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**CITY OF REHOBOTH BEACH  
SUSSEX COUNTY, DELAWARE**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**MARCH 31, 2017**

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CITY OF REHOBOTH BEACH

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## INDEPENDENT AUDITOR'S REPORT

October 30, 2017

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

### Report on the Financial Statements

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 ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the City of Rehoboth Beach's 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 12, budgetary comparison schedule - general fund on pages 43 - 44, schedule of the City's proportionate share of the net pension asset (liability) on page 45, and schedule of City contributions on page 46 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.

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 47 - 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 58 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED  
MARCH 31, 2017**

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, 2017. Please read it in conjunction with the City's financial statements, which begin on page 13.

**FINANCIAL HIGHLIGHTS**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at March 31, 2017 by \$58.0 million (net position). Of this amount, \$12.9 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net position increased by \$400 thousand.

As of March 31, 2017, the City's governmental funds reported combined ending fund balances of \$6.5 million, a decrease of \$363 thousand as compared to the prior year. The current year increase in fund balance can be attributed primarily to General Fund revenues which exceeded expenditures by \$264 thousand. Total governmental funds revenue increased by \$814 thousand compared to the prior year, and other financing sources increased \$15.9 million compared to the prior year, while expenditures increased by \$16.2 million compared to the prior year. The components of revenue that contributed significantly to the overall revenue increase were parking meter, property transfer tax, and public works intergovernmental revenue, increasing by \$180 thousand, \$184 thousand, and \$438 thousand, respectively. The increase in parking meter revenue was due to increased use of mobile and credit card payments. The increase in property transfer tax revenue was due to increased property sales within the City due to overall economic conditions. The increase in public works intergovernmental revenue was due to a grant received for the City's Lake Avenue Streetscape project.

As of March 31, 2017, the City's proprietary funds reported combined net position of \$24.7 million, an increase of \$1.1 million compared to the prior year. The increase can be attributed to the following: a) \$418 thousand increase in charges for services; and b) a \$50 thousand decrease in operating expenses. Resources of \$1.7 million were spent on capital asset additions during the current year.

**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's basic financial statements. The City'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. Required supplementary information provides a budgetary comparison schedule for the general fund and additional detail on the City's involvement in a multi-employer pension plan. This report also contains other supplementary information.

The basic financial statements include two kinds of statements that present different views of the City's financial position and performance:

- 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.

**CITY OF REHOBOTH BEACH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)**  
**MARCH 31, 2017**

- 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's finances in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting.

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

The statement of changes in net position presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, producing the change, 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 between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and 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 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 governmental 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 that 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



**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in the 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.

**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. Additionally, schedules of information about the City's involvement in the DPERS pension plan have been provided.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Entity-wide Financial Analysis**

The following table presents a summary of the statement of net position for the City as of March 31, 2017 and 2016.

**TABLE 1  
CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>ASSETS</b>						
Current and other assets	\$ 8,533,387	\$ 7,344,452	\$ 9,080,537	\$ 8,731,886	\$ 17,613,924	\$ 16,076,338
Capital assets, net	40,337,680	31,634,659	20,192,329	19,865,811	60,530,009	51,500,470
<b>TOTAL ASSETS</b>	<b>48,871,067</b>	<b>38,979,111</b>	<b>29,272,866</b>	<b>28,597,697</b>	<b>78,143,933</b>	<b>67,576,808</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred Pension	431,077	138,583	-	-	431,077	138,583
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>49,302,144</b>	<b>39,117,694</b>	<b>29,272,866</b>	<b>28,597,697</b>	<b>78,575,010</b>	<b>67,715,391</b>

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

**TABLE 1  
CONDENSED STATEMENT OF NET POSITION**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>LIABILITIES</b>						
Other liabilities	2,966,640	1,839,910	673,680	851,356	3,640,320	2,691,266
Long-term debt	12,939,969	3,143,458	3,856,570	4,129,957	16,796,539	7,273,415
<b>TOTAL LIABILITIES</b>	<b>15,906,609</b>	<b>4,983,368</b>	<b>4,530,250</b>	<b>4,981,313</b>	<b>20,436,859</b>	<b>9,964,681</b>
<b>DEFERRED INFLOWS INFLOWS OF RESOURCES</b>						
Deferred Pension	107,561	120,096	-	-	107,561	120,096
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>16,014,170</b>	<b>5,103,464</b>	<b>4,530,250</b>	<b>4,981,313</b>	<b>20,544,420</b>	<b>10,084,777</b>
<b>NET POSITION</b>						
Net investment in capital assets	28,428,322	29,304,272	16,560,023	15,936,503	44,988,345	45,240,775
Restricted	131,055	114,470	-	-	131,055	114,470
Unrestricted	4,728,597	4,595,488	8,182,593	7,679,881	12,911,190	12,275,369
<b>TOTAL NET POSITION</b>	<b>\$ 33,287,974</b>	<b>\$ 34,014,230</b>	<b>\$ 24,742,616</b>	<b>\$ 23,616,384</b>	<b>\$ 58,030,590</b>	<b>\$ 57,630,614</b>

The largest portion of the City's net position 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.

**TABLE 2  
CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 8,596,873	\$ 8,446,109	\$ 5,699,868	\$ 5,709,242	\$ 14,296,741	\$ 14,155,351
Operating grants/contributions	814,093	342,105	52,557	34,314	866,650	376,419
Capital grants/contributions	-	57,255	157,710	-	157,710	57,255
General revenues:						
Taxes	4,294,859	4,051,806	-	-	4,294,859	4,051,806
Investment earnings	1,678	2,054	2,195	2,228	3,873	4,282
Franchise fees	133,241	91,482	-	-	133,241	91,482
Miscellaneous	114,371	161,048	-	-	114,371	161,048
<b>TOTAL REVENUES</b>	<b>13,955,115</b>	<b>13,151,859</b>	<b>5,912,330</b>	<b>5,745,784</b>	<b>19,867,445</b>	<b>18,897,643</b>

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

**TABLE 2  
CHANGES IN NET POSITION**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>EXPENSES</b>						
General government	3,216,351	3,258,620	-	-	3,216,351	3,258,620
Public safety	3,943,481	3,194,178	-	-	3,943,481	3,194,178
Public works	6,736,520	6,012,346	-	-	6,736,520	6,012,346
Recreation and culture	750,699	1,296,347	-	-	750,699	1,296,347
Interest on long-term debt	34,320	55,536	-	-	34,320	55,536
Water operations	-	-	2,077,821	1,993,731	2,077,821	1,993,731
Sewer operations	-	-	2,708,277	2,851,528	2,708,277	2,851,528
<b>TOTAL EXPENSES</b>	<b>14,681,371</b>	<b>13,817,027</b>	<b>4,786,098</b>	<b>4,845,259</b>	<b>19,467,469</b>	<b>18,662,286</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(726,256)</b>	<b>(665,168)</b>	<b>1,126,232</b>	<b>900,525</b>	<b>399,976</b>	<b>235,357</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>34,014,230</b>	<b>34,679,398</b>	<b>23,616,384</b>	<b>22,715,859</b>	<b>57,630,614</b>	<b>57,395,257</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 33,287,974</b>	<b>\$ 34,014,230</b>	<b>\$ 24,742,616</b>	<b>\$ 23,616,384</b>	<b>\$ 58,030,590</b>	<b>\$ 57,630,614</b>

### **Governmental Activities**

The cost of all governmental activities in 2017 was \$14.7 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$4.3 million, or 29.2 percent, a decline from 29.3 percent in the prior year. Other costs were paid by those who directly benefited from the programs (\$8.6 million, or 58.6 percent), and government agencies and organizations that subsidized funding with intergovernmental aid (\$814 thousand or 5.5 percent). In the prior year, costs paid by those who directly benefited from programs were \$8.5 million, representing 61.1 percent of the total expenses. Expenses financed by other governments and agencies were \$399 thousand, or 2.9 percent of total governmental expenses.

Capital grants and contributions decreased from the prior year by \$57 thousand due to a one-time grant received in the prior year. Tax revenue increased by \$243 thousand. This was a result of the additional property sales within the City. The value of assessed property increased from \$3.29 billion in fiscal year 2016 to \$3.30 billion in fiscal year 2017. The rate per hundred dollars of assessed value remained unchanged at \$.04.

As indicated by the governmental program expenses, general government programs accounted for 21.9 percent of the City's governmental activities, which decreased \$42 thousand from the prior year. This was due to increases in salaries and benefits, which were offset by decreases in legal costs. The public safety expenses accounted for 26.9 percent of the City's governmental activities in the year ended March 31, 2017 and 23.1 percent in the prior year. The increase was due to increased

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

depreciation expense and the allocation of pension costs. Public works expenses accounted for 45.9 percent of the City's governmental activities, or \$6.7 million. Public works also experienced increases due to cost-of-living increases for wages and medical insurance inflation, as well as increased depreciation expense and allocation of pension costs.

**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 Sussex County on behalf of Dewey Beach, Henlopen Acres, and North Shores for wastewater treatment services. The City also charges Sussex County for the bulk delivery of water to Dewey Beach, and it also provides and bills customers in North Shores for water services. These arrangements provide additional revenue to the City by the sharing of the costs of operating the water and the wastewater treatment plant.

Charges for services represent the principal revenue source for the City's business-type activities. Current sewer rates were increased by 15 percent during the fiscal year. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges. Charges for services in the water fund increased by \$19 thousand. Water capitalization revenue decreased by \$147 thousand to \$94 thousand. Wastewater operating revenue increased by \$422 thousand to \$3.2 million.

The overall operating expense of business-type activities decreased by \$51 thousand from the prior year, with water department expenses increasing by \$91 thousand and wastewater department expenses decreasing by \$142 thousand. Salaries and benefits in the Water Department and Wastewater Department decreased by \$15 and \$73 thousand, respectively. Contractual costs increased in the Water Department by \$51 thousand and decreased in the Wastewater Department by \$88 thousand. Repairs and maintenance increased in the Water Department by \$80 thousand and decreased in the Wastewater Department by \$31 thousand.

**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 unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of March 31, 2017, the City's governmental funds reported combined ending fund balances of \$6.5 million, an increase of \$363 thousand as compared to the prior year. The amount of the fund balance restricted or assigned for special purposes is \$367 thousand. The \$7.0 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion.

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

The General Fund is the chief operating fund of the City. To facilitate the accounting and control of activities associated with new construction projects and the new City Hall in particular, a new Capital Projects Fund was established in fiscal year 2016. The City also has two non-major governmental funds, one to account for certain police grants and another to account for certain grants awarded for street operations and maintenance.

The City's departmental expenditures increased by approximately \$16.2 million from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average two and one-half percent wage increase for City employees, effective April 1, 2016. In accordance with their collective bargaining agreement, police officers also received a two and one-half percent wage increase, effective April 1, 2016.
- During 2017, the City's Governmental Funds (excluding capital outlays for the City Hall) increased capital outlays by \$1.3 million to \$2.5 million. Total fiscal year 2017 expenditures related to City Hall construction were \$10.2 million (including moving expenses, temporary trailer rentals, etc.)
- During 2017, the City finalized financing with the USDA for the City Hall project. The initial portion of the proceeds from the USDA loan was used to pay off the bridge loan the City had received. Draws on these loans are reflected as other financing sources in the governmental funds, and repayment of the bridge loan is reflected as an expenditure in the current year. Total draws on these loans were \$17.1 million, and total repayment of the bridge loan was \$6.8 million.

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

- \$916 thousand for completion of Parking meter building
- \$300 thousand for upgrades to parking meters
- \$793 thousand for Lake Avenue streetscape upgrades
- \$71 thousand for new vehicles
- \$120 thousand for new ERP system development and installation

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the City's budget and actual results can be found on pages 43 - 44. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$1.5 million. Taxes, Licenses and Permits, and Intergovernmental Revenue exceeded budget by \$422 thousand, \$348 thousand, and \$500 thousand, respectively. Within taxes, Transfer Tax exceeded budget by \$248 thousand and Rental Tax exceeded budget by \$140 thousand. Public works intergovernmental revenue exceeded budget by \$510 thousand.

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

- Parking Meters were \$117 thousand above budget.
- Total General Fund expenditures were \$376 thousand less than budget.
- Police Department expenditures, Beach Patrol expenditures, and Refuse Department expenditures were below budget by \$90 thousand, \$70 thousand, and \$79 thousand, respectively.
- Parking Department expenditures were \$49 thousand below budget. Since the introduction of non-coin parking meter payment options, the City has worked to control the fees imposed by payment processors and payment service providers. Additional fees are added to the credit card and pay-by-cell users' costs in order to cover a portion of the bank and service provider fees.
- Administrative expenditures were \$25 thousand less than budgeted.
- The Mayor and Commissioners' expenses were under budget by \$56 thousand.
- Capital outlays were \$75 thousand higher than budgeted, as \$111 thousand in expenditures for the enterprise management system were budgeted in a prior year but incurred in the current year.
- All other fluctuations in revenues from budget to actual are deemed reasonable, based upon 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, 2017, amounted to \$60.5 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total net increase in the City's capital assets for the current fiscal year was \$9.0. Current year depreciation was \$5.3 million government-wide. Construction-in-progress of \$18.3 million consisted primarily of Ocean Outfall engineering costs (\$3.8 million) and the construction of City Hall (\$12.0 million). Forty percent of the amount in Ocean Outfall construction-in-progress has been paid by Dewey Beach and Henlopen Acres.

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

### **Debt Administration**

In fiscal year 2016 - 2017, the City made draws of \$17.1 million on a line of credit and USDA loan available for the construction of City Hall. The City made debt service principal payments in the amount of \$7.9 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.

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)  
MARCH 31, 2017**

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**

- Property transfer tax revenue increased by \$184 thousand from fiscal year 2016. The budgeted amount for the tax in fiscal year 2017 - 2018 is \$1,500,000, unchanged from the prior year.
- The 2017 - 2018 budget for all City operations is \$27.1 million. Of this amount, \$11.4 is for capital outlays, including \$8 million for the City Hall project; \$742 thousand for the outfall engineering costs; and \$2.7 million for other equipment, vehicles, and capital items. Of the aforementioned \$2.7 million capital portion, the largest components are completion of the City Hall project (\$1.4 million), city-wide paving (\$250,000), and stormwater sampling (\$260,000).
- The property tax rate remains unchanged from the prior year level of .04 per hundred of assessed value.
- The Wastewater Surcharge will remain at 50 percent of sewer bills.
- The 2017 - 2018 budget includes a 2.5 percent wage increase for City employees.

**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 Ms. Sharon Lynn, 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 POSITION  
MARCH 31, 2017  
(With Summarized Comparative Data for March 31, 2016)**

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Cash and cash equivalents	\$ 8,000,700	\$ 6,747,853	\$14,748,553	\$14,106,382
Taxes receivable	18,986	-	18,986	33,328
Accounts receivable	272,341	419,362	691,703	577,278
Interest receivable	-	324	324	330
Loan proceeds receivable	1,497,828	-	1,497,828	600,503
Prepaid expenses	245,305	55,370	300,675	284,739
Inventory	56,257	299,598	355,855	396,218
Net pension asset	-	-	-	77,560
Internal balances	(1,558,030)	1,558,030	-	-
Capital Assets:				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	14,418,948	3,870,038	18,288,986	5,424,745
Depreciable capital assets, net of depreciation	23,103,773	16,129,355	39,233,128	43,067,830
<b>TOTAL ASSETS</b>	<b>48,871,067</b>	<b>29,272,866</b>	<b>78,143,933</b>	<b>67,576,808</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension contributions	107,124	-	107,124	127,475
Deferred pension	323,953	-	323,953	11,108
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>431,077</b>	<b>-</b>	<b>431,077</b>	<b>138,583</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$49,302,144</b>	<b>\$29,272,866</b>	<b>\$78,575,010</b>	<b>\$67,715,391</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 1,870,728	\$ 91,457	\$ 1,962,185	\$ 1,162,262
Accrued salaries and benefits	81,020	-	81,020	160,194
Accrued interest	12,305	42,132	54,437	53,791
Accrued expense	-	6,980	6,980	-
Deposits	76,554	-	76,554	82,529
Unearned revenues	-	-	-	1,000
Contingency reserve	-	227,744	227,744	227,524
Note payable	926,033	305,367	1,231,400	1,003,966
<b>Noncurrent Liabilities:</b>				
Note payable	10,983,325	3,326,939	14,310,264	5,255,729
Other post-employment benefits	1,191,142	323,066	1,514,208	1,321,550
Compensated absences	517,215	206,565	723,780	696,136
Net pension liability	248,287	-	248,287	-
<b>TOTAL LIABILITIES</b>	<b>15,906,609</b>	<b>4,530,250</b>	<b>20,436,859</b>	<b>9,964,681</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension	107,561	-	107,561	120,096
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>107,561</b>	<b>-</b>	<b>107,561</b>	<b>120,096</b>
<b>NET POSITION</b>				
Net investment in capital assets	28,428,322	16,560,023	44,988,345	45,240,775
Restricted:				
Police expenses	35,969	-	35,969	24,027
Public works expenses	95,086	-	95,086	90,443
Unrestricted	4,728,597	8,182,593	12,911,190	12,275,369
<b>TOTAL NET POSITION</b>	<b>33,287,974</b>	<b>24,742,616</b>	<b>58,030,590</b>	<b>57,630,614</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$49,302,144</b>	<b>\$29,272,866</b>	<b>\$78,575,010</b>	<b>\$67,715,391</b>

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



**CITY OF REHOBOTH BEACH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2017  
(With Summarized Comparative Data for the Year Ended March 31, 2016)**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Totals	
		2017	2016	2017	2016	2017	2016	2017
<b>GOVERNMENTAL ACTIVITIES:</b>								
General government	\$ 3,216,351	\$ 1,663,042	\$ -	\$ -	\$ (1,553,309)	\$ -	\$ (1,553,309)	\$ (1,592,479)
Public safety	3,943,481	191,035	182,382	-	(3,570,064)	-	(3,570,064)	(2,783,305)
Public works	6,736,520	6,517,806	631,711	-	412,997	-	412,997	513,694
Recreation and culture	750,699	224,990	-	-	(525,709)	-	(525,709)	(1,053,932)
Interest on general long-term debt	34,320	-	-	-	(34,320)	-	(34,320)	(55,536)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>14,681,371</u>	<u>8,596,873</u>	<u>814,093</u>	<u>-</u>	<u>(5,270,405)</u>	<u>-</u>	<u>(5,270,405)</u>	<u>(4,971,558)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Water	2,077,821	2,495,413	26,279	94,000	-	537,871	537,871	874,252
Sewer	2,708,277	3,204,455	26,278	63,710	-	586,166	586,166	24,045
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>4,786,098</u>	<u>5,699,868</u>	<u>52,557</u>	<u>157,710</u>	<u>-</u>	<u>1,124,037</u>	<u>1,124,037</u>	<u>898,297</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$19,467,469</u>	<u>\$14,296,741</u>	<u>\$ 866,650</u>	<u>\$ 157,710</u>	<u>(5,270,405)</u>	<u>1,124,037</u>	<u>(4,146,368)</u>	<u>(4,073,261)</u>
<b>GENERAL REVENUES:</b>								
Taxes					4,294,859	-	4,294,859	4,051,806
Investment earnings					1,678	2,195	3,873	4,282
Franchise fees					133,241	-	133,241	91,482
Miscellaneous revenues					114,371	-	114,371	161,048
<b>TOTAL GENERAL REVENUES</b>					<u>4,544,149</u>	<u>2,195</u>	<u>4,546,344</u>	<u>4,308,618</u>
<b>CHANGE IN NET POSITION</b>					(726,256)	1,126,232	399,976	235,357
<b>NET POSITION, BEGINNING OF YEAR</b>					<u>34,014,230</u>	<u>23,616,384</u>	<u>57,630,614</u>	<u>57,395,257</u>
<b>NET POSITION, END OF YEAR</b>					<u>\$33,287,974</u>	<u>\$24,742,616</u>	<u>\$58,030,590</u>	<u>\$57,630,614</u>

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

**CITY OF REHOBOTH BEACH**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2017**  
**(With Summarized Comparative Data for March 31, 2016)**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2017	2016
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7,291,182	\$ 577,254	\$ 132,264	\$ 8,000,700	\$ 6,967,830
Taxes receivable	18,986	-	-	18,986	33,328
Accounts receivable	272,341	-	-	272,341	88,952
Loan proceeds receivable	-	1,497,828	-	1,497,828	600,503
Prepaid expenditures	245,305	-	-	245,305	217,630
Inventory	56,257	-	-	56,257	49,363
Due from other funds	129,738	-	-	129,738	738,977
<b>TOTAL ASSETS</b>	<b>\$ 8,013,809</b>	<b>\$ 2,075,082</b>	<b>\$ 132,264</b>	<b>\$10,221,155</b>	<b>\$ 8,696,583</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 274,587	\$ 1,596,126	\$ 15	\$ 1,870,728	\$ 914,508
Due to other funds	-	1,686,574	1,194	1,687,768	1,429,691
Accrued salaries and benefits	81,020	-	-	81,020	126,711
Deposits	76,554	-	-	76,554	82,529
Unearned revenue	-	-	-	-	1,000
<b>TOTAL LIABILITIES</b>	<b>432,161</b>	<b>3,282,700</b>	<b>1,209</b>	<b>3,716,070</b>	<b>2,554,439</b>
<b>FUND BALANCES:</b>					
Nonspendable	301,562	-	-	301,562	266,993
Restricted:					
Police expenditures	-	-	35,969	35,969	24,027
Public works expenditures	-	-	95,086	95,086	90,443
Assigned:					
Municipal building project	236,366	-	-	236,366	236,366
Unassigned (deficit)	7,043,720	(1,207,618)	-	5,836,102	5,524,315
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>7,581,648</b>	<b>(1,207,618)</b>	<b>131,055</b>	<b>6,505,085</b>	<b>6,142,144</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,013,809</b>	<b>\$ 2,075,082</b>	<b>\$ 132,264</b>	<b>\$10,221,155</b>	<b>\$ 8,696,583</b>

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 POSITION  
MARCH 31, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 6,505,085

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 40,337,680

The City's net pension liability is not a current financial obligation and, therefore is not reported in the funds. (248,287)

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	(12,305)
Note payable	(11,909,358)
Other post-employment benefits	(1,191,142)
Compensated absences	(517,215)

Deferred outflows and inflows related to the City's net pension liability do not represent current resources or uses of resources, and, therefore are not reported in the funds. Deferred outflows and inflows consist of the following:

Deferred outflows of resources:	
Deferred pension contributions	107,124
Deferred pension expense	323,953
Deferred inflows of resources:	
Deferred pension expense	<u>(107,561)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 33,287,974

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, 2017**  
**(With Summarized Comparative Data for the Year Ended March 31, 2016)**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2017	2016
<b>REVENUES</b>					
Taxes	\$ 4,294,859	\$ -	\$ -	\$ 4,294,859	\$ 4,051,806
Licenses and permits	1,534,819	-	-	1,534,819	1,541,112
Franchise fees	133,241	-	-	133,241	91,482
Intergovernmental revenues	663,872	-	150,221	814,093	399,360
Charges for services	5,821,363	-	-	5,821,363	5,621,015
Fines and forfeitures	887,478	-	-	887,478	918,030
Investment earnings	1,678	-	-	1,678	2,054
Rents and concessions	353,213	-	-	353,213	365,952
Contributions and donations	24,921	-	-	24,921	34,053
Miscellaneous revenues	84,414	-	-	84,414	111,065
<b>TOTAL REVENUES</b>	<u>13,799,858</u>	<u>-</u>	<u>150,221</u>	<u>13,950,079</u>	<u>13,135,929</u>
<b>EXPENDITURES</b>					
General government	2,832,924	33,791	-	2,866,715	2,853,629
Public safety	3,660,637	-	26,492	3,687,129	3,002,229
Public works	3,153,680	-	107,144	3,260,824	2,984,350
Recreation and culture	613,036	-	-	613,036	1,177,035
Debt service	734,906	6,852,457	-	7,587,363	735,577
Capital outlays	2,545,681	10,167,547	-	12,713,228	3,749,968
<b>TOTAL EXPENDITURES</b>	<u>13,540,864</u>	<u>17,053,795</u>	<u>133,636</u>	<u>30,728,295</u>	<u>14,502,788</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>258,994</u>	<u>(17,053,795)</u>	<u>16,585</u>	<u>(16,778,216)</u>	<u>(1,366,859)</u>
<b>OTHER FINANCING SOURCES</b>					
Proceeds from sale of assets	5,036	-	-	5,036	25,152
Proceeds from long-term debt	-	17,136,121	-	17,136,121	1,261,211
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>5,036</u>	<u>17,136,121</u>	<u>-</u>	<u>17,141,157</u>	<u>1,286,363</u>
<b>NET CHANGE IN FUND BALANCES</b>	264,030	82,326	16,585	362,941	(80,496)
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>7,317,618</u>	<u>(1,289,944)</u>	<u>114,470</u>	<u>6,142,144</u>	<u>6,222,640</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ 7,581,648</u>	<u>\$(1,207,618)</u>	<u>\$ 131,055</u>	<u>\$ 6,505,085</u>	<u>\$ 6,142,144</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, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 362,941

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 (\$3,901,835) was exceeded by capital outlays (\$12,604,856) in the period. 8,703,021

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 position, however, issuance of debt increases liabilities and payment of debt decreases liabilities and, thus, does not affect the statement of activities. (9,578,971)

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). (188,322)

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. (4,107)

Pension expense in the statement of activities differ from the amount reported in the governmental funds because pension expense is recognized on the statement of activities based on the City's actuarial determined contribution, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (20,818)

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (726,256)

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

**CITY OF REHOBOTH BEACH**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**MARCH 31, 2017**  
**(With Summarized Comparative Data for March 31, 2016)**

	Water Fund	Sewer Fund	Totals	
			2017	2016
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,549,614	\$ 4,198,239	\$ 6,747,853	\$ 7,138,552
Accounts receivable	171,574	247,788	419,362	488,326
Due from other funds	1,380,298	177,732	1,558,030	1,419,824
Interest receivable	-	324	324	330
Prepaid expenses	15,417	39,953	55,370	67,109
Inventory	230,256	69,342	299,598	346,855
Noncurrent Assets:				
Capital assets, net of depreciation	9,071,736	11,120,593	20,192,329	19,865,811
<b>TOTAL ASSETS</b>	<b><u>\$13,418,895</u></b>	<b><u>\$15,853,971</u></b>	<b><u>\$29,272,866</u></b>	<b><u>\$29,326,807</u></b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 32,129	\$ 59,328	\$ 91,457	\$ 247,754
Accrued salaries and benefits	-	-	-	33,483
Accrued interest	37,630	4,502	42,132	45,593
Accrued expenses	-	6,980	6,980	-
Contingency reserve	-	227,744	227,744	227,524
Due to other funds	-	-	-	729,110
Note payable	258,397	46,970	305,367	297,002
Noncurrent Liabilities:				
Note payable	3,013,756	313,183	3,326,939	3,632,306
Other post-employment benefits	119,475	203,591	323,066	283,493
Compensated absences	91,900	114,665	206,565	214,158
<b>TOTAL LIABILITIES</b>	<b><u>3,553,287</u></b>	<b><u>976,963</u></b>	<b><u>4,530,250</u></b>	<b><u>5,710,423</u></b>
<b>NET POSITION</b>				
Net investment in capital assets	5,799,583	10,760,440	16,560,023	15,936,503
Unrestricted	4,066,025	4,116,568	8,182,593	7,679,881
<b>TOTAL NET POSITION</b>	<b><u>9,865,608</u></b>	<b><u>14,877,008</u></b>	<b><u>24,742,616</u></b>	<b><u>23,616,384</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$13,418,895</u></b>	<b><u>\$15,853,971</u></b>	<b><u>\$29,272,866</u></b>	<b><u>\$29,326,807</u></b>

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

**CITY OF REHOBOTH BEACH**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2017**  
**(With Summarized Comparative Data for the Year Ended March 31, 2016)**

	Water Fund	Sewer Fund	Totals	
			2017	2016
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,383,979	\$ 2,949,937	\$ 5,333,916	\$ 4,915,427
Other operating revenues	111,434	254,518	365,952	484,139
<b>Total Operating Revenues</b>	<u>2,495,413</u>	<u>3,204,455</u>	<u>5,699,868</u>	<u>5,399,566</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	516,947	866,193	1,383,140	1,470,935
Materials and supplies	85,049	263,878	348,927	365,549
Administration expenses	7,518	21,558	29,076	23,093
Contractual services	140,954	22,946	163,900	200,280
Land and equipment rental	-	38,250	38,250	38,250
Repairs and maintenance	552,810	265,924	818,734	769,853
Utilities	107,211	270,035	377,246	376,196
Insurance	62,176	82,359	144,535	113,444
Depreciation	512,520	865,871	1,378,391	1,375,530
<b>Total Operating Expenses</b>	<u>1,985,185</u>	<u>2,697,014</u>	<u>4,682,199</u>	<u>4,733,130</u>
<b>OPERATING INCOME</b>	<u>510,228</u>	<u>507,441</u>	<u>1,017,669</u>	<u>666,436</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Water capitalization fees	94,000	-	94,000	240,500
Sewer impact fees	-	63,710	63,710	69,176
Investment income	858	1,337	2,195	2,228
Interest expense	(92,636)	(11,263)	(103,899)	(112,129)
Intergovernmental grants	26,279	26,278	52,557	34,314
<b>Total Nonoperating Revenues</b>	<u>28,501</u>	<u>80,062</u>	<u>108,563</u>	<u>234,089</u>
<b>CHANGE IN NET POSITION</b>	538,729	587,503	1,126,232	900,525
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>9,326,879</u>	<u>14,289,505</u>	<u>23,616,384</u>	<u>22,715,859</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 9,865,608</u>	<u>\$14,877,008</u>	<u>\$24,742,616</u>	<u>\$23,616,384</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, 2017**  
**(With Summarized Comparative Data for the Year Ended March 31, 2016)**

	Water Fund	Sewer Fund	Totals	
			2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 2,501,217	\$ 3,267,615	\$ 5,768,832	\$ 5,387,521
Cash paid for goods and services	(1,589,836)	(1,288,249)	(2,878,085)	(2,625,531)
Cash paid to employees	(514,991)	(869,652)	(1,384,643)	(1,408,207)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>396,390</u>	<u>1,109,714</u>	<u>1,506,104</u>	<u>1,353,783</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital assets purchased	(75,732)	(1,629,177)	(1,704,909)	(1,332,711)
Proceeds received from capitalization and impact fees	94,000	63,710	157,710	309,676
Capital grants	26,279	26,278	52,557	34,314
Principal paid on note payable	(251,410)	(45,592)	(297,002)	(288,867)
Interest paid on note payable	(95,527)	(11,263)	(106,790)	(114,942)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(302,390)</u>	<u>(1,596,044)</u>	<u>(1,898,434)</u>	<u>(1,392,530)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	860	771	1,631	1,828
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>860</u>	<u>771</u>	<u>1,631</u>	<u>1,828</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	94,860	(485,559)	(390,699)	(36,919)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,454,754</u>	<u>4,683,798</u>	<u>7,138,552</u>	<u>7,175,471</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,549,614</u>	<u>\$ 4,198,239</u>	<u>\$ 6,747,853</u>	<u>\$ 7,138,552</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 510,228	\$ 507,441	\$ 1,017,669	\$ 666,436
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	512,520	865,871	1,378,391	1,375,530
(Increase) Decrease in assets:				
Accounts receivable	5,804	63,160	68,964	(12,045)
Due from other funds	(672,227)	968,950	296,723	(1,419,824)
Inventory	51,867	(4,610)	47,257	8,269
Prepaid expenses	-	11,739	11,739	(17,022)
Increase (Decrease) in liabilities:				
Accounts payable	(13,758)	2,106	(11,652)	56,140
Due to other funds	-	(1,308,684)	(1,308,684)	729,110
Contingency reserve	-	220	220	(95,539)
Accrued salaries and benefits	(11,851)	(21,632)	(33,483)	8,399
Accrued expenses	-	6,980	6,980	-
Other post-employment benefits	15,442	24,131	39,573	46,260
Compensated absences	(1,635)	(5,958)	(7,593)	8,069
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 396,390</u>	<u>\$ 1,109,714</u>	<u>\$ 1,506,104</u>	<u>\$ 1,353,783</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital assets acquired through the incurrence of payables	\$ -	\$ 30,429	\$ 30,429	\$ -

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). 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 of 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 include 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 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 position, 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 position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position. The City generally uses restricted net position first for expenses incurred for which both restricted and unrestricted net position 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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

**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.

**Capital Projects Fund** – The capital projects fund is used to track expenditures associated with the ongoing construction of the new City Hall complex.

***Proprietary Funds***

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets and deferred outflows, liabilities and deferred inflows, net position, 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 position, 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 position is segregated into net investment in capital assets, 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 recorded as unearned. 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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

The entity-wide statement of net position, 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 position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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

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, 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, 2016, 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 1½ 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 2017 was \$.04 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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

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/Expenditures

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

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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The City currently has two items that qualify for reporting in this category. Pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

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.

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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont'd)

- 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 2017, there were no revisions to any legally adopted budgets.

NOTE C CASH AND CASH EQUIVALENTS

The City, 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;
- 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.

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 position 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 (\$2,549,614) and the sewer fund (\$4,198,239) 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, 2017, the carrying amount of the City's deposits was \$14,748,553, and the bank balance was \$15,210,202. Of the bank balance, \$309,872 was covered by federal depository insurance, and \$14,900,330 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE D INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2017 is as follows:

<u>Due to</u>		<u>Due from</u>	
General Fund	\$ 129,738	Capital Projects Fund	\$ 1,686,574
Water Fund	1,380,298	Nonmajor Governmental	
Sewer Fund	<u>177,732</u>	Funds	<u>1,194</u>
	<u>\$ 1,687,768</u>		<u>\$ 1,687,768</u>

Interfund balances between funds result mainly from the time lag between when reimbursable expenditures occur and payments between the funds have been made. The balances generally are paid shortly after year end.

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

Capital asset activity for the year ended March 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	<u>3,236,235</u>	<u>11,182,713</u>	-	<u>14,418,948</u>
Total Capital Assets Not Being Depreciated	<u>6,051,194</u>	<u>11,182,713</u>	-	<u>17,233,907</u>
Capital assets being depreciated:				
Infrastructure and land improvements	47,857,648	19,800	-	47,877,448
Buildings and improvements	8,721,256	951,580	-	9,672,836
Machinery and equipment	5,698,366	399,114	-	6,097,480
Vehicles	1,811,709	51,649	-	1,863,358
Total Capital Assets Being Depreciated	<u>64,088,979</u>	<u>1,422,143</u>	-	<u>65,511,122</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	27,941,083	2,793,175	-	30,734,258
Buildings and improvements	4,363,256	295,465	-	4,658,721
Machinery and equipment	4,862,291	483,297	-	5,345,588
Vehicles	<u>1,338,884</u>	<u>329,898</u>	-	<u>1,668,782</u>
Total accumulated depreciation	<u>38,505,514</u>	<u>3,901,835</u>	-	<u>42,407,349</u>
Total Capital Assets Being Depreciated, Net	<u>25,583,465</u>	<u>(2,479,692)</u>	-	<u>23,103,773</u>
Governmental Activities Assets, Net	<u>\$31,634,659</u>	<u>\$ 8,703,021</u>	<u>\$ -</u>	<u>\$40,337,680</u>



CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 197,734
Public safety	132,168
Public works	3,434,270
Recreation and culture	<u>137,663</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,901,835</u>

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

Capital asset activity for the year ended March 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	2,188,510	1,681,528	-	<u>3,870,038</u>
Total Capital Assets Not Being Depreciated	<u>2,381,446</u>	<u>1,681,528</u>	<u>-</u>	<u>4,062,974</u>
Capital assets being depreciated:				
Buildings, infrastructure, and improvements	44,237,093	6,982	-	44,244,075
Machinery and equipment	2,011,369	16,399	-	2,027,728
Vehicles	834,059	-	-	<u>834,059</u>
Total Capital Assets Being Depreciated	<u>47,082,521</u>	<u>23,381</u>	<u>-</u>	<u>47,105,902</u>
Less accumulated depreciation for:				
Buildings, infrastructure, and improvements	27,246,628	1,181,969	-	28,428,597
Machinery and equipment	1,570,868	176,800	-	1,747,668
Vehicles	780,660	19,622	-	<u>800,282</u>
Total accumulated depreciation	<u>29,598,156</u>	<u>1,378,391</u>	<u>-</u>	<u>30,976,547</u>
Total Capital Assets Being Depreciated, Net	<u>17,484,365</u>	<u>(1,355,010)</u>	<u>-</u>	<u>16,129,355</u>
Business-type Activities Assets, Net	<u>\$19,865,811</u>	<u>\$ 326,517</u>	<u>\$ -</u>	<u>\$20,192,329</u>

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Depreciation expense was charged to the functions as follows:

Business-type Activities:

Water	\$ 512,520
Sewer	<u>865,871</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,378,391</u>

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2017 is composed of the following:

Governmental Activities

The Town obtained a USDA direct program loan in the amount of \$18,000,000. The loan matures on December 22, 2041 and bears interest at 2.375%; payable on March 22, June 22, September 22, and December 22 of each year.

\$ 11,547,247

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. The City is required to maintain a leverage ratio of 4.00 or less and maintain a debt service coverage ratio of 1.25 or greater under the terms of this loan.

362,111

Total Governmental Activities

\$ 11,909,358

Business-type Activities

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.

\$ 3,272,153

General Obligation Bond of 2012, issued by the State of Delaware, to finance capital costs associated with an approved sanitary sewer line replacement. The loan matures on November 1, 2023 and bears interest at 3.0%, which includes a 1.5% administrative fee paid to the Delaware Water Pollution Control Revolving Fund; payable on May 1 and November 1.

360,153

Total Business-type Activities

\$ 3,632,306

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

Annual requirements to retire long-term debt of all funds at March 31, 2017, including \$6,452,753 in funds not yet drawn as of March 31, 2017 on the USDA direct program loan are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 926,033	\$ 427,226	\$ 305,367	\$ 98,996
2019	577,435	408,965	313,968	90,395
2020	590,155	396,245	322,812	81,552
2021	605,413	380,987	331,903	72,460
2022	619,920	366,480	341,253	63,111
2023 - 2027	3,324,538	1,603,355	1,677,117	172,423
2028 - 2032	3,745,581	1,185,375	339,886	7,052
2033 - 2037	4,218,609	713,391	-	-
2038 - 2041	3,754,427	193,853	-	-
Total	<u>\$ 18,362,111</u>	<u>\$ 5,675,877</u>	<u>\$ 3,632,306</u>	<u>\$ 585,989</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, 2017:

	Balance April 1, 2016	Increase	Decreases	Balance March 31, 2017
Governmental Activities:				
Notes payable	\$ 2,330,387	\$17,136,121	\$ 7,557,150	\$ 11,909,358
OPEB	1,038,057	153,085	-	1,191,142
Compensated absences	481,978	35,237	-	517,215
Total	<u>\$ 3,850,422</u>	<u>\$17,324,443</u>	<u>\$ 7,557,150</u>	<u>\$ 13,617,715</u>
Business-type Activities:				
Note payable	\$ 3,929,308	\$ -	\$ 297,002	\$ 3,632,306
OPEB	283,493	39,573	-	323,066
Compensated absences	214,158	-	7,593	206,565
Total	<u>\$ 4,426,959</u>	<u>\$ 39,573</u>	<u>\$ 304,595</u>	<u>\$ 4,161,937</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 20 percent per year starting after two years of service and become fully vested after six years of service. For the years ended March 31, 2017, 2016, and 2015, the City's employer contributions totaled \$65,642, \$65,155, and \$67,893, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

Plan Description

The County and Municipal Police and Firefighters' Pension Plan ("the Plan") is a cost sharing multiple-employer defined-benefit pension plan established in the Delaware Code. The Plan is administered by the Delaware Public Employees' Retirement System ("DPERS").

The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees ("the Board").

The management of the Plan is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex officio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plan are commingled with other Plans for investment purposes, the Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan.

Separately issued financial statements for DPERS are available from the pension office at the McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The following are brief descriptions of the Plan in effect as of June 30, 2016. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

**Plan Description and Eligibility:** The Plan covers police officers and firefighters employed by a county or municipality of the State that have joined the Plan.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE I     RETIREMENT PLANS (cont'd)

**Service Benefits:** 2.5 percent of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5 percent of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

**Vesting:** Five years of credited service.

**Retirement:** Age 62 with five years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

**Disability Benefits:**

**Duty – Total Disability** – 75 percent of final average compensation plus 10 percent for each dependent not to exceed 25 percent for all dependents.

**Duty – Partial Disability** – Calculated the same as Service Benefits, subject to minimum of 50 percent of final average compensation.

**Non-Duty:** Same as Service Benefits, total disability subject to a minimum of 50 percent of final average monthly compensation plus five percent of each dependent not to exceed 20 percent for all dependents. Partial disability to a minimum of 30 percent of final average monthly compensation.

**Survivor Benefits:** If employee is receiving a pension, then eligible survivor receives 50 percent of pension; if employee is active, eligible survivor receives 50 percent of pension the employee would have received at age 62. If the member is killed in the line of duty, the eligible survivor receives 75 percent of the member's compensation.

Actuarial Assumptions

The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions:

- Investment rate of return – 7.2%
- Projected salary increases – 4.0% to 11.5%
- Cost of living adjustments – N/A

The total pension liability was measured based on assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex distinct RP-2000 combined Mortality Table projected for 2016 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	34.0%	5.7%
International equity	14.7%	5.7%
Fixed income	25.0%	2.0%
Alternative investments	20.9%	7.8%
Cash equivalents	5.4%	-
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board, as actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset), calculated using the discount rate of 7.2 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.2 percent) or one percentage point higher (8.2 percent) than the current rate.

	1% Decrease 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
City's proportionate share of the net pension liability (asset)	\$ 987,762	\$ 248,287	\$ (348,107)

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

For the year ended March 31, 2017, the City recognized pension expense of \$127,942. At March 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 256,787	\$ -
Changes in proportions	4,075	-
Changes in assumptions	-	65,276
Difference between employer contributions and proportionate share of total contributions	20,699	-
Differences between expected and actual experience	42,392	42,285
Contributions subsequent to the date of measurement	107,124	-
	\$ 431,077	\$ 107,561

An amount of \$107,124 is reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2018. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Year Ended March 31,

2018	\$	59,708
2019		59,708
2020		59,708
2021		59,708
2022		(4,488)
2023 - 2026		<u>(17,952)</u>
	\$	<u>216,392</u>

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 March 2014 for an additional five years. The lease requires annual lease payments of \$38,250 payable on the first day of each lease year.

Future minimum lease obligations are as follows:

<u>For the Year Ended March 31,</u>		<u>Amount</u>
2018	\$	<u>38,250</u>

Rental expense under this lease for the year ended March 31, 2017 was \$38,250.

Lessor

The City leases certain property designated as Lot 22, Rehoboth Avenue, Rehoboth Beach, Delaware. The lease expires on December 31, 2020. The lease calls for rental income to be adjusted each January and is paid in three installments due July 1, August 1, and September 1 of each year.



CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE J OPERATING LEASES (cont'd)

Future minimum receipts under the agreement are as follows:

For the Year Ended March 31,	Amount
2018	\$ 67,200
2019	68,400
2020	69,600
2021	70,800
Total	\$ 276,000

Rental income under this lease for the year ended March 31, 2017 was \$66,000.

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS (cont'd)

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, 2017.

Construction Commitments

At March 31, 2017, the City had approved contracts for various capital projects totaling \$19,866,452 and payments for progress on contracts of \$14,291,006, resulting in outstanding commitments of \$5,575,446. In addition, the City's governmental activities report another \$127,942 in construction-in-progress costs for projects without ongoing construction commitments, and the proprietary funds report \$3,870,038 in engineering and related fees associated with a planned outfall project as well as construction-in-progress costs for projects without ongoing construction commitments.

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 participates in the Delaware Founders Insurance Trust pool. 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 City. 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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

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, 2017, 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 2017, the City contributed \$30,637 to the plan for current premiums.

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	\$ 335,831
Interest on net OPEB obligation	44,422
Adjustment to annual required contribution	<u>(61,753)</u>
Annual OPEB cost (expense)	315,207
Contributions made	<u>(122,549)</u>
Increase in net OPEB obligation	192,658
Net OPEB obligation - beginning of year	<u>1,321,550</u>
Net OPEB obligation - end of year	<u><u>\$ 1,514,208</u></u>

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
4/01/2015	\$ -	\$ 4,048,480	\$ 4,048,480	0.00%	\$ 2,974,677	136.10%
4/01/2012	\$ -	\$ 2,901,893	\$ 2,901,893	0.00%	\$ 3,302,042	87.88%
4/01/2009	\$ -	\$ 3,199,509	\$ 3,199,509	0.00%	\$ 3,178,552	100.66%

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.

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, 2015 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 2017, reduced by decrements to an ultimate rate of five percent in 2021 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2017 was 22 years.

NOTE N FUND BALANCES

As of March 31, 2017, 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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

*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. 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.

As of March 31, 2017, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 301,562	\$ -	\$ -	\$ 301,562
Restricted:				
Police expenditures	-	-	35,969	35,969
Public works expenditures	-	-	95,086	95,086
Assigned:				
Municipal building project	236,366	-	-	236,366
Unassigned (deficit)	<u>7,043,720</u>	<u>(1,207,618)</u>	<u>-</u>	<u>5,836,102</u>
Total Fund Balances (Deficit)	<u>\$ 7,581,648</u>	<u>\$(1,207,618)</u>	<u>\$ 131,055</u>	<u>\$ 6,505,085</u>

NOTE O SUBSEQUENT EVENTS

The City has evaluated all subsequent events through October 30, 2017, 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, 2017**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Property tax	\$ 1,327,000	\$ 1,322,595	\$ (4,405)
Rental tax	991,700	1,131,313	139,613
Transfer tax	1,500,000	1,748,036	248,036
Construction tax	50,000	88,586	38,586
Penalties and interest	3,800	4,329	529
Total Taxes	<u>3,872,500</u>	<u>4,294,859</u>	<u>422,359</u>
Licenses and permits:			
Mercantile licenses	522,000	633,287	111,287
Building permits	600,000	829,277	229,277
Other	64,400	72,255	7,855
Total Licenses and Permits	<u>1,186,400</u>	<u>1,534,819</u>	<u>348,419</u>
Franchise fees	<u>150,000</u>	<u>133,241</u>	<u>(16,759)</u>
Intergovernmental revenues:			
Public works	9,800	519,924	510,124
Public safety	154,514	143,948	(10,566)
Total Intergovernmental Revenues	<u>164,314</u>	<u>663,872</u>	<u>499,558</u>
Charges for services:			
Parking meters	4,030,000	4,146,925	116,925
Parking permits	791,400	815,631	24,231
Waste collection	822,900	858,807	35,907
Total Charges for Services	<u>5,644,300</u>	<u>5,821,363</u>	<u>177,063</u>
Fines and forfeitures:			
Parking	706,500	696,443	(10,057)
Court	75,000	91,718	16,718
Police	100,000	99,317	(683)
Total Fines and Forfeitures	<u>881,500</u>	<u>887,478</u>	<u>5,978</u>
Investment earnings	<u>1,710</u>	<u>1,678</u>	<u>(32)</u>
Rents and concessions	<u>345,258</u>	<u>353,213</u>	<u>7,955</u>
Contributions and donations	<u>20,000</u>	<u>24,921</u>	<u>4,921</u>
Miscellaneous revenues	<u>55,200</u>	<u>84,414</u>	<u>29,214</u>
<b>TOTAL REVENUES</b>	<u><b>12,321,182</b></u>	<u><b>13,799,858</b></u>	<u><b>1,478,676</b></u>
<b>EXPENDITURES</b>			
General government:			
Mayor and Council	198,523	142,881	55,642
Assessors	4,084	2,630	1,454
Administrative	1,491,521	1,466,817	24,704
Alderman Court	62,202	61,836	366
Buildings and licensing	516,902	530,653	(13,751)
Information technology	342,154	353,186	(11,032)
Buildings and grounds	283,878	274,921	8,957
Total General Government	<u>2,899,264</u>	<u>2,832,924</u>	<u>66,340</u>

Continued on next page.

**CITY OF REHOBOTH BEACH  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2017**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
EXPENDITURES (cont'd)			
Public safety:			
Police	2,526,636	2,436,383	90,253
Dispatch	581,620	588,046	(6,426)
Volunteer fire	42,000	44,120	(2,120)
Beach patrol	662,524	592,088	70,436
Total Public Safety	<u>3,812,780</u>	<u>3,660,637</u>	<u>152,143</u>
Public works:			
Streets	1,023,936	1,005,538	18,398
Waste collection	1,104,693	1,025,899	78,794
Parking	1,171,528	1,122,243	49,285
Total Public Works	<u>3,300,157</u>	<u>3,153,680</u>	<u>146,477</u>
Recreation and culture:			
Comfort stations	240,023	204,955	35,068
Parks	193,136	176,234	16,902
Library	15,000	15,000	-
Main Street	38,000	24,493	13,507
Museum	36,000	46,493	(10,493)
Recreation	176,926	145,861	31,065
Total Recreation and Culture	<u>699,085</u>	<u>613,036</u>	<u>86,049</u>
Debt service:			
Interest and principal	734,906	734,906	-
Capital outlays	2,470,750	2,545,681	(74,931)
TOTAL EXPENDITURES	<u>13,916,942</u>	<u>13,540,864</u>	<u>376,078</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,595,760)</u>	<u>258,994</u>	<u>1,854,754</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	5,036	5,036
Fund balance encumbrance	725,000	-	(725,000)
Transfers in (out)	870,750	-	(870,750)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,595,750</u>	<u>5,036</u>	<u>(1,590,714)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (10)</u>	264,030	<u>\$ 264,040</u>
FUND BALANCE, BEGINNING OF YEAR		<u>7,317,618</u>	
FUND BALANCE, END OF YEAR		<u>\$ 7,581,648</u>	



**CITY OF REHOBOTH BEACH**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE**  
**OF THE NET PENSION ASSET (LIABILITY)**  
**Delaware Public Employees' Retirement System (DPERS)**  
**County and Municipal Police and Firefighters' Pension Plan**

	Measurement Date	
	June 30, 2016	June 30, 2015
City's proportion of the net pension asset (liability)	1.4716%	1.4716%
City's proportion of the net pension asset (liability) - dollar value	\$ (248,287)	\$ 77,560
City's covered employee payroll	1,237,682	1,298,035
City's proportionate share of the net pension asset (liability) as a percentage of its covered employee payroll	-20.06%	5.98%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	101.97%

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

**CITY OF REHOBOTH BEACH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY CONTRIBUTIONS  
Delaware Public Employees' Retirement System (DPERS)  
County and Municipal Police and Firefighters' Pension Plan**

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Contractually required contribution	\$ 142,832	\$ 169,967
Contributions in relation to the contractually required contribution	<u>142,832</u>	<u>169,967</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,244,181	\$ 1,234,328
Contributions as a percentage of covered-employee payroll	11.48%	13.77%

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

**COMBINING NONMAJOR FUND STATEMENTS**

**CITY OF REHOBOTH BEACH**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**MARCH 31, 2017**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$ 95,931</u>	<u>\$ 36,333</u>	<u>\$ 132,264</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 95,931</u></u>	<u><u>\$ 36,333</u></u>	<u><u>\$ 132,264</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 15	\$ 15
Due to other funds	<u>845</u>	<u>349</u>	<u>1,194</u>
<b>TOTAL LIABILITIES</b>	<u>845</u>	<u>364</u>	<u>1,209</u>
 <b>FUND BALANCES</b>			
Restricted:			
Police expenditures	-	35,969	35,969
Public works expenditures	<u>95,086</u>	<u>-</u>	<u>95,086</u>
<b>TOTAL FUND BALANCES</b>	<u>95,086</u>	<u>35,969</u>	<u>131,055</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u><u>\$ 95,931</u></u>	 <u><u>\$ 36,333</u></u>	 <u><u>\$ 132,264</u></u>

**CITY OF REHOBOTH BEACH  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED MARCH 31, 2017**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 111,787	\$ 38,434	\$ 150,221
TOTAL REVENUES	<u>111,787</u>	<u>38,434</u>	<u>150,221</u>
EXPENDITURES			
Public safety	-	26,492	26,492
Public works	107,144	-	107,144
TOTAL EXPENDITURES	<u>107,144</u>	<u>26,492</u>	<u>133,636</u>
CHANGE IN FUND BALANCES	4,643	11,942	16,585
FUND BALANCES, BEGINNING OF YEAR	<u>90,443</u>	<u>24,027</u>	<u>114,470</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 95,086</u></u>	<u><u>\$ 35,969</u></u>	<u><u>\$ 131,055</u></u>

**CITY OF REHOBOTH BEACH  
COMBINING STATEMENT OF NET POSITION - SEWER FUNDS  
MARCH 31, 2017**

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 4,198,239	\$ -	\$ 4,198,239
Accounts receivable	247,788	-	247,788
Due from other funds	3,961,204	-	3,961,204
Interest receivable	324	-	324
Prepaid expenses	39,953	-	39,953
Inventory	69,342	-	69,342
Noncurrent Assets:			
Capital assets, net of depreciation	<u>7,395,407</u>	<u>3,725,186</u>	<u>11,120,593</u>
<b>TOTAL ASSETS</b>	<u><u>\$15,912,257</u></u>	<u><u>\$ 3,725,186</u></u>	<u><u>\$19,637,443</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 23,656	\$ 35,672	\$ 59,328
Accrued salaries and benefits	-	-	-
Accrued interest	4,502	-	4,502
Accrued expenses	6,980	-	6,980
Contingency reserve	227,744	-	227,744
Due to other funds	-	3,783,472	3,783,472
Note payable	46,970	-	46,970
Noncurrent Liabilities:			
Note payable	313,183	-	313,183
Other post-employment liability	203,591	-	203,591
Compensated absences	114,665	-	114,665
<b>TOTAL LIABILITIES</b>	<u>941,291</u>	<u>3,819,144</u>	<u>4,760,435</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,035,254	3,725,186	10,760,440
Unrestricted (deficit)	<u>7,935,712</u>	<u>(3,819,144)</u>	<u>4,116,568</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<u><u>14,970,966</u></u>	<u><u>(93,958)</u></u>	<u><u>14,877,008</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$15,912,257</u></u>	<u><u>\$ 3,725,186</u></u>	<u><u>\$19,637,443</u></u>

**CITY OF REHOBOTH BEACH  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - SEWER FUNDS  
FOR THE YEAR ENDED MARCH 31, 2017**

	Sewer Fund	Sewer Capital Projects Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for services	\$ 2,949,937	\$ -	\$ 2,949,937
Other operating revenues	254,518	-	254,518
Total Operating Revenues	<u>3,204,455</u>	<u>-</u>	<u>3,204,455</u>
<b>OPERATING EXPENSES</b>			
Salaries and benefits	866,193	-	866,193
Materials and supplies	263,878	-	263,878
Administration expenses	21,558	-	21,558
Contractual services	17,703	5,243	22,946
Land and equipment rental	38,250	-	38,250
Repairs and maintenance	265,924	-	265,924
Utilities	270,035	-	270,035
Insurance	82,359	-	82,359
Depreciation	865,871	-	865,871
Total Operating Expenses	<u>2,691,771</u>	<u>5,243</u>	<u>2,697,014</u>
<b>OPERATING INCOME (LOSS)</b>	<u>512,684</u>	<u>(5,243)</u>	<u>507,441</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Sewer impact fees	63,710	-	63,710
Investment income	1,337	-	1,337
Interest expense	(11,263)	-	(11,263)
Intergovernmental grants	26,278	-	26,278
Total Nonoperating Revenues	<u>80,062</u>	<u>-</u>	<u>80,062</u>
<b>CHANGE IN NET POSITION</b>	592,746	(5,243)	587,503
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR</b>	<u>14,378,220</u>	<u>(88,715)</u>	<u>14,289,505</u>
<b>NET POSITION (DEFICIT), END OF YEAR</b>	<u>\$14,970,966</u>	<u>\$ (93,958)</u>	<u>\$14,877,008</u>

**CITY OF REHOBOTH BEACH  
COMBINING STATEMENT OF CASH FLOWS - SEWER FUNDS  
FOR THE YEAR ENDED MARCH 31, 2017**

	Sewer Fund	Sewer Capital Projects Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 3,267,615	\$ -	\$ 3,267,615
Cash paid for goods and services	(1,288,249)	-	(1,288,249)
Cash paid to employees	(869,652)	-	(869,652)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,109,714</u>	<u>-</u>	<u>1,109,714</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital assets purchased	(28,144)	(1,601,033)	(1,629,177)
Loans from other funds	(1,601,033)	1,601,033	-
Proceeds received from capitalization and impact fees	63,710	-	63,710
Capital grants	26,278	-	26,278
Principal paid on note payable	(45,592)	-	(45,592)
Interest paid on note payable	(11,263)	-	(11,263)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(1,596,044)</u>	<u>-</u>	<u>(1,596,044)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest income	771	-	771
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>771</u>	<u>-</u>	<u>771</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(485,559)	-	(485,559)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,683,798</u>	<u>-</u>	<u>4,683,798</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,198,239</u>	<u>\$ -</u>	<u>\$ 4,198,239</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 512,684	\$ (5,243)	\$ 507,441
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	865,871	-	865,871
(Increase) Decrease in assets:			
Accounts receivable	63,160	-	63,160
Due from other funds	(339,734)	-	(339,734)
Inventory	(4,610)	-	(4,610)
Prepaid expenses	11,739	-	11,739
Increase (Decrease) in liabilities:			
Accounts payable	(3,137)	5,243	2,106
Contingency reserve	220	-	220
Accrued salaries and benefits	(21,632)	-	(21,632)
Accrued expenses	6,980	-	6,980
Other post-employment benefits	24,131	-	24,131
Compensated absences	(5,958)	-	(5,958)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,109,714</u>	<u>\$ -</u>	<u>\$ 1,109,714</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital assets acquired through the incurrence of payables	<u>\$ -</u>	<u>\$ 30,429</u>	<u>\$ 30,429</u>



**SINGLE AUDIT SUPPLEMENT**

INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

October 30, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

Compliance and Other Matters

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

Purpose of this Report

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

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

INDEPENDENT AUDITOR'S  
REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTRC  
OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE

October 30, 2017

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

Report on Compliance for Each Major Federal Program

We have audited the City of Rehoboth Beach's ("the City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended March 31, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

Opinion on Major Federal Program

In our opinion, the City of Rehoboth Beach, Rehoboth Beach, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2017.

Report on Internal Control Over Compliance

Management of the City of Rehoboth Beach, Rehoboth Beach, Delaware, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
BARBACANE, THORNTON & COMPANY LLP

CITY OF REHOBOTH BEACH  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ X No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

10.766

Community Facilities Loan and Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

CITY OF REHOBOTH BEACH  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**CITY OF REHOBOTH BEACH  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2017**

GRANTOR	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES MARCH 31, 2017	PASSED THROUGH TO SUB-RECIPIENTS	OUTSTANDING LOAN BALANCE
<u>U.S. Department of Agriculture</u>						
Community Facilities Loans and Grants	D	10.766	N/A	\$ 10,286,036	\$ -	\$ 11,547,247
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>10,286,036</u>	<u>-</u>	<u>11,547,247</u>
<u>U.S. Department of Transportation</u>						
<u>Passed through Delaware Department of Transportation</u>						
Alcohol Open Container Requirements	I	20.607	N/A	8,450	-	-
State and Community Highway Safety	I	20.600	N/A	9,653	-	-
National Priority Safety Programs	I	20.616	N/A	1,000	-	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>19,103</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Justice</u>						
<u>Passed Through State of Delaware</u>						
Edward Byrne Memorial Justice Assistance Grant Program	I	16.738	N/A	7,050	-	-
TOTAL U.S. DEPARTMENT OF JUSTICE				<u>7,050</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 10,312,189</u>	<u>\$ -</u>	<u>\$ 11,547,247</u>
TOTAL HIGHWAY SAFETY CLUSTER				<u>\$ 10,653</u>	<u>\$ -</u>	<u>\$ -</u>

Source Codes:

D = Direct Funding

I = Indirect Funding



CITY OF REHOBOTH BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A REPORTING ENTITY

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the City of Rehoboth Beach.

NOTE B BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

NOTE C INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended March 31, 2017, there were no indirect costs included in the schedule of expenditures of federal awards.

NOTE D LOAN BALANCES INVOLVING FEDERAL FUNDS

During the year ended March 31, 2017, the City was awarded an \$18,000,000 loan from the U.S. Department of Agriculture for construction of a new City Hall. This loan is not fully drawn down, and expenditures in the amount of \$10,286,036 are reflected in the schedule of expenditures of federal awards. The loan balance at March 31, 2017 was \$11,547,247.