978,604</u> | <u>1,130,486</u> | <u>(151,882)</u> |
| Debt service: | | | |
| Interest and Principal | 734,640 | 734,906 | (266) |
| Capital outlays | 1,817,341 | 1,670,734 | 146,607 |
| TOTAL EXPENDITURES | <u>10,539,076</u> | <u>10,472,102</u> | <u>66,974</u> |
| | | | |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | <u>(552,528)</u> | <u>(94,830)</u> | <u>647,358</u> |
| | | | |
| OTHER FINANCING SOURCES | | | |
| Transfers in | - | 788,267 | 788,267 |
| TOTAL OTHER FINANCING SOURCES | <u>-</u> | <u>788,267</u> | <u>788,267</u> |
| | | | |
| NET CHANGE IN FUND BALANCE | <u>\$ (552,528)</u> | 693,437 | <u>\$ 1,245,965</u> |
| | | | |
| FUND BALANCE, BEGINNING OF YEAR | | <u>2,012,534</u> | |
| | | | |
| FUND BALANCE, END OF YEAR | | <u>\$ 2,705,971</u> | |

**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**

November 14, 2012

To the Honorable Mayor and Commissioners
City of Rehoboth Beach
Rehoboth Beach, Delaware

We have audited the financial statements of the City of Rehoboth Beach, Rehoboth Beach, Delaware as of and for the year ended March 31, 2012 and have issued our report thereon dated November 14, 2012.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rehoboth Beach's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rehoboth Beach's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rehoboth Beach's financial statements are free of 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*.

We noted certain matters that we have reported to management of the City of Rehoboth Beach, Delaware, in a separate letter dated November 14, 2012.

This report is intended solely for the information and use of the Mayor, the Commissioners, management and federal auditing agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP