



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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

MARCH 31, 2015

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 12
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	13
- Statement of Activities	14
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	15
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	16
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
- Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	18
- Statement of Net Position - Proprietary Funds	19
- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	20
- Statement of Cash Flows - Proprietary Funds	21
NOTES TO FINANCIAL STATEMENTS	22 - 38
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	39 - 40
COMBINING NONMAJOR FUND STATEMENTS	
- Combining Balance Sheet - Nonmajor Governmental Funds	41
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	42

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTAL REPORT	
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 <i>Government Auditing Standards</i>	43 - 44

INDEPENDENT AUDITOR'S REPORT

T 302.478.8940
F 302.468.4001
www.btcpa.com

September 17, 2015

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, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2015, 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 City'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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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, 2015, 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 2014 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 December 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2014 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 and the budgetary comparison schedule - general fund on pages 39 - 40 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 of Rehoboth Beach's basic financial statements. The combining nonmajor fund financial statements on pages 41 - 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 (to be determined), on our consideration of the City of Rehoboth Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 of Rehoboth Beach'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, 2015**

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, 2015. Please read it in conjunction with the City's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at March 31, 2015 by \$57.4 million (net position). Of this amount, \$11.9 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net position decreased by \$1.0 million.

As of March 31, 2015, the City's governmental funds reported combined ending fund balances of \$6.2 million, an increase of \$718 thousand as compared to the prior year. The current year increase in fund balance can be attributed to higher than budgeted revenues and lower than budgeted expenditures. Total governmental funds revenue increased by \$113 thousand compared to the prior year while expenditures increased by \$291 thousand compared to the prior year. The components of revenue that contributed significantly to the overall revenue increase were parking meter, parking fines, parking permits, and rental tax, increasing by \$127 thousand, \$128 thousand, \$72 thousand, and \$79 thousand, respectively. In the Public Safety category, police fines increased by 124 percent to \$108 thousand, and Alderman Court fines increased by 39 percent to \$95 thousand. There was no material change in the amount of revenue collected from property tax. Property transfer tax and building permits declined by \$169 thousand and \$98 thousand, respectively.

As of March 31, 2015, the City's proprietary funds reported combined net position of \$22.7 million, an increase of \$152 thousand compared to the prior year. The increase can be attributed to the following: a) \$142 thousand increase in charges for services and b) \$559 thousand decline in transfers to the Governmental Funds, offset by water capitalization fees decreasing by \$128 thousand, intergovernmental grants decreasing by \$15 thousand, and operating expenses increasing by \$286 thousand.

The Enterprise Funds transferred \$247 thousand to the General Fund compared to \$806 in the prior 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 of Rehoboth Beach's basic financial statements. The City of Rehoboth Beach's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the City'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, 2015**

- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the entity-wide statements.

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

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

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two 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 activities 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 of Rehoboth Beach include general government, public safety, public works, and recreation and culture. Business-type activities are limited to the City's water and sewer system.

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

Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services 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 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.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

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.

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, 2014 and 2015.

Table 1 – Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	\$ 6,575,631	\$ 5,775,367	\$ 8,057,446	\$ 7,092,934	\$ 14,633,077	\$ 12,868,301
Capital assets, net	31,505,226	33,947,087	19,822,271	20,334,298	51,327,497	54,281,385
TOTAL ASSETS	38,080,857	39,722,454	27,879,717	27,427,232	65,960,574	67,149,686
LIABILITIES						
Other liabilities	1,041,009	937,616	791,228	687,635	1,832,237	1,625,251
Long-term debt	2,389,457	2,967,392	4,372,630	4,176,190	6,762,087	7,143,582
TOTAL LIABILITIES	3,430,466	3,905,008	5,163,858	4,863,825	8,594,324	8,768,833
NET POSITION						
Net investment in capital assets	29,752,902	31,534,763	15,604,096	16,328,124	45,356,998	47,862,887
Restricted	87,131	76,214	-	-	87,131	76,214
Unrestricted	4,810,358	4,206,469	7,111,763	6,235,283	11,922,121	10,441,752
TOTAL NET POSITION	\$ 34,650,391	\$ 35,817,446	\$ 22,715,859	\$ 22,563,407	\$ 57,366,250	\$ 58,380,853

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

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	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	\$ 6,862,251	\$ 6,390,523	\$ 4,964,244	\$ 4,911,253	\$ 11,826,495	\$ 11,301,776
Operating grants/contributions	340,098	327,808	-	14,643	340,098	342,451
Capital grants/contributions	30,177	128,535	184,000	315,565	214,177	444,100
General revenues:						
Taxes	4,027,206	4,145,463	-	-	4,027,206	4,145,463
Investment earnings	3,016	7,961	4,948	7,951	7,964	15,912
Franchise fees	86,229	83,061	-	-	86,229	83,061
Miscellaneous	81,314	113,070	-	-	81,314	113,070
Transfers	246,820	806,279	-	-	246,820	806,279
TOTAL REVENUES	11,677,111	12,002,700	5,153,192	5,249,412	16,830,303	17,252,112
EXPENSES						
General government	2,629,436	2,482,945	-	-	2,629,436	2,482,945
Public safety	3,039,234	2,847,393	-	-	3,039,234	2,847,393
Public works	5,795,959	5,839,092	-	-	5,795,959	5,839,092
Recreation and culture	1,306,765	1,259,280	-	-	1,306,765	1,259,280
Interest on long-term debt	72,772	95,218	-	-	72,772	95,218
Water operations	-	-	2,141,542	1,958,214	2,141,542	1,958,214
Sewer operations	-	-	2,612,378	2,510,904	2,612,378	2,510,904
Transfers	-	-	246,820	806,279	246,820	806,279
TOTAL EXPENSES	12,844,166	12,523,928	5,000,740	5,275,397	17,844,906	17,799,325
INCREASE (DECREASE) IN NET POSITION	(1,167,055)	(521,228)	152,452	(25,985)	(1,014,603)	(547,213)
NET POSITION, BEGINNING OF YEAR	35,817,446	36,338,674	22,563,407	22,589,392	58,380,853	58,928,066
NET POSITION, END OF YEAR	\$ 34,650,391	\$ 35,817,446	\$ 22,715,859	\$ 22,563,407	\$ 57,366,250	\$ 58,380,853

Governmental Activities

The cost of all governmental activities in 2015 was \$12.8 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$4.0 million, or 31.3 percent. Other costs were paid by those who directly benefited from the programs (\$6.9 million, or 53.4 percent), government agencies and organizations that subsidized funding with intergovernmental aid (\$370 thousand or 2.9 percent), and Transfers from Water and Wastewater Funds (\$.25 million, or 1.9 percent).

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

Capital grants and contributions decreased from the prior year by \$98 thousand. The decline is, partially, attributed to the completion of a sidewalk project in 2014. Property tax revenue decreased by \$5 thousand. This was largely a result to the reassessment of properties and the resulting rate change from \$1.78 per hundred of assessed value to \$.04 per hundred of assessed value. The value of assessed property increased from \$74 million in fiscal year 2014 to \$3.2 billion in fiscal year 2015. The previous property assessment was completed in 1968. Property Transfer Tax revenue decreased by \$169 thousand, or 9.4 percent, as a result of lower real estate sales.

As indicated by the governmental program expenses, general government programs accounted for 20.5 percent of the City's governmental activities. Of the \$146 thousand increase in the cost of general government activities, \$61 thousand related to increases in wage and medical insurance costs. Public safety expenses accounted for 23.7 percent of the City's governmental activities in the year ended March 31, 2015 and 22.7 percent in the prior year. The increased costs were due to cost-of-living increases for wages and inflation for benefit costs. Public works expenses accounted for 45.1 percent of the City's governmental activities or \$5.8 million. Public works also experienced increases due to cost-of-living increases for wages and medical insurance inflation. However, the total costs of the Public Works Department declined by \$43 thousand from the prior year. Recreation and culture costs increased by \$47 thousand, or 3.8 percent. Lifeguard costs and comfort station costs, components of recreation and culture, increased \$26 thousand and \$19 thousand, respectively.

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 while it provides and bills customers in North Shores for water services. These arrangements provide additional revenue to the City and shares the cost 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 water rates were not increased during the fiscal year. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges. Total operating revenue in the Water Department decreased by of \$34.2 thousand. Charges for services increased by \$142 thousand. Of this increase, water charges for services increased by \$74 thousand, and Wastewater charges for services increased by \$68. Other Water Department operating revenue declined by \$108 thousand. Of this decline, \$89 thousand was attributed to the decline in revenue from new water meter installations. The construction of the Shoal Harbor project in early 2014 added new meters, most of which were installed and invoiced in the year ended March 31, 2014.

The overall operating expense of business-type activities increased by \$286 thousand. Of this increase, \$190 thousand was in the Water Department, and \$96 was in the Wastewater Department. Salaries and benefits in the Water Department and Wastewater Department increased by \$79 and \$44 thousand, respectively. The Water Department's addition of a full-time employee plus the annual

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

2.5 percent wage increase was largely responsible for the cost increase in salaries and benefits. The Wastewater Department assumed 100 percent of the cost of an employee who had previously devoted 50 percent of his time to the Water Department and 50 percent to the Wastewater Department. In the Wastewater Department, electric costs increased by \$47 thousand, and medical insurance increased by \$22 thousand. The repairs and maintenance cost in the Water Department increased by \$81 thousand. The \$146 thousand planned expenditure for the valves and hydrants project was responsible for the increase.

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.

March 31, 2015, the City's governmental funds reported combined ending fund balances of \$6.2 million, an increase of \$718 thousand as compared to the prior year. The fund balance increase is attributed to the \$262 thousand positive variance in General Fund revenues and the \$247 transfer-in from the enterprise funds. The amount of the fund balance restricted for special purposes is 1.4 percent, or \$87 thousand. The \$5.7 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion. The City has also assigned \$236 thousand of the fund balance for the Municipal Building Project.

The General Fund is the chief operating fund of the City. 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 \$291 thousand from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average three percent wage increase for all City employees, effective April 1, 2014. In accordance with their collective bargaining agreement, police officers also received a three percent increase, effective April 1, 2014. There was a \$118 thousand increase in wage expense in the governmental funds.
- During 2015, the City's Governmental Funds increased capital outlays by \$84 thousand to \$973 thousand.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

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

- \$ 310 thousand for City Hall Design
- \$ 179 thousand for a new street sweeper
- \$ 76 thousand for two new vehicles for the Police Department
- \$ 66 thousand for two 2015 Ford F-350 trucks for the Streets Department
- \$ 21 thousand for a 2015 Ford van for the IT Department

Note: The expenditure in the Police Department for a Chevy Tahoe was paid with DEA forfeiture funds. The Chevrolet Caprice in the Police Department was purchased with Sussex County grant funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 39 - 40. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$698 thousand. Taxes, Licenses and Permits, and Fines and Forfeitures exceeded budget by \$233 thousand, \$133 thousand, and \$158 thousand, respectively. Within taxes, Transfer Tax exceeded budget by \$236 thousand. Charges for services (parking meter/lot revenue and waste collection) were \$121 thousand above budget.
- Rental Tax was \$54 thousand above budget. Parking Fines were \$74 thousand above budget.
- Total General Fund expenditures were \$536 thousand less than budget.
- Street Department expenditures and Refuse Department expenditures were below budget by \$43 thousand and \$81 thousand, respectively. The \$128 thousand budgeted outlay for the new trash truck was deferred in the Street Department. Salary and benefit costs in the Refuse Department were \$76 thousand less than budget.
- Parking Department expenditures were \$70 thousand below budget, as fees for outside collection services were \$33 thousand less than budget and salaries and benefits were \$14 thousand below budget.
- Additionally, insurance costs were \$24 thousand below budget and salary and benefits costs were \$34 thousand below budget.
- Administrative expenditures were \$69 thousand less than budget despite the Planning Commission and Board of Adjustment exceeding budget by \$19 thousand and \$11 thousand, respectively, as the City utilized contingency funds budgeted in this area. Legal fees represented the largest component of their expenditures. Contractual service costs were \$52 thousand in excess of budget. Most of the excess was a result of unanticipated repairs.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

- The Mayor and Commissioners' expenses exceeded budget by \$63 thousand. Of this amount, \$60 thousand related to legal fees.
- 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, 2015, amounted to \$51.3 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 decrease in the City's capital assets for the current fiscal year was approximately \$3.0 million. Current year depreciation of \$4.7 million exceeded capital asset additions/disposals by \$3.0 million. Construction-in-progress of \$1.9 million consisted primarily of Ocean Outfall engineering costs (\$1.3 million) and the design costs for the new City Hall (\$430 thousand). 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 2014 - 2015, the City issued \$450,000 of bonds payable to the Delaware Water Pollution Control Revolving Fund for the Schoolvue sanitary sewer line replacement project. The bonds will mature on November 1, 2023 and bear interest at three percent. The City made debt service principal payments in the amount of \$898 thousand 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.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- While Property Transfer Tax declined by \$169 thousand from the prior year to \$1.6 million, it was still above the levels of fiscal years 2009 through 2013. The budgeted amount for the tax in fiscal year 2015 - 2016 is \$1,525,000.
- The 2015 - 2016 combined budgets for the governmental and proprietary funds reflect total appropriations in the amount of \$18,752,147, a \$1,474,296 increase from the prior year. The budget for capital outlays is \$754 thousand above the prior year.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2015**

- Following the real property reassessment in 2014 - 2015, the property tax rate was reduced to .04 per hundred of assessed property value. The new rate is intended to retain total real property taxes at the level of the prior year.
- The Wastewater Surcharge will remain at 50 percent of sewer bills.
- The 2015 - 2016 budget calls for a 2.5 percent wage increase for all City employees.
- The City has allocated \$2.35 million to the 2015 - 2016 capital improvement program budget. The largest components of the capital improvements budget are city-wide paving (\$250 thousand) and the Lake Drive Sewer Extension (\$392 thousand), enterprise software (\$285 thousand), new street equipment for the Public Works Department (\$150 thousand), and the Lake Avenue Streetscape (\$174).

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, 2015
(With Summarized Comparative Data for March 31, 2014)

	Governmental Activities	Business-type Activities	Totals	
			2015	2014
ASSETS				
Cash and cash equivalents	\$ 6,111,725	\$ 7,175,471	\$ 13,287,196	\$ 11,760,538
Taxes receivable	12,213	-	12,213	8,129
Accounts receivable	233,504	476,281	709,785	529,267
Interest receivable	-	483	483	723
Due from other governments	-	-	-	979
Prepaid expenses	185,079	50,087	235,166	214,555
Inventory	33,110	355,124	388,234	354,110
CAPITAL ASSETS				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	628,260	1,337,195	1,965,455	1,913,062
Depreciable capital assets, net of depreciation	<u>28,062,007</u>	<u>18,292,140</u>	<u>46,354,147</u>	<u>49,360,428</u>
TOTAL ASSETS	<u>\$38,080,857</u>	<u>\$27,879,717</u>	<u>\$65,960,574</u>	<u>\$67,149,686</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 206,149	\$ 105,255	\$ 311,404	\$ 212,282
Accrued salaries and benefits	92,023	25,084	117,107	110,217
Accrued interest	5,091	48,959	54,050	53,296
Deposits	53,819	-	53,819	38,727
Unearned revenues	1,000	-	1,000	-
Contingency reserve	-	323,063	323,063	312,800
Note payable	682,927	288,867	971,794	897,929
Noncurrent Liabilities:				
Note payable	1,069,397	3,929,308	4,998,705	5,520,569
Liability for other post-employment benefits	873,319	237,233	1,110,552	987,138
Compensated absences	446,741	206,089	652,830	635,875
TOTAL LIABILITIES	<u>3,430,466</u>	<u>5,163,858</u>	<u>8,594,324</u>	<u>8,768,833</u>
NET POSITION				
Net investment in capital assets	29,752,902	15,604,096	45,356,998	47,862,887
Restricted:				
Police expenditures	3,779	-	3,779	16,040
Public works expenditures	83,352	-	83,352	60,174
Unrestricted	4,810,358	7,111,763	11,922,121	10,441,752
TOTAL NET POSITION	<u>34,650,391</u>	<u>22,715,859</u>	<u>57,366,250</u>	<u>58,380,853</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$38,080,857</u>	<u>\$27,879,717</u>	<u>\$65,960,574</u>	<u>\$67,149,686</u>

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

**CITY OF REHOBOTH BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015
(With Summarized Comparative Data for the Year Ended March 31, 2014)**

	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES:						
General government	\$ 2,629,436	\$ 15,750	\$ -	\$ (1,076,452)	\$ -	\$ (758,350)
Public safety	3,039,234	210,854	-	(2,625,221)	-	(2,537,832)
Public works	5,795,959	113,494	30,177	(558,623)	-	(1,077,801)
Recreation and culture	1,306,765	-	-	(1,278,572)	-	(1,207,861)
Interest on general long-term debt	72,772	-	-	(72,772)	-	(95,218)
TOTAL GOVERNMENTAL ACTIVITIES	12,844,166	340,098	30,177	(5,611,640)	-	(5,677,062)
BUSINESS-TYPE ACTIVITIES:						
Water	2,141,542	-	184,000	-	282,321	628,358
Sewer	2,612,378	-	-	-	112,003	143,985
TOTAL BUSINESS-TYPE ACTIVITIES	4,753,920	-	184,000	-	394,324	772,343
TOTAL PRIMARY GOVERNMENT	\$17,598,086	\$ 340,098	\$ 214,177	(5,611,640)	394,324	(4,904,719)
GENERAL REVENUES AND TRANSFERS:						
Taxes			4,027,206		-	4,027,206
Investment earnings			3,016		4,948	7,964
Franchise fees			86,229		-	86,229
Miscellaneous revenues			81,314		-	81,314
Transfers in (out)			246,820		(246,820)	-
TOTAL GENERAL REVENUES AND TRANSFERS			4,444,585		(241,872)	4,202,713
CHANGE IN NET POSITION			(1,167,055)		152,452	(1,014,603)
NET POSITION, BEGINNING OF YEAR			35,817,446		22,563,407	58,928,066
NET POSITION, END OF YEAR			\$34,650,391		\$22,715,859	\$58,380,853

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

CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2015
(With Summarized Comparative Data for March 31, 2014)

	General Fund	Nonmajor Governmental Funds	Totals	
			2015	2014
ASSETS				
Cash and cash equivalents	\$ 6,021,854	\$ 89,871	\$ 6,111,725	\$ 5,420,043
Taxes receivable	12,213	-	12,213	8,129
Accounts receivable	233,504	-	233,504	151,558
Grants receivable	-	-	-	979
Prepaid expenditures	185,079	-	185,079	164,181
Inventory	33,110	-	33,110	30,477
TOTAL ASSETS	<u>\$ 6,485,760</u>	<u>\$ 89,871</u>	<u>\$ 6,575,631</u>	<u>\$ 5,775,367</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 203,409	\$ 2,740	\$ 206,149	\$ 141,779
Accrued salaries and benefits	92,023	-	92,023	89,954
Deposits	53,819	-	53,819	38,727
Unearned revenue	1,000	-	1,000	-
TOTAL LIABILITIES	<u>350,251</u>	<u>2,740</u>	<u>352,991</u>	<u>270,460</u>
FUND BALANCES:				
Nonspendable	218,189	-	218,189	194,658
Restricted:				
Police expenditures	-	3,779	3,779	16,040
Public works expenditures	-	83,352	83,352	60,174
Assigned:				
Municipal building project	236,366	-	236,366	179,122
Unassigned	5,680,954	-	5,680,954	5,054,913
TOTAL FUND BALANCES	<u>6,135,509</u>	<u>87,131</u>	<u>6,222,640</u>	<u>5,504,907</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,485,760</u>	<u>\$ 89,871</u>	<u>\$ 6,575,631</u>	<u>\$ 5,775,367</u>

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, 2015**

TOTAL GOVERNMENTAL FUND BALANCES	\$ 6,222,640
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	31,505,226
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(5,091)
Note payable	(1,752,324)
Other post-employment benefits	(873,319)
Compensated absences	(446,741)
	(3,077,484)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 34,650,391

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, 2015
(With Summarized Comparative Data for the Year Ended March 31, 2014)

	General Fund	Nonmajor Governmental Funds	Totals	
			2015	2014
REVENUES				
Taxes	\$ 4,027,206	\$ -	\$ 4,027,206	\$ 4,145,463
Licenses and permits	1,148,725	-	1,148,725	1,244,577
Franchise fees	86,229	-	86,229	83,061
Intergovernmental revenues	220,541	149,734	370,275	456,343
Charges for services	4,364,648	-	4,364,648	4,153,974
Fines and forfeitures	932,176	-	932,176	720,988
Investment earnings	3,016	-	3,016	7,961
Rents and concessions	416,702	-	416,702	414,734
Contributions and donations	22,314	-	22,314	19,682
Miscellaneous revenues	52,061	-	52,061	63,270
TOTAL REVENUES	<u>11,273,618</u>	<u>149,734</u>	<u>11,423,352</u>	<u>11,310,053</u>
EXPENDITURES				
General government	2,429,068	-	2,429,068	2,315,372
Public safety	2,786,175	48,852	2,835,027	2,737,206
Public works	2,759,453	94,798	2,854,251	2,899,348
Recreation and culture	1,163,223	-	1,163,223	1,123,010
Debt service	734,906	-	734,906	734,906
Capital outlays	972,583	-	972,583	888,174
TOTAL EXPENDITURES	<u>10,845,408</u>	<u>143,650</u>	<u>10,989,058</u>	<u>10,698,016</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>428,210</u>	<u>6,084</u>	<u>434,294</u>	<u>612,037</u>
OTHER FINANCING SOURCES				
Proceeds from sale of assets	36,619	-	36,619	30,118
Transfers in	241,987	4,833	246,820	806,279
TOTAL OTHER FINANCING SOURCES	<u>278,606</u>	<u>4,833</u>	<u>283,439</u>	<u>836,397</u>
NET CHANGE IN FUND BALANCES	706,816	10,917	717,733	1,448,434
FUND BALANCES, BEGINNING OF YEAR	<u>5,428,693</u>	<u>76,214</u>	<u>5,504,907</u>	<u>4,056,473</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,135,509</u>	<u>\$ 87,131</u>	<u>\$ 6,222,640</u>	<u>\$ 5,504,907</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, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 717,733

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 (\$3,303,581) and gain on sale of capital assets (\$8,452) exceeded capital outlays (\$870,172) in the period. (2,441,861)

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. 660,000

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). (105,061)

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. 2,134

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (1,167,055)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2015
(With Summarized Comparative Data for March 31, 2014)

	Water Fund	Sewer Fund	Totals	
			2015	2014
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,213,364	\$ 4,962,107	\$ 7,175,471	\$ 6,340,495
Accounts receivable	190,901	285,380	476,281	377,709
Accrued interest	57	426	483	723
Prepaid expenses	7,919	42,168	50,087	50,374
Inventory	288,242	66,882	355,124	323,633
Noncurrent Assets:				
Capital assets, net of depreciation	9,803,404	10,018,867	19,822,271	20,334,298
TOTAL ASSETS	<u>\$ 12,503,887</u>	<u>\$ 15,375,830</u>	<u>\$ 27,879,717</u>	<u>\$ 27,427,232</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 51,502	\$ 53,753	\$ 105,255	\$ 70,503
Accrued salaries and benefits	10,046	15,038	25,084	20,263
Accrued interest	43,334	5,625	48,959	46,071
Contingency reserve	-	323,063	323,063	312,800
Note payable	244,612	44,255	288,867	237,998
Noncurrent Liabilities:				
Note payable	3,523,563	405,745	3,929,308	3,768,176
Other post-employment liability	87,051	150,182	237,233	210,344
Compensated absences	91,987	114,102	206,089	197,670
TOTAL LIABILITIES	<u>4,052,095</u>	<u>1,111,763</u>	<u>5,163,858</u>	<u>4,863,825</u>
NET POSITION				
Net investment in capital assets	6,035,229	9,568,867	15,604,096	16,328,124
Unrestricted	2,416,563	4,695,200	7,111,763	6,235,283
TOTAL NET POSITION	<u>8,451,792</u>	<u>14,264,067</u>	<u>22,715,859</u>	<u>22,563,407</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,503,887</u>	<u>\$ 15,375,830</u>	<u>\$ 27,879,717</u>	<u>\$ 27,427,232</u>

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, 2015
(With Summarized Comparative Data for the Year Ended March 31, 2014)

	Water Fund	Sewer Fund	Totals	
			2015	2014
OPERATING REVENUES				
Charges for services	\$ 2,038,317	\$ 2,650,685	\$ 4,689,002	\$ 4,546,800
Other operating revenues	201,546	5,031	206,577	314,366
Total Operating Revenues	<u>2,239,863</u>	<u>2,655,716</u>	<u>4,895,579</u>	<u>4,861,166</u>
OPERATING EXPENSES				
Salaries and benefits	489,404	829,597	1,319,001	1,196,546
Materials and supplies	84,196	247,420	331,616	346,201
Administration expenses	12,460	12,795	25,255	18,420
Contractual services	151,871	26,147	178,018	127,106
Land and equipment rental	-	38,283	38,283	36,302
Repairs and maintenance	583,149	216,808	799,957	746,721
Utilities	119,925	316,443	436,368	379,365
Insurance	68,791	91,299	160,090	152,317
Depreciation	525,543	827,961	1,353,504	1,353,428
Total Operating Expenses	<u>2,035,339</u>	<u>2,606,753</u>	<u>4,642,092</u>	<u>4,356,406</u>
OPERATING INCOME	<u>204,524</u>	<u>48,963</u>	<u>253,487</u>	<u>504,760</u>
NONOPERATING REVENUES (EXPENSES)				
Water capitalization fees	184,000	-	184,000	312,431
Sewer impact fees	-	68,665	68,665	50,087
Investment income	1,796	3,152	4,948	7,951
Interest expense	(106,203)	(5,625)	(111,828)	(112,712)
Intergovernmental grants	-	-	-	14,643
Total Nonoperating Revenues	<u>79,593</u>	<u>66,192</u>	<u>145,785</u>	<u>272,400</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>284,117</u>	<u>115,155</u>	<u>399,272</u>	<u>777,160</u>
Capital contributions	-	-	-	3,134
Transfers in (out)	(301,551)	54,731	(246,820)	(806,279)
CHANGE IN NET POSITION	<u>(17,434)</u>	<u>169,886</u>	<u>152,452</u>	<u>(25,985)</u>
NET POSITION, BEGINNING OF YEAR	<u>8,469,226</u>	<u>14,094,181</u>	<u>22,563,407</u>	<u>22,589,392</u>
NET POSITION, END OF YEAR	<u>\$ 8,451,792</u>	<u>\$ 14,264,067</u>	<u>\$ 22,715,859</u>	<u>\$ 22,563,407</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, 2015
(With Summarized Comparative Data for the Year Ended March 31, 2014)

	Water Fund	Sewer Fund	Totals	
			2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,218,178	\$ 2,578,829	\$ 4,797,007	\$ 5,001,783
Cash paid for goods and services	(1,002,289)	(953,487)	(1,955,776)	(1,871,556)
Cash paid to employees	(467,839)	(811,033)	(1,278,872)	(1,168,401)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>748,050</u>	<u>814,309</u>	<u>1,562,359</u>	<u>1,961,826</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers (out) in	(301,551)	54,731	(246,820)	(806,279)
NET CASH (USED) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>(301,551)</u>	<u>54,731</u>	<u>(246,820)</u>	<u>(806,279)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets purchased	(95,559)	(745,918)	(841,477)	(239,176)
Proceeds received from capitalization and impact fees	184,000	68,665	252,665	362,518
Capital grants	-	-	-	14,643
Capital contributions	-	-	-	3,134
Proceeds from bond payable	-	450,000	450,000	-
Principal paid on note payable	(237,999)	-	(237,999)	(231,563)
Interest paid on note payable	(108,940)	-	(108,940)	(115,375)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(258,498)</u>	<u>(227,253)</u>	<u>(485,751)</u>	<u>(205,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	1,876	3,312	5,188	9,484
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,876</u>	<u>3,312</u>	<u>5,188</u>	<u>9,484</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	189,877	645,099	834,976	959,212
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,023,487</u>	<u>4,317,008</u>	<u>6,340,495</u>	<u>5,381,283</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,213,364</u>	<u>\$ 4,962,107</u>	<u>\$ 7,175,471</u>	<u>\$ 6,340,495</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 204,524	\$ 48,963	\$ 253,487	\$ 504,760
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	525,543	827,961	1,353,504	1,353,428
(Increase) Decrease in assets:				
Accounts receivable	(21,685)	(76,887)	(98,572)	140,617
Inventory	(27,219)	(4,272)	(31,491)	(31,210)
Prepaid expenses	-	287	287	(8,796)
Increase (Decrease) in liabilities:				
Accounts payable	45,322	(10,570)	34,752	(46,186)
Contingency reserve	-	10,263	10,263	21,068
Accrued salaries and benefits	3,441	1,380	4,821	2,500
Other post-employment benefits	9,954	16,935	26,889	30,950
Compensated absences	8,170	249	8,419	(5,305)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 748,050</u>	<u>\$ 814,309</u>	<u>\$ 1,562,359</u>	<u>\$ 1,961,826</u>

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City's basic financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") recognized in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). 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 fund:

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

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, 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.

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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, 2014, 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 2015 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.

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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.
- 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 2015, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended March 31, 2015, expenditures exceeded appropriations in the City's programs as follows:

Recreation and Culture	\$ 33,611
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The excesses of expenditures over appropriations were offset by revenues exceeding budgeted amounts.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS

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

- Obligations of or guaranteed by the United States of America;
- 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 (\$2,213,364) and the sewer fund (\$4,962,107) 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, 2015, the carrying amount of the City's deposits was \$13,287,196, and the bank balance was \$13,538,997. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$13,288,997 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERFUND TRANSFERS

Interfund transfers for the year ended March 31, 2015 consisted of the following:

Transfers In		Transfers Out	
General Fund	\$ 301,551	Water Fund	\$ 301,551
Sewer Fund	54,731	General Fund	54,731
Nonmajor Governmental Funds	4,833	General Fund	4,833
Total	\$ 361,115	Total	\$ 361,115

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE D INTERFUND TRANSFERS (cont'd)

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

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

Capital asset activity for the year ended March 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	481,618	414,244	267,602	628,260
Total Capital Assets Not Being Depreciated	<u>3,296,577</u>	<u>414,244</u>	<u>267,602</u>	<u>3,443,219</u>
Capital assets being depreciated:				
Infrastructure and land improvements	47,377,707	242,305	-	47,620,012
Buildings and improvements	8,721,256	-	-	8,721,256
Machinery and equipment	5,007,961	317,547	90,727	5,234,781
Vehicles	1,664,794	163,678	50,296	1,778,176
Total Capital Assets Being Depreciated	<u>62,771,718</u>	<u>723,530</u>	<u>141,023</u>	<u>63,354,225</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	22,625,372	2,660,631	-	25,286,003
Buildings and improvements	3,871,013	246,871	-	4,117,884
Machinery and equipment	4,403,351	263,954	82,275	4,585,030
Vehicles	1,221,472	132,125	50,296	1,303,301
Total accumulated depreciation	<u>32,121,208</u>	<u>3,303,581</u>	<u>132,571</u>	<u>35,292,218</u>
Total Capital Assets Being Depreciated, Net	<u>30,650,510</u>	<u>(2,580,051)</u>	<u>8,452</u>	<u>28,062,007</u>
Governmental Activities Assets, Net	<u>\$33,947,087</u>	<u>\$ (2,165,807)</u>	<u>\$ 276,054</u>	<u>\$31,505,226</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 155,779
Public safety	90,461
Public works	2,913,799
Recreation and culture	143,542
Total Depreciation Expense - Governmental Activities	<u>\$ 3,303,581</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Capital asset activity for the year ended March 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	1,431,444	48,071	142,320	1,337,195
Total Capital Assets Not Being Depreciated	<u>1,624,380</u>	<u>48,071</u>	<u>142,320</u>	<u>1,530,131</u>
Capital assets being depreciated:				
Buildings, infrastructure, and improvements	43,071,279	779,385	-	43,850,664
Machinery and equipment	1,712,952	117,091	-	1,830,043
Vehicles	794,809	39,250	-	834,059
Total Capital Assets Being Depreciated	<u>45,579,040</u>	<u>935,726</u>	<u>-</u>	<u>46,514,766</u>
Less accumulated depreciation for:				
Buildings, infrastructure, and improvements	24,898,972	1,168,670	-	26,067,642
Machinery and equipment	1,245,207	155,152	-	1,400,359
Vehicles	724,943	29,682	-	754,625
Total accumulated depreciation	<u>26,869,122</u>	<u>1,353,504</u>	<u>-</u>	<u>28,222,626</u>
Total Capital Assets Being Depreciated, Net	<u>18,709,918</u>	<u>(417,778)</u>	<u>-</u>	<u>18,292,140</u>
Business-type Activities Assets, Net	<u>\$20,334,298</u>	<u>\$ (369,707)</u>	<u>\$ 142,320</u>	<u>\$19,822,271</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:	
Water	\$ 525,543
Sewer	<u>827,961</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,353,504</u>

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2015 is composed of the following:

Governmental Activities

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

\$ 1,752,324

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

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. \$ 3,768,175

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. 450,000

Total Business-type Activities \$ 4,218,175

Annual requirements to retire long-term debt of all funds at March 31, 2015 are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 682,927	\$ 51,980	\$ 288,867	\$ 115,496
2017	706,964	27,943	297,002	107,360
2018	362,433	4,748	305,367	98,996
2019	-	-	313,968	90,395
2020	-	-	322,812	81,552
2021-2025	-	-	1,697,823	266,568
2026-2028	-	-	992,336	48,478
Total	<u>\$ 1,752,324</u>	<u>\$ 84,671</u>	<u>\$ 4,218,175</u>	<u>\$ 808,845</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, 2015:

	Balance April 1, 2014	Increase	Decreases	Balance March 31, 2015
Governmental Activities:				
Note payable	\$ 2,412,324	\$ -	\$ 660,000	\$ 1,752,324
OPEB	776,794	96,525	-	873,319
Compensated absences	438,205	8,536	-	446,741
Total	<u>\$ 3,627,323</u>	<u>\$ 105,061</u>	<u>\$ 660,000</u>	<u>\$ 3,072,384</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE H CHANGES IN DEBT (cont'd)

	Balance April 1, 2014	Increase	Decreases	Balance March 31, 2015
Business-type Activities:				
Note payable	\$ 4,006,174	\$ 450,000	\$ 237,999	\$ 4,218,175
OPEB	210,344	26,889	-	237,233
Compensated absences	197,670	8,419	-	206,089
Total	<u>\$ 4,414,188</u>	<u>\$ 485,308</u>	<u>\$ 237,999</u>	<u>\$ 4,661,497</u>

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, 2015, 2014, and 2013, the City's employer contributions totaled \$65,155, \$67,893, and \$69,824, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

The City contributes to the Delaware County and Municipal Police/Firefighter Pension Plan, which is a cost-sharing multiple-employer defined-benefit plan administered by the Delaware Public Employees' Retirement System ("DPERS"). The plan covers City police employees hired on or after February 1, 1993. Benefit provisions of the plan are established under the provisions of State law and may be amended by an act of the State legislature. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute seven percent of base compensation. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The City's contributions to the plan for the years ended March 31, 2015, 2014, and 2013 were \$150,918, \$144,040, and \$126,784, respectively. DPERS issues a separate plan financial report that includes financial statements for the plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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>
2016	\$ 38,250
2017	38,250
2018	<u>38,250</u>
Total	<u>\$ 114,750</u>

Rental expense under this lease for the year ended March 31, 2015 was \$38,250.

Lessor

The City leases certain property designated as Lot 22, Rehoboth Avenue, Rehoboth Beach, Delaware. The lease expires on December 31, 2015. The lease calls for rental income to be adjusted each January and is paid in three installments due July 1, August 1, and September 1 of each year.

Future minimum receipts under the agreement are as follows:

<u>For the Year Ended March 31,</u>	<u>Amount</u>
2016	<u>\$ 64,800</u>

Rental income under this lease for the year ended March 31, 2015 was \$59,609.

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

Regulatory Matter

The City is currently receiving legal counsel regarding implementation of a consent order it has entered into with the Delaware Department of Natural Resources and Environmental Control ("DNREC"). This agreement is the result of the City's challenge to a regulation promulgated by DNREC which imposes a total daily maximum load on wastewater effluent discharges from the City's sewage treatment plant. Both the City and DNREC have agreed to cooperatively and voluntarily resolve and settle all issues regarding the implementation of a National Pollutant Discharge Elimination System ("NPDES") designed to protect the surrounding waters from wastewater discharge from the City's sewage treatment plant. The City is required to consider the feasibility of two different options for implementing NPDES. Such feasibility studies are in their preliminary expected completion date, and total cost estimation of any NPDES project is not known as of March 31, 2015.

Construction Commitments

At March 31, 2015, the City had approved contracts for various capital projects totaling \$1,514,135 and payments for progress on contracts of \$969,899, resulting in outstanding commitments of \$544,236. In addition, the City's governmental activities report another \$342,361 in construction-in-progress costs for projects without ongoing construction commitments, and the proprietary funds report \$653,195 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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE L RISK MANAGEMENT (cont'd)

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.

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, 2015, 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 2015, the City contributed \$41,564 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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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	\$ 237,453
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	237,453
Contributions made	<u>(114,039)</u>
Increase in net OPEB obligation	123,414
Net OPEB obligation - beginning of year	<u>987,138</u>
Net OPEB obligation - end of year	<u>\$ 1,110,552</u>

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]
4/01/2012	\$ -	\$ 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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

In the April 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of 10 percent in 2010, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2015 was 24 years.

NOTE N FUND BALANCES

As of March 31, 2015, fund balances of the governmental funds are classified, if applicable, as follows:

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

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

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Commissioners. The Board is the highest level of decision-making authority for City of Rehoboth Beach. 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, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 218,189	\$ -	\$ 218,189
Restricted:			
Police expenditures	-	3,779	3,779
Public works expenditures	-	83,352	83,352
Assigned:			
Municipal building project	236,366	-	236,366
Unassigned	<u>5,680,954</u>	<u>-</u>	<u>5,680,954</u>
Total Fund Balances	<u>\$ 6,135,509</u>	<u>\$ 87,131</u>	<u>\$ 6,222,640</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE O SUBSEQUENT EVENTS

The City has evaluated all subsequent events through September 17, 2015, 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, 2015**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property tax	\$ 1,327,000	\$ 1,313,540	\$ (13,460)
Rental tax	970,000	1,023,816	53,816
Transfer tax	1,400,000	1,635,922	235,922
Construction tax	45,000	51,405	6,405
Penalties and interest	2,300	2,523	223
Encumbered prior year valuations	50,000	-	(50,000)
Total Taxes	<u>3,794,300</u>	<u>4,027,206</u>	<u>232,906</u>
Licenses and permits:			
Mercantile licenses	415,000	433,403	18,403
Building permits	540,000	644,100	104,100
Other	61,100	71,222	10,122
Total Licenses and Permits	<u>1,016,100</u>	<u>1,148,725</u>	<u>132,625</u>
Franchise fees	79,422	86,229	6,807
Intergovernmental revenues:			
General government	25,000	15,750	(9,250)
Public works	-	80,792	80,792
Public safety	164,347	123,999	(40,348)
Total Intergovernmental Revenues	<u>189,347</u>	<u>220,541</u>	<u>31,194</u>
Charges for services:			
Parking meters	2,855,000	2,890,252	35,252
Parking permits	604,900	681,241	76,341
Waste collection	784,200	793,155	8,955
Total Charges for Services	<u>4,244,100</u>	<u>4,364,648</u>	<u>120,548</u>
Fines and forfeitures:			
Parking	655,000	729,018	74,018
Court	66,000	94,721	28,721
Police	53,000	108,437	55,437
Total Fines and Forfeitures	<u>774,000</u>	<u>932,176</u>	<u>158,176</u>
Investment earnings	3,100	3,016	(84)
Rents and concessions	380,450	416,702	36,252
Contributions and donations	14,000	22,314	8,314
Miscellaneous revenues	80,675	52,061	(28,614)
TOTAL REVENUES	<u>10,575,494</u>	<u>11,273,618</u>	<u>698,124</u>
EXPENDITURES			
General government:			
Mayor and Council	83,307	146,067	(62,760)
Assessors	5,034	3,184	1,850
Administrative	1,302,024	1,183,211	118,813
Alderman Court	58,769	57,621	1,148
Buildings and licensing	431,503	412,308	19,195
Information technology	222,898	216,418	6,480
Buildings and grounds	408,337	410,259	(1,922)
Total General Government	<u>2,511,872</u>	<u>2,429,068</u>	<u>82,804</u>

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2015**

	<u>Original and Final Appropriated Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (cont'd)			
Public safety:			
Police	2,347,342	2,254,662	92,680
Dispatch	519,469	500,956	18,513
Volunteer fire	30,600	30,557	43
Total Public Safety	<u>2,897,411</u>	<u>2,786,175</u>	<u>111,236</u>
Public works:			
Streets	967,057	923,793	43,264
Waste collection	1,056,284	975,133	81,151
Parking	930,674	860,527	70,147
Total Public Works	<u>2,954,015</u>	<u>2,759,453</u>	<u>194,562</u>
Recreation and culture:			
Comfort stations	160,325	169,183	(8,858)
Parks	163,824	172,996	(9,172)
Lifeguards	601,107	622,208	(21,101)
Library	12,000	12,000	-
Main Street	21,000	10,000	11,000
Museum	48,000	47,898	102
Recreation	123,356	128,938	(5,582)
Total Recreation and Culture	<u>1,129,612</u>	<u>1,163,223</u>	<u>(33,611)</u>
Debt service:			
Interest and principal	734,906	734,906	-
Capital outlays	1,394,058	972,583	421,475
TOTAL EXPENDITURES	<u>11,621,874</u>	<u>10,845,408</u>	<u>776,466</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,046,380)</u>	<u>428,210</u>	<u>1,474,590</u>
OTHER FINANCING SOURCES			
Proceeds from sale of capital assets	-	36,619	36,619
Transfers in	774,756	241,987	(532,769)
TOTAL OTHER FINANCING SOURCES	<u>774,756</u>	<u>278,606</u>	<u>(496,150)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (271,624)</u>	706,816	<u>\$ 978,440</u>
FUND BALANCE, BEGINNING OF YEAR		<u>5,428,693</u>	
FUND BALANCE, END OF YEAR		<u>\$ 6,135,509</u>	

COMBINING NONMAJOR FUND STATEMENTS

**CITY OF REHOBOTH BEACH
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 MARCH 31, 2015**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 83,352</u>	<u>\$ 6,519</u>	<u>\$ 89,871</u>
TOTAL ASSETS	<u><u>\$ 83,352</u></u>	<u><u>\$ 6,519</u></u>	<u><u>\$ 89,871</u></u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	<u>\$ -</u>	<u>\$ 2,740</u>	<u>\$ 2,740</u>
FUND BALANCES			
Assigned:			
Police expenditures	-	3,779	3,779
Public works expenditures	<u>83,352</u>	<u>-</u>	<u>83,352</u>
TOTAL FUND BALANCES	<u><u>83,352</u></u>	<u><u>3,779</u></u>	<u><u>87,131</u></u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 83,352</u></u>	 <u><u>\$ 6,519</u></u>	 <u><u>\$ 89,871</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, 2015**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 113,494	\$ 36,240	\$ 149,734
TOTAL REVENUES	<u>113,494</u>	<u>36,240</u>	<u>149,734</u>
EXPENDITURES			
Public safety	-	48,852	48,852
Public works	94,798	-	94,798
TOTAL EXPENDITURES	<u>94,798</u>	<u>48,852</u>	<u>143,650</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>18,696</u>	<u>(12,612)</u>	<u>6,084</u>
OTHER FINANCING USES			
Transfers in	4,482	351	4,833
TOTAL OTHER FINANCING USES	<u>4,482</u>	<u>351</u>	<u>4,833</u>
CHANGE IN FUND BALANCES	23,178	(12,261)	10,917
FUND BALANCES, BEGINNING OF YEAR	<u>60,174</u>	<u>16,040</u>	<u>76,214</u>
FUND BALANCES, END OF YEAR	<u>\$ 83,352</u>	<u>\$ 3,779</u>	<u>\$ 87,131</u>

SUPPLEMENTAL REPORT

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

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

September 17, 2015

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, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Rehoboth Beach's basic financial statements, and have issued our report thereon dated September 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rehoboth Beach'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 of Rehoboth Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rehoboth Beach'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 of Rehoboth Beach'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