



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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

MARCH 31, 2016

CITY OF REHOBOTH BEACH

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INDEPENDENT AUDITOR'S REPORT

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October 24, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2016, 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 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.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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, 2016, 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.

Emphasis of Matter

As discussed in Note A and Note O to the financial statements, the City has adopted the requirements of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68." These statements modify the accounting for the City's pensions. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the City of Rehoboth Beach's 2015 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 September 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015 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 - 13, budgetary comparison schedule - general fund on pages 45 - 46, schedule of the City's proportionate share of the net pension liability on page 47, and schedule of City contributions on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 49 - 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 60 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED
MARCH 31, 2016**

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, 2016. Please read it in conjunction with the City's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at March 31, 2016 by \$57.6 million (net position). Of this amount, \$12.3 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net position increased by \$235 thousand.

As of March 31, 2016, the City's governmental funds reported combined ending fund balances of \$6.1 million, a decrease of \$80 thousand as compared to the prior year. The current year decrease in fund balance can be attributed to the \$1.3 million excess of capital outlays over the amount of the loan proceeds for the City Hall Project, offset by General Fund revenues which exceeded expenditures by \$1.2 million. Total governmental funds revenue increased by \$1.7 million compared to the prior year, while expenditures increased by \$3.5 million compared to the prior year. The components of revenue that contributed significantly to the overall revenue increase were parking meter, parking permits, and business licenses, increasing by \$1.1 million, \$138 thousand, and \$109 thousand, respectively. In the Public Safety category, police fines decreased by \$14 thousand, and Alderman Court fines increased by \$4 thousand. Revenue from property taxes and rental taxes increased by \$3 thousand and \$71 thousand, respectively. The substantial increase in parking meter revenue is largely attributed to the price increase from \$1.50 to \$2.00 per hour throughout the City. The increase in business license revenue is also attributed to rate increases while the rental taxes collected were a result of increases in rental revenue collected by owners upon which the three percent rate is applied.

As of March 31, 2016, the City's proprietary funds reported combined net position of \$23.6 million, an increase of \$901 thousand compared to the prior year. The increase can be attributed to the following: a) \$226 thousand increase in charges for services; b) \$278 thousand increase in other operating revenues, \$179 thousand of which included the fees for installing new water meters. Operating expenses of proprietary funds were almost unchanged from the prior year with the Water Fund decreasing by \$141 thousand and the Wastewater Fund increasing by \$232 thousand; and c) Transfers from the proprietary funds to general fund were \$247 thousand less than the prior year. Transfers from the proprietary fund to other funds reduce the fund balance of the proprietary fund.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Required supplementary information provides a budgetary comparison schedule for the general fund and additional detail on the City's involvement in a multi-employer pension plan. This report also contains other supplementary information.

CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016

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

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

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

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

The statement of changes in net position presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, producing the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods.

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

Fund Financial Statements – Traditional readers of 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.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

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.

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

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

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City. A budgetary comparison schedule has been provided for the General Fund. Additionally, schedules of information about the City's involvement in the DPERS pension plan have been provided.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Entity-wide Financial Analysis

The following table presents a summary of the statement of net position for the City as of March 31, 2016 and 2015.

**TABLE 1
CONDENSED STATEMENT OF NET POSITION**

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| ASSETS | | | | | | |
| Current and other assets | \$ 8,005,160 | \$ 6,731,013 | \$ 8,731,886 | \$ 8,057,446 | \$ 16,737,046 | \$ 14,788,459 |
| Capital assets, net | 31,634,659 | 31,505,226 | 19,865,811 | 19,822,271 | 51,500,470 | 51,327,497 |
| TOTAL ASSETS | 39,639,819 | 38,236,239 | 28,597,697 | 27,879,717 | 68,237,516 | 66,115,956 |

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

**TABLE 1
CONDENSED STATEMENT OF NET POSITION**

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| (cont'd) | | | | | | |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred Pension | 138,583 | 113,102 | - | - | 138,583 | 113,102 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 39,778,402 | 38,349,341 | 28,597,697 | 27,879,717 | 68,376,099 | 66,229,058 |
| LIABILITIES | | | | | | |
| Other liabilities | 1,839,910 | 1,041,009 | 851,356 | 791,228 | 2,691,266 | 1,832,237 |
| Long-term debt | 3,143,458 | 2,389,457 | 4,129,957 | 4,372,630 | 7,273,415 | 6,762,087 |
| TOTAL LIABILITIES | 4,983,368 | 3,430,466 | 4,981,313 | 45,163,858 | 9,964,681 | 8,594,324 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred Pension | 120,096 | 239,477 | - | - | 120,096 | 239,477 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 120,096 | 239,477 | - | - | 120,096 | 239,477 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 29,304,272 | 29,752,902 | 15,936,503 | 15,604,096 | 45,240,775 | 45,356,998 |
| Restricted | 114,470 | 87,131 | - | - | 114,470 | 87,131 |
| Unrestricted | 4,595,488 | 4,839,365 | 7,679,881 | 7,111,763 | 12,275,369 | 11,951,128 |
| TOTAL NET POSITION | \$ 34,014,230 | \$ 34,679,398 | \$ 23,616,384 | \$ 22,715,859 | \$ 57,630,614 | \$ 57,395,257 |

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 | |
|--------------------------------|-------------------------|--------------|--------------------------|--------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 8,446,109 | \$ 6,862,251 | \$ 5,709,242 | \$ 4,964,244 | \$ 14,155,351 | \$ 11,826,495 |
| Operating grants/contributions | 342,105 | 340,098 | 34,314 | - | 376,419 | 340,098 |
| Capital grants/contributions | 57,255 | 30,177 | - | 184,000 | 57,255 | 214,177 |

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

**TABLE 2
CHANGES IN NET POSITION**

| (cont'd) | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General revenues: | | | | | | |
| Taxes | 4,051,806 | 4,027,206 | - | - | 4,051,806 | 4,027,206 |
| Investment earnings | 2,054 | 3,016 | 2,228 | 4,948 | 4,282 | 7,964 |
| Franchise fees | 91,482 | 86,229 | - | - | 91,482 | 86,229 |
| Miscellaneous | 161,048 | 81,314 | - | - | 161,048 | 81,314 |
| Transfers | - | 246,820 | - | - | - | 246,820 |
| TOTAL REVENUES | 13,151,859 | 11,677,111 | 5,745,784 | 5,153,192 | 18,897,643 | 16,830,303 |
| EXPENSES | | | | | | |
| General government | 3,258,620 | 2,629,436 | - | - | 3,258,620 | 2,629,436 |
| Public safety | 3,194,178 | 3,039,234 | - | - | 3,194,178 | 3,039,234 |
| Public works | 6,012,346 | 5,795,959 | - | - | 6,012,346 | 5,795,959 |
| Recreation and culture | 1,296,347 | 1,306,765 | - | - | 1,296,347 | 1,306,765 |
| Interest on long-term debt | 55,536 | 72,772 | - | - | 55,536 | 72,772 |
| Water operations | - | - | 1,993,731 | 2,141,542 | 1,993,731 | 2,141,542 |
| Sewer operations | - | - | 2,851,528 | 2,612,378 | 2,851,528 | 2,612,378 |
| Transfers | - | - | - | 246,820 | - | 246,820 |
| TOTAL EXPENSES | 13,817,027 | 12,844,166 | 4,845,259 | 5,000,740 | 18,662,266 | 17,844,906 |
| INCREASE (DECREASE) IN NET POSITION | (665,168) | (1,167,055) | 900,525 | 152,452 | 235,357 | (1,014,603) |
| NET POSITION, BEGINNING OF YEAR, RESTATED | 34,679,398 | 35,846,453 | 22,715,859 | 22,563,407 | 57,395,257 | 58,409,860 |
| NET POSITION, END OF YEAR | \$ 34,014,230 | \$34,679,398 | \$ 23,616,384 | \$ 22,715,859 | \$ 57,630,614 | \$ 57,395,257 |

Governmental Activities

The cost of all governmental activities in 2016 was \$13.8 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$4.05 million, or 29.3 percent, a decline from 31.3 percent in the prior year. Other costs were paid by those who directly benefited from the programs (\$8.5 million, or 61.1 percent), and government agencies and organizations that subsidized funding with intergovernmental aid (\$399 thousand or 2.9 percent). In the prior year, costs paid by those who directly benefited from programs were \$6.9 million, representing 53.4 percent of the total expenses. Expenses financed by other governments and agencies were \$370 thousand, or 2.9 percent of total governmental expenses.

Capital grants and contributions increased from the prior year by \$27 thousand, primarily as a result the \$57 thousand capital grant for the Lake Avenue Streetscape. Property tax revenue increased by \$3 thousand. This was a result of the additional construction within the City. The value of assessed property increased from \$3.28 billion in fiscal year 2015 to \$3.29 billion in fiscal year 2016. The rate per hundred dollars of assessed value remained unchanged at \$.04. Property Transfer Tax revenue decreased by \$72 thousand, or 4.4 percent, as a result of lower real estate sales.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

As indicated by the governmental program expenses, general government programs accounted for 23.6 percent of the City's governmental activities. Of the \$629 thousand increase in the cost of general government activities, \$43 thousand is related to increases in wages and \$41 thousand is related to medical and dental insurance costs. Additional staff and equipment in the IT Department increased the department's costs from the prior year by \$91 thousand. General government legal fees increased by \$230 thousand. The legal fees relating to the cost of defending the challenge to the City's outfall referendum vote were largely responsible for increases from the prior year. The public safety expenses accounted for 23.1 percent of the City's governmental activities in the year ended March 31, 2016 and 23.7 percent in the prior year. Part-time police wages increased by \$68 thousand, primarily due to the unanticipated staff reductions in 2015. Full-time wages and medical insurance costs in the police and 911 departments increased by \$57 thousand and \$42 thousand, respectively. Police officer wage increases are subject to a collective bargaining agreement. Public works expenses accounted for 43.5 percent of the City's governmental activities, or \$6.0 million. Public works also experienced increases due to cost-of-living increases for wages (up \$81 thousand) and medical insurance inflation (up \$35 thousand). Recreation and culture incurred only a modest overall departmental cost increase of \$14 thousand, or one percent, from fiscal year 2015.

Business-type Activities

In addition to providing the residents of Rehoboth Beach with water and sewer services, the City has entered into operating agreements with Sussex County on behalf of Dewey Beach, Henlopen Acres, and North Shores for wastewater treatment services. The City also charges Sussex County for the bulk delivery of water to Dewey Beach, and it also provides and bills customers in North Shores for water services. These arrangements provide additional revenue to the City by the sharing of the costs of operating the water and the wastewater treatment plant.

Charges for services represent the principal revenue source for the City's business-type activities. Current 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 increased by a total of \$378 thousand. Charges for services increased by \$327 thousand. Billings for metered water to in-town residents almost matched the prior year while metered water billings to out-of-town customers increased by \$29 thousand to \$974 thousand. The significant sources of water revenue increases included Dewey Beach bulk sales (up \$298 thousand), water capitalization fees (up \$57 thousand), and new meter installations (up \$32 thousand).

While Wastewater operating revenue increased by 4.8 percent to \$2.8 million, the sewer distribution and processing services revenue and sewer surcharge revenue decreased by \$45 thousand and \$20 thousand, respectively.

The overall operating expense of business-type activities increased by \$91 thousand from the prior year, with water department expenses declining by \$141 thousand and wastewater department expenses increasing by \$232 thousand. Salaries and benefits in the Water Department and Wastewater Department increased by \$42 and \$109 thousand, respectively.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is valuable in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of March 31, 2016, the City's governmental funds reported combined ending fund balances of \$6.1 million, a decrease of \$81 thousand as compared to the prior year. The amount of the fund balance restricted or assigned for special purposes is \$351 thousand. The \$6.8 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion.

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

The City's departmental expenditures increased by approximately \$3.5 million from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average two and one-half percent wage increase for City employees, effective April 1, 2015. In accordance with their collective bargaining agreement, police officers also received a two and one-half percent wage increase, effective April 1, 2015. There was a \$270 thousand increase in wage expense in the governmental funds with the Public Safety wages increasing by \$148 thousand and the Public Works increasing by \$81 thousand. Much of the Public Safety wage cost increase is attributed to part-time salaries. In fiscal 2015, the Police Department's above average loss of part-time staff before and during the season exasperated the wage variance for the department when compared to fiscal year 2016. The Public Works department's addition of street staff and the wage increases from the prior year attributed to the \$81 thousand cost increase in the department.
- During 2016, the City's Governmental Funds (excluding capital outlays for the City Hall) increased capital outlays by \$227 thousand to \$1.2 million. Total fiscal year 2016 expenditures related to City Hall construction were \$2.6 million (including moving expenses, temporary trailer rentals etc.).

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

- \$351 thousand for new parking meters
- \$238 thousand for street paving projects

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

- \$150 thousand for a new 2015 New Way Viper Trash Truck
- \$47 thousand for police radios and other equipment
- \$29 thousand to refurbish the beach cleaning equipment
- \$27 thousand for a 2015 Ford Interceptor Utility Police Vehicle

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 45 - 46. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$1.1 million. Taxes, Licenses and Permits, and Fines and Forfeitures exceeded budget by \$168 thousand, \$389 thousand, and \$62 thousand, respectively. Within taxes, Transfer Tax exceeded budget by \$39 thousand. Charges for services (parking meter/lot revenue and waste collection) were \$372 thousand above budget.
- Rental Tax was \$110 thousand above budget. Parking Fines were \$54 thousand above budget.
- Total General Fund expenditures were \$498 thousand less than budget.
- Street Department expenditures and Refuse Department expenditures were below budget by \$76 thousand and \$53 thousand, respectively.
- Parking Department expenditures were \$14 thousand below budget. Since the introduction of non-coin parking meter payment options, the City has worked to control the fees imposed by payment processors and payment service providers. Additional fees are added to the credit card and pay-by-cell users' costs in order to cover a portion of the bank and service provider fees. By negotiating reduced processing fees and utilizing alternative payment processing options, the City has improved the ratio of collection costs to non-coin revenue.
- Administrative expenditures were \$108 thousand less than budgeted.
- The Mayor and Commissioners' expenses exceeded budget by \$243 thousand. Most of the variance related to legal fees associated with the defense of the outfall referendum.
- Capital outlays were \$390 thousand below budget, as the expenditures for the new enterprise software project was \$111 thousand less than budgeted in the current year. The total amount budgeted for the software in the current year will be incurred in fiscal year 2017. The \$250 thousand amount budgeted for the storm water was not incurred in the current year.
- All other fluctuations in revenues from budget to actual are deemed reasonable, based upon the element of uncertainty when budgeting for such revenues.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities, as of March 31, 2016, amounted to \$51.5 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total net increase in the City's capital assets for the current fiscal year was \$173 thousand. Current year depreciation was \$4.8 million government-wide. Construction-in-progress of \$5.4 million consisted primarily of Ocean Outfall engineering costs (\$2.1 million) and the design/construction costs for construction of City Hall (\$2.8). 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 2015 - 2016, the City made draws of \$661 thousand on a line of credit available for the construction of City Hall. The City made debt service principal payments in the amount of \$972 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

- Property transfer tax revenue declined by \$72 thousand from fiscal year 2015 and was \$241 thousand below the amount collected in March 31, 2014. The budgeted amount for the tax in fiscal year 2016 - 2017 is \$1,525,000, unchanged from the prior year.
- The 2016 - 2017 budget for all City operations is \$27.1 million. Of this amount, \$11.4 is for capital outlays, including \$8 million for the City Hall project; \$800 thousand for the outfall engineering costs; and \$2.6 million for other equipment, vehicles, and capital items. Of the aforementioned \$2.6 million capital portion, the largest components are improvements and repairs to the storm water outfall (\$1.2 million); new multi-space parking meters (\$295 thousand); furniture, fixtures, and equipment for the new City Hall (\$300 thousand); and City-wide paving (\$250 thousand).
- The property tax rate remains unchanged from the prior year level of .04 per hundred of assessed value.
- The Wastewater Surcharge will remain at 50 percent of sewer bills.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2016**

- The City increased metered water rates by 26 percent for the non-peak period (April - September) and 16 percent for the peak period (October - March). The last rate increase was in fiscal year 2009 - 2010.
- The 2016 - 2017 budget includes a 2.5 percent wage increase for City employees.

REQUESTS FOR INFORMATION

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

**CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION
MARCH 31, 2016
(With Summarized Comparative Data for March 31, 2015)**

| | Governmental Activities | Business-type Activities | Totals | |
|---|----------------------------|-----------------------------|---------------------|---------------------|
| | | | 2016 | 2015 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Cash and cash equivalents | \$ 6,967,830 | \$ 7,138,552 | \$14,106,382 | \$13,287,196 |
| Taxes receivable | 33,328 | - | 33,328 | 12,213 |
| Accounts receivable | 88,952 | 488,326 | 577,278 | 709,785 |
| Interest receivable | - | 330 | 330 | 483 |
| Loan proceeds receivable | 600,503 | - | 600,503 | - |
| Prepaid expenses | 217,630 | 67,109 | 284,739 | 235,166 |
| Inventory | 49,363 | 346,855 | 396,218 | 388,234 |
| Net pension asset | 77,560 | - | 77,560 | 155,382 |
| Internal balances | (690,714) | 690,714 | - | - |
| CAPITAL ASSETS | | | | |
| Land | 2,814,959 | 192,936 | 3,007,895 | 3,007,895 |
| Construction-in-progress | 3,236,235 | 2,188,510 | 5,424,745 | 1,965,455 |
| Depreciable capital assets, net of depreciation | <u>25,583,465</u> | <u>17,484,365</u> | <u>43,067,830</u> | <u>46,354,147</u> |
| TOTAL ASSETS | <u>38,979,111</u> | <u>28,597,697</u> | <u>67,576,808</u> | <u>66,115,956</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred pension contributions | 127,475 | - | 127,475 | 113,057 |
| Deferred pension | 11,108 | - | 11,108 | 45 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>138,583</u> | <u>-</u> | <u>138,583</u> | <u>113,102</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$39,117,694</u> | <u>\$28,597,697</u> | <u>\$67,715,391</u> | <u>\$66,229,058</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 914,508 | \$ 247,754 | \$ 1,162,262 | \$ 311,404 |
| Accrued salaries and benefits | 126,711 | 33,483 | 160,194 | 117,107 |
| Accrued interest | 8,198 | 45,593 | 53,791 | 54,050 |
| Deposits | 82,529 | - | 82,529 | 53,819 |
| Unearned revenues | 1,000 | - | 1,000 | 1,000 |
| Contingency reserve | - | 227,524 | 227,524 | 323,063 |
| Note payable | 706,964 | 297,002 | 1,003,966 | 971,794 |
| Noncurrent Liabilities: | | | | |
| Note payable | 1,623,423 | 3,632,306 | 5,255,729 | 4,998,705 |
| Liability for other post-employment benefits | 1,038,057 | 283,493 | 1,321,550 | 1,110,552 |
| Compensated absences | 481,978 | 214,158 | 696,136 | 652,830 |
| TOTAL LIABILITIES | <u>4,983,368</u> | <u>4,981,313</u> | <u>9,964,681</u> | <u>8,594,324</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred pension | 120,096 | - | 120,096 | 239,477 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>120,096</u> | <u>-</u> | <u>120,096</u> | <u>239,477</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 29,304,272 | 15,936,503 | 45,240,775 | 45,356,998 |
| Restricted: | | | | |
| Police expenses | 24,027 | - | 24,027 | 3,779 |
| Public works expenses | 90,443 | - | 90,443 | 83,352 |
| Unrestricted | 4,595,488 | 7,679,881 | 12,275,369 | 11,951,128 |
| TOTAL NET POSITION | <u>34,014,230</u> | <u>23,616,384</u> | <u>57,630,614</u> | <u>57,395,257</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | <u>\$39,117,694</u> | <u>\$28,597,697</u> | <u>\$67,715,391</u> | <u>\$66,229,058</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, 2016
(With Summarized Comparative Data for the Year Ended March 31, 2015)**

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | | |
|--|----------------------|------------------------------------|---|-------------------------|--------------------------|---------------------|
| | Charges for Services | Operating Grants and Contributions | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Totals |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| General government | \$ 3,258,620 | \$ 1,492 | \$ - | \$ (1,592,479) | \$ - | \$ (1,076,452) |
| Public safety | 3,194,178 | 218,273 | - | (2,783,305) | - | (2,625,221) |
| Public works | 6,012,346 | 122,340 | 57,255 | 513,694 | - | (558,623) |
| Recreation and culture | 1,296,347 | - | - | (1,053,932) | - | (1,278,572) |
| Interest on general long-term debt | 55,536 | - | - | (55,536) | - | (72,772) |
| TOTAL GOVERNMENTAL ACTIVITIES | 13,817,027 | 342,105 | 57,255 | (4,971,558) | - | (5,611,640) |
| BUSINESS-TYPE ACTIVITIES: | | | | | | |
| Water | 1,993,731 | 9,957 | - | - | 874,252 | 874,252 |
| Sewer | 2,851,528 | 24,357 | - | - | 24,045 | 112,003 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 4,845,259 | 34,314 | - | - | 898,297 | 394,324 |
| TOTAL PRIMARY GOVERNMENT | \$18,662,286 | \$ 376,419 | \$ 57,255 | (4,971,558) | 898,297 | (5,217,316) |
| GENERAL REVENUES: | | | | | | |
| Taxes | | | | 4,051,806 | - | 4,027,206 |
| Investment earnings | | | | 2,054 | 2,228 | 7,964 |
| Franchise fees | | | | 91,482 | - | 86,229 |
| Miscellaneous revenues | | | | 161,048 | - | 81,314 |
| TOTAL GENERAL REVENUES | | | | 4,306,390 | 2,228 | 4,202,713 |
| CHANGE IN NET POSITION | | | | (665,168) | 900,525 | (1,014,603) |
| NET POSITION, BEGINNING OF YEAR, RESTATED | | | | 34,679,398 | 22,715,859 | 58,409,860 |
| NET POSITION, END OF YEAR | | | | \$34,014,230 | \$23,616,384 | \$57,395,257 |

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

CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2016
(With Summarized Comparative Data for March 31, 2015)

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Totals | |
|--|---------------------|-----------------------------|-----------------------------------|---------------------|---------------------|
| | | | | 2016 | 2015 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 6,510,419 | \$ 342,387 | \$ 115,024 | \$ 6,967,830 | \$ 6,111,725 |
| Taxes receivable | 33,328 | - | - | 33,328 | 12,213 |
| Accounts receivable | 88,952 | - | - | 88,952 | 233,504 |
| Loan proceeds receivable | - | 600,503 | - | 600,503 | - |
| Prepaid expenditures | 217,630 | - | - | 217,630 | 185,079 |
| Inventory | 49,363 | - | - | 49,363 | 33,110 |
| Due from other funds | 738,977 | - | - | 738,977 | - |
| TOTAL ASSETS | \$ 7,638,669 | \$ 942,890 | \$ 115,024 | \$ 8,696,583 | \$ 6,575,631 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 110,811 | \$ 803,143 | \$ 554 | \$ 914,508 | \$ 206,149 |
| Due to other funds | - | 1,429,691 | - | 1,429,691 | - |
| Accrued salaries and benefits | 126,711 | - | - | 126,711 | 92,023 |
| Deposits | 82,529 | - | - | 82,529 | 53,819 |
| Unearned revenue | 1,000 | - | - | 1,000 | 1,000 |
| TOTAL LIABILITIES | 321,051 | 2,232,834 | 554 | 2,554,439 | 352,991 |
| FUND BALANCES: | | | | | |
| Nonspendable | 266,993 | - | - | 266,993 | 218,189 |
| Restricted: | | | | | |
| Police expenditures | - | - | 24,027 | 24,027 | 3,779 |
| Public works expenditures | - | - | 90,443 | 90,443 | 83,352 |
| Assigned: | | | | | |
| Municipal building project | 236,366 | - | - | 236,366 | 236,366 |
| Unassigned (deficit) | 6,814,259 | (1,289,944) | - | 5,524,315 | 5,680,954 |
| TOTAL FUND BALANCES (DEFICIT) | 7,317,618 | (1,289,944) | 114,470 | 6,142,144 | 6,222,640 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 7,638,669 | \$ 942,890 | \$ 115,024 | \$ 8,696,583 | \$ 6,575,631 |

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, 2016**

TOTAL GOVERNMENTAL FUND BALANCES \$ 6,142,144

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 31,634,659

The City's net pension asset is not a financial resource and, therefore is not reported in the funds. 77,560

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

| | |
|--------------------------------|-------------|
| Accrued interest | (8,198) |
| Note payable | (2,330,387) |
| Other post-employment benefits | (1,038,057) |
| Compensated absences | (481,978) |

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

| | |
|---------------------------------|------------------|
| Deferred outflows of resources: | |
| Deferred pension contributions | 127,475 |
| Deferred pension expense | 11,108 |
| Deferred inflows of resources: | |
| Deferred pension expense | (120,096) |
| | <u>(120,096)</u> |

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 34,014,230

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, 2016
(With Summarized Comparative Data for the Year Ended March 31, 2015)

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Totals | |
|---|---------------------|-----------------------------|-----------------------------------|---------------------|---------------------|
| | | | | 2016 | 2015 |
| REVENUES | | | | | |
| Taxes | \$ 4,051,806 | \$ - | \$ - | \$ 4,051,806 | \$ 4,027,206 |
| Licenses and permits | 1,541,112 | - | - | 1,541,112 | 1,148,725 |
| Franchise fees | 91,482 | - | - | 91,482 | 86,229 |
| Intergovernmental revenues | 249,910 | - | 149,450 | 399,360 | 370,275 |
| Charges for services | 5,621,015 | - | - | 5,621,015 | 4,364,648 |
| Fines and forfeitures | 918,030 | - | - | 918,030 | 932,176 |
| Investment earnings | 2,054 | - | - | 2,054 | 3,016 |
| Rents and concessions | 365,952 | - | - | 365,952 | 416,702 |
| Contributions and donations | 34,053 | - | - | 34,053 | 22,314 |
| Miscellaneous revenues | 111,065 | - | - | 111,065 | 52,061 |
| TOTAL REVENUES | <u>12,986,479</u> | <u>-</u> | <u>149,450</u> | <u>13,135,929</u> | <u>11,423,352</u> |
| EXPENDITURES | | | | | |
| General government | 2,853,629 | - | - | 2,853,629 | 2,429,068 |
| Public safety | 2,984,245 | - | 17,984 | 3,002,229 | 2,835,027 |
| Public works | 2,877,953 | - | 106,397 | 2,984,350 | 2,854,251 |
| Recreation and culture | 1,177,035 | - | - | 1,177,035 | 1,163,223 |
| Debt service | 734,907 | 670 | - | 735,577 | 734,906 |
| Capital outlays | 1,199,483 | 2,550,485 | - | 3,749,968 | 972,583 |
| TOTAL EXPENDITURES | <u>11,827,252</u> | <u>2,551,155</u> | <u>124,381</u> | <u>14,502,788</u> | <u>10,989,058</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>1,159,227</u> | <u>(2,551,155)</u> | <u>25,069</u> | <u>(1,366,859)</u> | <u>434,294</u> |
| OTHER FINANCING SOURCES | | | | | |
| Proceeds from sale of assets | 25,152 | - | - | 25,152 | 36,619 |
| Proceeds from long-term debt | - | 1,261,211 | - | 1,261,211 | - |
| Transfers (out) in | (2,270) | - | 2,270 | - | 246,820 |
| TOTAL OTHER FINANCING SOURCES | <u>22,882</u> | <u>1,261,211</u> | <u>2,270</u> | <u>1,286,363</u> | <u>283,439</u> |
| NET CHANGE IN FUND BALANCES | 1,182,109 | (1,289,944) | 27,339 | (80,496) | 717,733 |
| FUND BALANCES, BEGINNING OF YEAR | <u>6,135,509</u> | <u>-</u> | <u>87,131</u> | <u>6,222,640</u> | <u>5,504,907</u> |
| FUND BALANCES (DEFICIT), END OF YEAR | <u>\$ 7,317,618</u> | <u>\$(1,289,944)</u> | <u>\$ 114,470</u> | <u>\$ 6,142,144</u> | <u>\$ 6,222,640</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, 2016**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (80,496)

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 (\$3,381,683) and residual value of sold capital assets (\$9,222) are exceeded by capital outlays (\$3,520,338) in the period. 129,433

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. (578,063)

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). (199,975)

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. (3,107)

Pension expense in the statement of activities differ from the amount reported in the governmental funds because pension expense is recognized on the statement of activities based on the City's actuarial determined contribution, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 67,040

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (665,168)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2016
(With Summarized Comparative Data for March 31, 2015)

| | Water Fund | Sewer Fund | Totals | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | | | 2016 | 2015 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 2,454,754 | \$ 4,683,798 | \$ 7,138,552 | \$ 7,175,471 |
| Accounts receivable | 177,378 | 310,948 | 488,326 | 476,281 |
| Due from other funds | 708,071 | 711,753 | 1,419,824 | - |
| Accrued interest | 2 | 328 | 330 | 483 |
| Prepaid expenses | 15,417 | 51,692 | 67,109 | 50,087 |
| Inventory | 282,123 | 64,732 | 346,855 | 355,124 |
| Noncurrent Assets: | | | | |
| Capital assets, net of depreciation | <u>9,508,524</u> | <u>10,357,287</u> | <u>19,865,811</u> | <u>19,822,271</u> |
| TOTAL ASSETS | <u>\$13,146,269</u> | <u>\$16,180,538</u> | <u>\$29,326,807</u> | <u>\$27,879,717</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 45,887 | \$ 201,867 | \$ 247,754 | \$ 105,255 |
| Accrued salaries and benefits | 11,851 | 21,632 | 33,483 | 25,084 |
| Accrued interest | 40,521 | 5,072 | 45,593 | 48,959 |
| Contingency reserve | - | 227,524 | 227,524 | 323,063 |
| Due to other funds | - | 729,110 | 729,110 | - |
| Note payable | 251,410 | 45,592 | 297,002 | 288,867 |
| Noncurrent Liabilities: | | | | |
| Note payable | 3,272,153 | 360,153 | 3,632,306 | 3,929,308 |
| Other post-employment liability | 104,033 | 179,460 | 283,493 | 237,233 |
| Compensated absences | <u>93,535</u> | <u>120,623</u> | <u>214,158</u> | <u>206,089</u> |
| TOTAL LIABILITIES | <u>3,819,390</u> | <u>1,891,033</u> | <u>5,710,423</u> | <u>5,163,858</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 5,984,961 | 9,951,542 | 15,936,503 | 15,604,096 |
| Unrestricted | <u>3,341,918</u> | <u>4,337,963</u> | <u>7,679,881</u> | <u>7,111,763</u> |
| TOTAL NET POSITION | <u>9,326,879</u> | <u>14,289,505</u> | <u>23,616,384</u> | <u>22,715,859</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$13,146,269</u> | <u>\$16,180,538</u> | <u>\$29,326,807</u> | <u>\$27,879,717</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, 2016
(With Summarized Comparative Data for the Year Ended March 31, 2015)

| | Water Fund | Sewer Fund | Totals | |
|--|---------------------|---------------------|---------------------|---------------------|
| | | | 2016 | 2015 |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 2,364,873 | \$ 2,550,554 | \$ 4,915,427 | \$ 4,689,002 |
| Other operating revenues | 252,653 | 231,486 | 484,139 | 206,577 |
| Total Operating Revenues | <u>2,617,526</u> | <u>2,782,040</u> | <u>5,399,566</u> | <u>4,895,579</u> |
| OPERATING EXPENSES | | | | |
| Salaries and benefits | 531,740 | 939,195 | 1,470,935 | 1,319,001 |
| Materials and supplies | 108,549 | 257,000 | 365,549 | 331,616 |
| Administration expenses | 8,428 | 14,665 | 23,093 | 25,255 |
| Contractual services | 89,633 | 110,647 | 200,280 | 178,018 |
| Land and equipment rental | - | 38,250 | 38,250 | 38,283 |
| Repairs and maintenance | 472,605 | 297,248 | 769,853 | 799,957 |
| Utilities | 107,618 | 268,578 | 376,196 | 436,368 |
| Insurance | 58,863 | 54,581 | 113,444 | 160,090 |
| Depreciation | 516,783 | 858,747 | 1,375,530 | 1,353,504 |
| Total Operating Expenses | <u>1,894,219</u> | <u>2,838,911</u> | <u>4,733,130</u> | <u>4,642,092</u> |
| OPERATING INCOME (LOSS) | <u>723,307</u> | <u>(56,871)</u> | <u>666,436</u> | <u>253,487</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Water capitalization fees | 240,500 | - | 240,500 | 184,000 |
| Sewer impact fees | - | 69,176 | 69,176 | 68,665 |
| Investment income | 835 | 1,393 | 2,228 | 4,948 |
| Interest expense | (99,512) | (12,617) | (112,129) | (111,828) |
| Intergovernmental grants | 9,957 | 24,357 | 34,314 | - |
| Total Nonoperating Revenues | <u>151,780</u> | <u>82,309</u> | <u>234,089</u> | <u>145,785</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS | 875,087 | 25,438 | 900,525 | 399,272 |
| Transfers out | - | - | - | (246,820) |
| CHANGE IN NET POSITION | 875,087 | 25,438 | 900,525 | 152,452 |
| NET POSITION, BEGINNING OF YEAR | <u>8,451,792</u> | <u>14,264,067</u> | <u>22,715,859</u> | <u>22,563,407</u> |
| NET POSITION, END OF YEAR | <u>\$ 9,326,879</u> | <u>\$14,289,505</u> | <u>\$23,616,384</u> | <u>\$22,715,859</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, 2016
(With Summarized Comparative Data for the Year Ended March 31, 2015)

| | Water Fund | Sewer Fund | Totals | |
|--|---------------------|---------------------|---------------------|---------------------|
| | | | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 2,631,049 | \$ 2,756,472 | \$ 5,387,521 | \$ 4,797,007 |
| Cash paid for goods and services | (1,560,761) | (1,064,770) | (2,625,531) | (1,955,776) |
| Cash paid to employees | (511,405) | (896,802) | (1,408,207) | (1,278,872) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>558,883</u> | <u>794,900</u> | <u>1,353,783</u> | <u>1,562,359</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Transfers out | - | - | - | (246,820) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>-</u> | <u>-</u> | <u>-</u> | <u>(246,820)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Capital assets purchased | (221,903) | (1,110,808) | (1,332,711) | (841,477) |
| Proceeds received from capitalization and impact fees | 240,500 | 69,176 | 309,676 | 252,665 |
| Capital grants | 9,957 | 24,357 | 34,314 | - |
| Proceeds from bond payable | - | - | - | 450,000 |
| Principal paid on note payable | (244,612) | (44,255) | (288,867) | (237,999) |
| Interest paid on note payable | (102,325) | (12,617) | (114,942) | (108,940) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(318,383)</u> | <u>(1,074,147)</u> | <u>(1,392,530)</u> | <u>(485,751)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest income | 890 | 938 | 1,828 | 5,188 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>890</u> | <u>938</u> | <u>1,828</u> | <u>5,188</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 241,390 | (278,309) | (36,919) | 834,976 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,213,364</u> | <u>4,962,107</u> | <u>7,175,471</u> | <u>6,340,495</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 2,454,754</u> | <u>\$ 4,683,798</u> | <u>\$ 7,138,552</u> | <u>\$ 7,175,471</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | \$ 723,307 | \$ (56,871) | \$ 666,436 | \$ 253,487 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 516,783 | 858,747 | 1,375,530 | 1,353,504 |
| (Increase) Decrease in assets: | | | | |
| Accounts receivable | 13,523 | (25,568) | (12,045) | (98,572) |
| Due from other funds | (708,071) | (711,753) | (1,419,824) | - |
| Transfer of capital assets | - | - | - | - |
| Inventory | 6,119 | 2,150 | 8,269 | (31,491) |
| Prepaid expenses | (7,498) | (9,524) | (17,022) | 287 |
| Increase (Decrease) in liabilities: | | | | |
| Accounts payable | (5,615) | 61,755 | 56,140 | 34,752 |
| Due to other funds | - | 729,110 | 729,110 | - |
| Contingency reserve | - | (95,539) | (95,539) | 10,263 |
| Accrued salaries and benefits | 1,805 | 6,594 | 8,399 | 4,821 |
| Other post-employment benefits | 16,982 | 29,278 | 46,260 | 26,889 |
| Compensated absences | 1,548 | 6,521 | 8,069 | 8,419 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 558,883</u> | <u>\$ 794,900</u> | <u>\$ 1,353,783</u> | <u>\$ 1,562,359</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Capital assets acquired through the incurrence of payables | \$ - | \$ 86,359 | \$ 86,359 | \$ - |

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Entity-wide and Fund Financial Statements

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

The entity-wide statement of activities reports both the gross and net cost of each of the City's functions and business-type activities that are otherwise being supported by general government revenues (general property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function or business-type activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses.

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

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

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

Governmental Funds

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

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

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

Proprietary Funds

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

The City reports the following major proprietary funds:

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

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the City's financial statements for the year ended March 31, 2015, from which the comparative data was derived. The prior year comparative data has been restated due to the implementation of new accounting standards, as detailed below.

Implementation of GASB Statements

During the year ended March 31, 2016, the City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, with the objective of improving the accounting and financial reporting of state and local governments for pensions. It requires that state and local governments recognize and record the actuarially determined net pension liability or, for multi-employer cost sharing plans, the entity's share of the net pension liability in the entity's financial statements.

GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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 2016 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.

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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. The City currently has two items that qualify for reporting in this category. Pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Use of Estimates in the Preparation of Financial Statements

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

- a. Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Commissioners adopt legal annual budgets for the general fund and proprietary funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.
- c. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Commissioners. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2016, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended March 31, 2016, expenditures exceeded appropriations in the City's programs as follows:

| | |
|--------------------|------------|
| General Government | \$ 104,803 |
|--------------------|------------|

The excesses of expenditures over appropriations were offset by revenues exceeding budgeted amounts.

NOTE C CASH AND CASH EQUIVALENTS

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

- Obligations of or guaranteed by the United States of America;

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

- 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 (\$2,454,754) and the sewer fund (\$4,683,798) 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, 2016, the carrying amount of the City's deposits was \$14,106,382, and the bank balance was \$14,394,450. Of the bank balance, \$500,000 was covered by federal depository insurance, \$13,802,064 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and \$92,386 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE D INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2016 is as follows

| Due to | | Due from | |
|--------------|---------------------|-----------------------|---------------------|
| General Fund | \$ 738,977 | Capital Projects Fund | \$ 1,429,691 |
| Water Fund | 708,071 | Sewer Fund | <u>729,110</u> |
| Sewer Fund | <u>711,753</u> | | |
| | <u>\$ 2,158,801</u> | | <u>\$ 2,158,801</u> |

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Depreciation expense was charged to the functions as follows:

| | |
|--|---------------------|
| Governmental Activities: | |
| General government | \$ 171,374 |
| Public safety | 114,548 |
| Public works | 2,976,449 |
| Recreation and culture | <u>119,312</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 3,381,683</u> |

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

Capital asset activity for the year ended March 31, 2016 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 192,936 | \$ - | \$ - | \$ 192,936 |
| Construction-in-progress | <u>1,337,195</u> | <u>1,042,077</u> | <u>190,762</u> | <u>2,188,510</u> |
| Total Capital Assets Not Being Depreciated | <u>1,530,131</u> | <u>1,042,077</u> | <u>190,762</u> | <u>2,381,446</u> |
| Capital assets being depreciated: | | | | |
| Buildings, infrastructure, and improvements | 43,850,664 | 386,429 | - | 44,237,093 |
| Machinery and equipment | 1,830,043 | 181,326 | - | 2,011,369 |
| Vehicles | <u>834,059</u> | <u>-</u> | <u>-</u> | <u>834,059</u> |
| Total Capital Assets Being Depreciated | <u>46,514,766</u> | <u>567,755</u> | <u>-</u> | <u>47,082,521</u> |
| Less accumulated depreciation for: | | | | |
| Buildings, infrastructure, and improvements | 26,067,642 | 1,178,986 | - | 27,246,628 |
| Machinery and equipment | 1,400,359 | 170,509 | - | 1,570,868 |
| Vehicles | <u>754,625</u> | <u>26,035</u> | <u>-</u> | <u>780,660</u> |
| Total accumulated depreciation | <u>28,222,626</u> | <u>1,375,530</u> | <u>-</u> | <u>29,598,156</u> |
| Total Capital Assets Being Depreciated, Net | <u>18,292,140</u> | <u>(807,775)</u> | <u>-</u> | <u>17,484,365</u> |
| Business-type Activities Assets, Net | <u>\$19,822,271</u> | <u>\$ 234,302</u> | <u>\$ 190,762</u> | <u>\$19,865,811</u> |

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Depreciation expense was charged to the functions as follows:

Business-type Activities:

| | |
|---|---------------------|
| Water | \$ 516,783 |
| Sewer | <u>858,747</u> |
| Total Depreciation Expense - Business-type Activities | <u>\$ 1,375,530</u> |

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2016 is composed of the following:

Governmental Activities

The Town obtained a line of credit in the amount of \$18,000,000 to assist in providing interim funding for the construction of the new City Hall complex. The loan will be repaid using the proceeds from the USDA direct program loan. Interest is paid monthly at a floating rate. The line of credit matures October 20, 2017 and bears interest at LIBOR multiplied by 68 basis points plus 81 basis points (1.10% at March 31, 2016).

\$ 1,261,211

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.

1,069,176

Total Governmental Activities

\$ 2,330,387

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.

\$ 3,523,563

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.

405,745

Total Business-type Activities

\$ 3,929,308

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

Annual requirements to retire long-term debt of all funds at March 31, 2016 are as follows:

| March 31, | Governmental Activities | | Business-type Activities | |
|-------------|-------------------------|------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 706,964 | \$ 41,816 | \$ 297,002 | \$ 107,360 |
| 2018 | 1,623,423 | 12,841 | 305,367 | 98,996 |
| 2019 | - | - | 313,968 | 90,395 |
| 2020 | - | - | 322,812 | 81,552 |
| 2021 | - | - | 331,903 | 72,460 |
| 2022 - 2026 | - | - | 1,687,674 | 219,292 |
| 2027 - 2028 | - | - | 670,582 | 23,294 |
| Total | <u>\$ 2,330,387</u> | <u>\$ 54,657</u> | <u>\$ 3,929,308</u> | <u>\$ 693,349</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, 2016:

| | Balance April 1, 2015 | Increase | Decreases | Balance March 31, 2016 |
|---------------------------|--------------------------|---------------------|-------------------|---------------------------|
| Governmental Activities: | | | | |
| Notes payable | \$ 1,752,324 | \$ 1,261,211 | \$ 683,148 | \$ 2,330,387 |
| OPEB | 873,319 | 164,738 | - | 1,038,057 |
| Compensated absences | 446,741 | 35,237 | - | 481,978 |
| Total | <u>\$ 3,072,384</u> | <u>\$ 1,461,186</u> | <u>\$ 683,148</u> | <u>\$ 3,850,422</u> |
| Business-type Activities: | | | | |
| Note payable | \$ 4,218,175 | \$ - | \$ 288,867 | \$ 3,929,308 |
| OPEB | 237,233 | 46,260 | - | 283,493 |
| Compensated absences | 206,089 | 8,069 | - | 214,158 |
| Total | <u>\$ 4,661,497</u> | <u>\$ 54,329</u> | <u>\$ 288,867</u> | <u>\$ 4,426,959</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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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, 2016, 2015, and 2014, the City's employer contributions totaled \$65,155, \$67,893, and \$69,824, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

Plan Description

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

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

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

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

The following are brief descriptions of the Plan in effect as of June 30, 2015. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Vesting: Five years of credited service.

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

Disability Benefits:

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

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

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

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

Actuarial Assumptions

The collective total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions:

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

The total pension liability was measured based on assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Mortality rates were based on the Sex distinct RP - 2000 combined Mortality Table projected for 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

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

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-------------------------|-------------------|--|
| Domestic equity | 36.5% | 5.7% |
| International equity | 16.5% | 5.7% |
| Fixed income | 22.6% | 2.0% |
| Alternative investments | 19.6% | 7.8% |
| Cash equivalents | 4.8% | - |
| | 100% | |

Discount Rate

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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

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

| | 1% Decrease 6.2% | Current Rate Discount Rate 7.2% | 1% Increase 8.2% |
|---|------------------------|---------------------------------------|------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 336,535 | \$ (77,560) | \$ (699,899) |

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

For the year ended March 31, 2016, the City recognized a net negative pension expense of \$171,763. At March 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual investment earnings | \$ - | \$ 75,829 |
| Changes in proportions | 1,918 | - |
| Difference between employer contributions and proportionate share of total contributions | 9,190 | - |
| Differences between expected and actual experience | - | 44,267 |
| Contributions subsequent to the date of measurement | 127,475 | - |
| | <u>\$ 138,583</u> | <u>\$ 120,096</u> |

An amount of \$127,475 is reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2017. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Year Ended March 31,

| | |
|-------------|-------------------|
| 2017 | \$ 17,887 |
| 2018 | 17,887 |
| 2019 | 17,887 |
| 2020 | 17,887 |
| 2021 | 17,887 |
| 2022 - 2027 | <u>19,553</u> |
| | <u>\$ 108,988</u> |

NOTE J OPERATING LEASES

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

Lessee

The City leases a tract of land containing 85 acres located on or near Route 215 in Sussex County, Delaware. The lease was renewed in March 2014 for an additional five years. The lease requires annual lease payments of \$38,250 payable on the first day of each lease year.

Future minimum lease obligations are as follows:

| <u>For the Year Ended March 31,</u> | <u>Amount</u> |
|---|------------------|
| 2017 | \$ 38,250 |
| 2018 | <u>38,250</u> |
| Total | <u>\$ 76,500</u> |

Rental expense under this lease for the year ended March 31, 2016 was \$38,250.

Lessor

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE J OPERATING LEASES (cont'd)

Future minimum receipts under the agreement are as follows:

| <u>For the Year Ended March 31,</u> | <u>Amount</u> |
|---|-------------------|
| 2017 | \$ 66,000 |
| 2018 | 67,200 |
| 2019 | 68,400 |
| 2020 | 69,600 |
| 2021 | <u>70,800</u> |
| Total | <u>\$ 342,000</u> |

Rental income under this lease for the year ended March 31, 2016 was \$64,800.

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, 2016.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS (cont'd)

Construction Commitments

At March 31, 2016, the City had approved contracts for various capital projects totaling \$19,866,452 and payments for progress on contracts of \$4,123,459, resulting in outstanding commitments of \$15,742,993. In addition, the City's governmental activities report another \$1,201,887 in construction-in-progress costs for projects without ongoing construction commitments, and the proprietary funds report \$99,399 in engineering and related fees associated with a planned outfall project as well as construction-in-progress costs for projects without ongoing construction commitments.

NOTE L RISK MANAGEMENT

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

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

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

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

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, 2016, three individuals were receiving post-employment benefits.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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 2016, the City contributed \$38,347 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|--------------|
| Annual required contribution | \$ 314,535 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| | - |
| Annual OPEB cost (expense) | 314,535 |
| Contributions made | (103,537) |
| | 210,998 |
| Increase in net OPEB obligation | 210,998 |
| Net OPEB obligation - beginning of year | 1,110,552 |
| | 1,110,552 |
| Net OPEB obligation - end of year | \$ 1,321,550 |
| | \$ 1,321,550 |

Funded Status and Funding Progress

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

Actuarial Methods and Assumptions

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

In the April 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of 10 percent in 2016, reduced by decrements to an ultimate rate of five percent in 2021 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2016 was 23 years.

NOTE N FUND BALANCES

As of March 31, 2016, 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. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Commissioners.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

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, 2016, fund balances are composed of the following:

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------|-------------------------|--------------------------------------|--|---|
| Nonspendable | \$ 266,993 | \$ - | \$ - | \$ 266,993 |
| Restricted: | | | | |
| Police expenditures | - | - | 24,027 | 24,027 |
| Public works expenditures | - | - | 90,443 | 90,443 |
| Assigned: | | | | |
| Municipal building project | 236,366 | - | - | 236,366 |
| Unassigned (deficit) | <u>6,814,259</u> | <u>(1,289,944)</u> | <u>-</u> | <u>5,524,315</u> |
| Total Fund Balances (Deficit) | <u>\$ 7,317,618</u> | <u>\$(1,289,944)</u> | <u>\$ 114,570</u> | <u>\$ 6,142,144</u> |

NOTE O PRIOR PERIOD RESTATEMENT

The City has restated its March 31, 2014 net position in its governmental activities to record the net pension asset at March 31, 2015 in accordance with the requirements of GASB Statement No. 68 and GASB Statement No. 71, as discussed in Note A. The net result of this change is an increase of \$29,007 in governmental activities net position.

NOTE P SUBSEQUENT EVENTS

The City has evaluated all subsequent events through October 24, 2016, 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, 2016**

| | Original and Final Appropriated Budget | Actual (GAAP Basis) | Variance Positive (Negative) |
|----------------------------------|---|---------------------------|------------------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property tax | \$ 1,327,000 | \$ 1,316,807 | \$ (10,193) |
| Rental tax | 985,000 | 1,095,261 | 110,261 |
| Transfer tax | 1,525,000 | 1,563,902 | 38,902 |
| Construction tax | 45,000 | 70,398 | 25,398 |
| Penalties and interest | 2,300 | 5,438 | 3,138 |
| Total Taxes | <u>3,884,300</u> | <u>4,051,806</u> | <u>167,506</u> |
| Licenses and permits: | | | |
| Mercantile licenses | 522,000 | 542,822 | 20,822 |
| Building permits | 560,000 | 923,065 | 363,065 |
| Other | 70,100 | 75,225 | 5,125 |
| Total Licenses and Permits | <u>1,152,100</u> | <u>1,541,112</u> | <u>389,012</u> |
| Franchise fees | <u>85,000</u> | <u>91,482</u> | <u>6,482</u> |
| Intergovernmental revenues: | | | |
| General government | 25,000 | 21,449 | (3,551) |
| Public works | 9,800 | 82,255 | 72,455 |
| Public safety | 158,117 | 146,206 | (11,911) |
| Total Intergovernmental Revenues | <u>192,917</u> | <u>249,910</u> | <u>56,993</u> |
| Charges for services: | | | |
| Parking meters | 3,725,834 | 3,966,780 | 240,946 |
| Parking permits | 693,264 | 819,738 | 126,474 |
| Waste collection | 829,640 | 834,497 | 4,857 |
| Total Charges for Services | <u>5,248,738</u> | <u>5,621,015</u> | <u>372,277</u> |
| Fines and forfeitures: | | | |
| Parking | 671,000 | 725,430 | 54,430 |
| Court | 75,000 | 98,551 | 23,551 |
| Police | 110,000 | 94,049 | (15,951) |
| Total Fines and Forfeitures | <u>856,000</u> | <u>918,030</u> | <u>62,030</u> |
| Investment earnings | <u>1,250</u> | <u>2,054</u> | <u>804</u> |
| Rents and concessions | <u>377,500</u> | <u>365,952</u> | <u>(11,548)</u> |
| Contributions and donations | <u>14,000</u> | <u>34,053</u> | <u>20,053</u> |
| Miscellaneous revenues | <u>70,600</u> | <u>111,065</u> | <u>40,465</u> |
| TOTAL REVENUES | <u>11,882,405</u> | <u>12,986,479</u> | <u>1,104,074</u> |
| EXPENDITURES | | | |
| General government: | | | |
| Mayor and Council | 102,023 | 344,840 | (242,817) |
| Assessors | 5,084 | 2,627 | 2,457 |
| Administrative | 1,426,620 | 1,318,543 | 108,077 |
| Alderman Court | 59,565 | 60,172 | (607) |
| Buildings and licensing | 458,738 | 461,247 | (2,509) |
| Information technology | 309,401 | 307,007 | 2,394 |
| Buildings and grounds | 387,395 | 359,193 | 28,202 |
| Total General Government | <u>2,748,826</u> | <u>2,853,629</u> | <u>(104,803)</u> |

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2016**

| | <u>Original and Final Appropriated Budget</u> | <u>Actual (GAAP Basis)</u> | <u>Variance Positive (Negative)</u> |
|--|---|------------------------------------|---|
| EXPENDITURES (cont'd) | | | |
| Public safety: | | | |
| Police | 2,431,155 | 2,403,631 | 27,524 |
| Dispatch | 548,113 | 549,976 | (1,863) |
| Volunteer fire | 30,600 | 30,638 | (38) |
| Total Public Safety | <u>3,009,868</u> | <u>2,984,245</u> | <u>25,623</u> |
| Public works: | | | |
| Streets | 1,020,438 | 944,855 | 75,583 |
| Waste collection | 1,073,838 | 1,020,559 | 53,279 |
| Parking | 926,570 | 912,539 | 14,031 |
| Total Public Works | <u>3,020,846</u> | <u>2,877,953</u> | <u>142,893</u> |
| Recreation and culture: | | | |
| Comfort stations | 174,323 | 191,469 | (17,146) |
| Parks | 183,049 | 146,224 | 36,825 |
| Lifeguards | 636,633 | 633,227 | 3,406 |
| Library | 15,000 | 15,000 | - |
| Main Street | 50,000 | 53,261 | (3,261) |
| Museum | 24,000 | 10,000 | 14,000 |
| Recreation | 138,253 | 127,854 | 10,399 |
| Total Recreation and Culture | <u>1,221,258</u> | <u>1,177,035</u> | <u>44,223</u> |
| Debt service: | | | |
| Interest and principal | 734,906 | 734,907 | (1) |
| Capital outlays | 1,589,300 | 1,199,483 | 389,817 |
| TOTAL EXPENDITURES | <u>12,325,004</u> | <u>11,827,252</u> | <u>497,752</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(442,599)</u> | <u>1,159,227</u> | <u>1,601,826</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of capital assets | - | 25,152 | 25,152 |
| Proceeds from long-term debt | - | - | - |
| Transfers in (out) | 442,599 | (2,270) | (444,869) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>442,599</u> | <u>22,882</u> | <u>(419,717)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ -</u> | 1,182,109 | <u>\$ 1,182,109</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>6,135,509</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 7,317,618</u> | |

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

| | <u>Measurement Date</u> <u>March 30, 2015</u> |
|---|--|
| City's proportion of the net pension asset | 1.4716% |
| City's proportion of the net pension asset - dollar value | \$ 77,560 |
| City's covered employee payroll | 973,526 |
| City's proportionate share of the net pension asset as a percentage of its covered employee payroll | 7.97% |
| Plan fiduciary net position as a percentage of the total pension liability | 101.97% |

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

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

| | <u>March 31, 2016</u> |
|--|-----------------------|
| Contractually required contribution | \$ 127,475 |
| Contributions in relation to the contractually required contribution | 127,475 |
| Contribution deficiency (excess) | \$ - |
| City's covered-employee payroll | \$ 920,397 |
| Contributions as a percentage of covered-employee payroll | 13.85% |

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

COMBINING NONMAJOR FUND STATEMENTS

**CITY OF REHOBOTH BEACH
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 MARCH 31, 2016**

| | Municipal Street Aid | State of Delaware Police Grants | Total |
|--|-----------------------------|--|------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | <u>\$ 90,443</u> | <u>\$ 24,581</u> | <u>\$ 115,024</u> |
| TOTAL ASSETS | <u><u>\$ 90,443</u></u> | <u><u>\$ 24,581</u></u> | <u><u>\$ 115,024</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accrued salaries | <u>\$ -</u> | <u>\$ 554</u> | <u>\$ 554</u> |
| FUND BALANCES | | | |
| Restricted: | | | |
| Police expenditures | - | 24,027 | 24,027 |
| Public works expenditures | 90,443 | - | 90,443 |
| TOTAL FUND BALANCES | <u>90,443</u> | <u>24,027</u> | <u>114,470</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 90,443</u></u> | <u><u>\$ 24,581</u></u> | <u><u>\$ 115,024</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, 2016

| | Municipal Street Aid | State of Delaware Police Grants | Total |
|---|----------------------------|--|-------------------|
| REVENUES | | | |
| Intergovernmental | \$ 112,383 | \$ 37,067 | \$ 149,450 |
| TOTAL REVENUES | <u>112,383</u> | <u>37,067</u> | <u>149,450</u> |
| EXPENDITURES | | | |
| Public safety | - | 17,984 | 17,984 |
| Public works | 106,397 | - | 106,397 |
| TOTAL EXPENDITURES | <u>106,397</u> | <u>17,984</u> | <u>124,381</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>5,986</u> | <u>19,083</u> | <u>25,069</u> |
| OTHER FINANCING USES | | | |
| Transfers in | 1,105 | 1,165 | 2,270 |
| TOTAL OTHER FINANCING USES | <u>1,105</u> | <u>1,165</u> | <u>2,270</u> |
| CHANGE IN FUND BALANCES | 7,091 | 20,248 | 27,339 |
| FUND BALANCES, BEGINNING OF YEAR | <u>83,352</u> | <u>3,779</u> | <u>87,131</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 90,443</u> | <u>\$ 24,027</u> | <u>\$ 114,470</u> |

CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF NET POSITION - SEWER FUNDS
MARCH 31, 2016

| | <u>Sewer Fund</u> | <u>Sewer Capital Projects Fund</u> | <u>Totals</u> |
|---|-----------------------------|--|-----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 4,683,798 | \$ - | \$ 4,683,798 |
| Accounts receivable | 310,948 | - | 310,948 |
| Due from other funds | 2,020,437 | - | 2,020,437 |
| Accrued interest | 328 | - | 328 |
| Prepaid expenses | 51,692 | - | 51,692 |
| Inventory | 64,732 | - | 64,732 |
| Noncurrent Assets: | | | |
| Capital assets, net of depreciation | <u>8,233,134</u> | <u>2,124,153</u> | <u>10,357,287</u> |
| TOTAL ASSETS | <u><u>\$ 15,365,069</u></u> | <u><u>\$ 2,124,153</u></u> | <u><u>\$ 17,489,222</u></u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 26,793 | \$ 175,074 | \$ 201,867 |
| Accrued salaries and benefits | 21,632 | - | 21,632 |
| Accrued interest | 5,072 | - | 5,072 |
| Contingency reserve | 227,524 | - | 227,524 |
| Due to other funds | - | 2,037,794 | 2,037,794 |
| Note payable | 45,592 | - | 45,592 |
| Noncurrent Liabilities: | | | |
| Note payable | 360,153 | - | 360,153 |
| Other post-employment liability | 179,460 | - | 179,460 |
| Compensated absences | 120,623 | - | 120,623 |
| TOTAL LIABILITIES | <u>986,849</u> | <u>2,212,868</u> | <u>3,199,717</u> |
| NET POSITION | | | |
| Net investment in capital assets | 7,827,389 | 2,124,153 | 9,951,542 |
| Unrestricted (deficit) | <u>6,550,831</u> | <u>(2,212,868)</u> | <u>4,337,963</u> |
| TOTAL NET POSITION (DEFICIT) | <u>14,378,220</u> | <u>(88,715)</u> | <u>14,289,505</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 15,365,069</u></u> | <u><u>\$ 2,124,153</u></u> | <u><u>\$ 17,489,222</u></u> |

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2016**

| | Sewer Fund | Sewer Capital Projects Fund | Totals |
|--|---------------------|-----------------------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 2,550,554 | \$ - | \$ 2,550,554 |
| Other operating revenues | 231,486 | - | 231,486 |
| Total Operating Revenues | <u>2,782,040</u> | <u>-</u> | <u>2,782,040</u> |
| OPERATING EXPENSES | | | |
| Salaries and benefits | 939,195 | - | 939,195 |
| Materials and supplies | 257,000 | - | 257,000 |
| Administration expenses | 14,665 | - | 14,665 |
| Contractual services | 21,932 | 88,715 | 110,647 |
| Land and equipment rental | 38,250 | - | 38,250 |
| Repairs and maintenance | 297,248 | - | 297,248 |
| Utilities | 268,578 | - | 268,578 |
| Insurance | 54,581 | - | 54,581 |
| Depreciation | 858,747 | - | 858,747 |
| Total Operating Expenses | <u>2,750,196</u> | <u>88,715</u> | <u>2,838,911</u> |
| OPERATING INCOME (LOSS) | <u>31,844</u> | <u>(88,715)</u> | <u>(56,871)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Sewer impact fees | 69,176 | - | 69,176 |
| Investment income | 1,393 | - | 1,393 |
| Interest expense | (12,617) | - | (12,617) |
| Intergovernmental grants | 24,357 | - | 24,357 |
| Total Nonoperating Revenues | <u>82,309</u> | <u>-</u> | <u>82,309</u> |
| CHANGE IN NET POSITION | 114,153 | (88,715) | 25,438 |
| NET POSITION, BEGINNING OF YEAR | <u>14,264,067</u> | <u>-</u> | <u>14,264,067</u> |
| NET POSITION (DEFICIT), END OF YEAR | <u>\$14,378,220</u> | <u>\$ (88,715)</u> | <u>\$14,289,505</u> |

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF CASH FLOWS - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2016**

| | Sewer Fund | Sewer Capital Projects Fund | Totals |
|--|----------------------------|-----------------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 2,756,472 | \$ - | \$ 2,756,472 |
| Cash paid for goods and services | (1,064,770) | - | (1,064,770) |
| Cash paid to employees | (896,802) | - | (896,802) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>794,900</u> | <u>-</u> | <u>794,900</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Capital assets purchased | (1,110,808) | - | (1,110,808) |
| Proceeds received from capitalization and impact fees | 69,176 | - | 69,176 |
| Capital grants | 24,357 | - | 24,357 |
| Principal paid on note payable | (44,255) | - | (44,255) |
| Interest paid on note payable | (12,617) | - | (12,617) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,074,147)</u> | <u>-</u> | <u>(1,074,147)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest income | 938 | - | 938 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>938</u> | <u>-</u> | <u>938</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (278,309) | - | (278,309) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>4,962,107</u> | <u>-</u> | <u>4,962,107</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 4,683,798</u> | <u>\$ -</u> | <u>\$ 4,683,798</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ 31,844 | \$ (88,715) | \$ (56,871) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 858,747 | - | 858,747 |
| (Increase) Decrease in assets: | | | |
| Accounts receivable | (25,568) | - | (25,568) |
| Due from other funds | (2,020,437) | - | (2,020,437) |
| Transfer of capital assets | 2,037,794 | (2,037,794) | - |
| Inventory | 2,150 | - | 2,150 |
| Prepaid expenses | (9,524) | - | (9,524) |
| Increase (Decrease) in liabilities: | | | |
| Accounts payable | (26,960) | 88,715 | 61,755 |
| Due to other funds | - | 2,037,794 | 2,037,794 |
| Contingency reserve | (95,539) | - | (95,539) |
| Accrued salaries and benefits | 6,594 | - | 6,594 |
| Other post-employment benefits | 29,278 | - | 29,278 |
| Compensated absences | 6,521 | - | 6,521 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 794,900</u> | <u>\$ -</u> | <u>\$ 794,900</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Capital assets acquired through the incurrence of payables | <u>\$ -</u> | <u>\$ 86,359</u> | <u>\$ 86,359</u> |

SINGLE AUDIT SUPPLEMENT

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

October 24, 2016

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

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

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Compliance and Other Matters

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

Purpose of this Report

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

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

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

October 24, 2016

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

Report on Compliance for Each Major Federal Program

We have audited the City of Rehoboth Beach's ("the City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended March 31, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Opinion on Each Major Federal Program

In our opinion, the City of Rehoboth Beach, Rehoboth Beach, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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


BARBACANE, THORNTON & COMPANY LLP

CITY OF REHOBOTH BEACH
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified

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

 Yes X No

Identification of major programs:

CFDA Numbers
10.766

Name of Federal Program or Cluster
Community Facilities Loan and Grants

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

\$750,000

Auditee qualified as low-risk auditee? Yes X No

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

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**CITY OF REHOBOTH BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2016**

| <u>GRANTOR</u> | <u>SOURCE CODE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>PASS- THROUGH GRANTOR'S NUMBER</u> | <u>FEDERAL EXPENDITURES MARCH 31, 2016</u> | <u>PASSED THROUGH TO SUB-RECIPIENTS</u> | <u>OUTSTANDING LOAN BALANCE</u> |
|---|------------------------|------------------------------------|---|--|---|---|
| <u>U.S. Department of Agriculture</u> | | | | | | |
| Community Facilities Loans and Grants | D | 10.766 | N/A | \$ 1,261,211 | \$ - | \$ 1,261,211 |
| <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <u>U.S. Department of Transportation</u> | | | | | | |
| <u>Passed through Delaware Department of Transportation</u> | | | | | | |
| Alcohol Open Container Requirements | I | 20.607 | N/A | 8,644 | - | - |
| State and Community Highway Safety | I | 20.600 | N/A | 12,325 | - | - |
| <u>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</u> | | | | | | |
| <u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u> | | | | | | |
| | | | | <u>\$ 1,282,180</u> | <u>\$ -</u> | <u>\$ 1,261,211</u> |

Source Codes:

D = Direct Funding
I = Indirect Funding

CITY OF REHOBOTH BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A REPORTING ENTITY

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended March 31, 2016, there were no indirect costs included in the schedule of expenditures of federal awards.

NOTE D LOAN BALANCES INVOLVING FEDERAL FUNDS

During the year ended March 31, 2016, the City was awarded an \$18,000,000 loan from the U.S. Department of Agriculture for construction of a new City Hall. This loan is not fully drawn down, and expenditures in the amount of \$1,261,211 are reflected in the schedule of expenditures of federal awards. The loan balance at March 31, 2016 was \$1,261,211.