



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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

MARCH 31, 2020

CITY OF REHOBOTH BEACH

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INDEPENDENT AUDITOR'S REPORT

October 30, 2020

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, 2020, 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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of March 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Rehoboth Beach's 2019 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated October 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2019 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 - 15, and the budgetary comparison schedule - general fund, schedule of the City's proportionate share of the net pension asset (liability), schedule of City pension contributions, schedule of the City's net OPEB liability and related ratios, and schedule of City OPEB contributions on pages 49 - 54 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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 fund financial statements on pages 55 - 59 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 64 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* ("Uniform Guidance"), and is also not a required part of the basic financial statements. The combining 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 fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, 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 solely 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 the effectiveness of 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, 2020**

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, 2020. Please read it in conjunction with the City's financial statements, which begin on page 16.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at March 31, 2020 by \$57.3 million (net position). Of this amount, \$18.8 million is reported as unrestricted net position. The City's net position increased by \$1.7 million.

As of March 31, 2020, the City's governmental funds reported combined ending fund balances of \$9.0 million, an increase of \$2.0 million as compared to the prior year. The current year increase in fund balance can be attributed primarily to increases in revenues from taxes and revenues from charges for services, which both increased by \$1.1 million. Total governmental funds revenue increased by \$2.6 million compared to the prior year. Expenditures increased by \$1.7 million compared to the prior year. As mentioned previously, the components of revenue that contributed significantly to the overall revenue increase were taxes and charges for services, increasing by \$669 thousand and \$200 thousand, respectively. The increase in tax revenue was driven by the 50 percent increase in property taxes and the increased rental tax revenue. The increase in charges for services was primarily a result of the \$1.2 million increase in parking revenue.

As of March 31, 2020, the City's proprietary funds reported combined net position of \$26.9 million, an increase of \$525 thousand compared to the prior year.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The management's 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 and other postemployment benefit ("OPEB") plan. This report also contains other supplementary information.

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

- The first two statements are entity-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- 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.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

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

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

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

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

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

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 and City OPEB 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, 2020 and 2019.

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
ASSETS						
Current and other assets	\$ 9,682,213	\$ 7,642,801	\$15,566,126	\$11,776,074	\$ 25,248,339	\$ 19,418,875
Capital assets, net	42,043,521	43,334,491	58,476,077	60,399,742	100,519,598	103,734,233
TOTAL ASSETS	51,725,734	50,977,292	74,042,203	72,175,816	125,767,937	123,153,108
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pension and OPEB	1,483,036	1,375,546	182,642	197,351	1,665,678	1,572,897
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	53,208,770	52,352,838	74,224,845	72,373,167	127,433,615	124,726,005
LIABILITIES						
Other liabilities	1,273,617	1,260,811	1,976,454	1,968,228	3,250,071	3,229,039
Long-term liabilities	20,806,735	21,075,343	45,255,368	43,923,189	66,062,103	64,998,532
TOTAL LIABILITIES	22,080,352	22,336,154	47,231,822	45,891,417	69,312,174	68,227,571
DEFERRED INFLOWS OF RESOURCES						
Deferred Pension and OPEB	691,609	743,784	103,940	118,139	795,549	861,923

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
(cont'd)						
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	22,771,961	23,079,938	47,335,762	46,009,556	70,107,723	69,089,494
NET POSITION						
Net investment in capital assets	25,772,442	26,484,861	12,588,695	15,864,982	38,361,137	42,349,843
Restricted	174,259	146,631	-	-	174,259	146,631
Unrestricted	4,490,108	2,641,408	14,300,388	10,498,629	18,790,496	13,140,037
TOTAL NET POSITION	\$ 30,436,809	\$ 29,272,900	\$26,889,083	\$26,363,611	\$ 57,325,892	\$ 55,636,511

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.

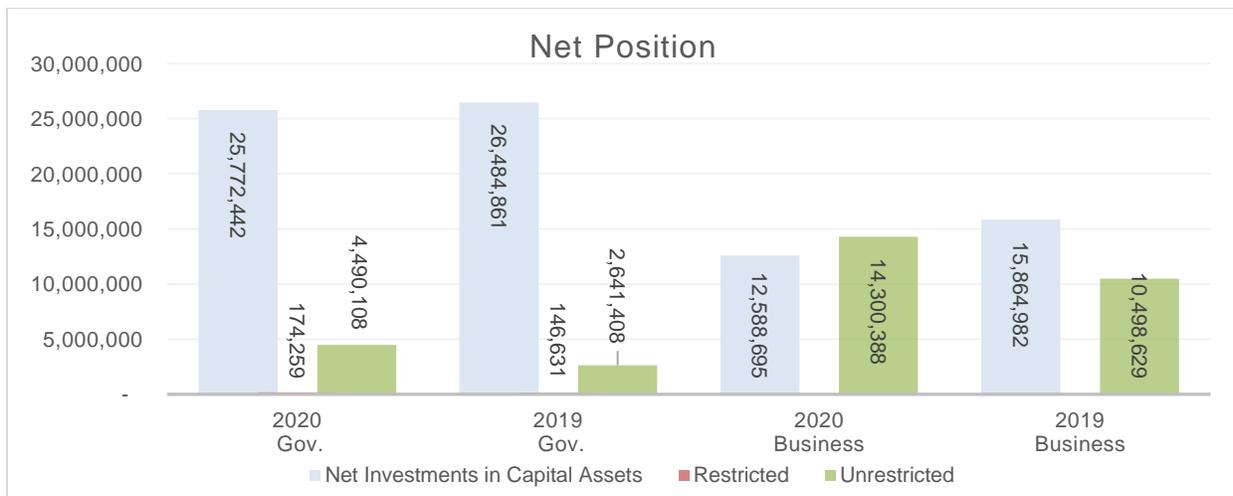
**TABLE 2
CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program revenues:						
Charges for services	\$ 10,022,835	\$ 8,972,913	\$ 7,781,032	\$ 5,572,266	\$ 17,803,867	\$ 14,545,179
Operating grants/contributions	579,508	380,738	80,113	-	659,621	380,738
Capital grants/contributions	-	-	-	100,000	-	100,000
General revenues:						
Taxes	6,665,147	5,578,213	-	-	6,665,147	5,578,213
Investment earnings	115,024	11,122	95,352	10,717	210,376	21,839
Franchise fees	177,629	169,693	-	-	177,629	169,693
Miscellaneous	297,311	113,858	-	-	297,311	113,858
TOTAL REVENUES	17,857,454	15,226,537	7,956,497	5,682,983	25,813,951	20,909,520
EXPENSES						
General government	3,804,776	4,134,390	-	-	3,804,776	4,134,390
Public safety	4,338,662	4,410,418	-	-	4,338,662	4,410,418
Public works	7,099,223	7,245,437	-	-	7,099,223	7,245,437
Recreation and culture	1,043,035	927,736	-	-	1,043,035	927,736
Interest on long-term debt	407,849	408,833	-	-	407,849	408,433
Water operations	-	-	2,531,526	1,930,979	2,531,526	1,930,979
Sewer operations	-	-	4,899,499	3,378,686	4,899,499	3,378,686
TOTAL EXPENSES	16,693,545	17,126,814	7,431,025	5,309,665	24,124,570	22,436,479

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

**TABLE 2
CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
(cont'd) INCREASE (DECREASE) IN NET POSITION	1,163,909	(1,900,277)	525,472	373,318	1,689,381	(1,526,959)
NET POSITION, BEGINNING OF YEAR	29,272,900	31,173,177	26,363,611	25,990,293	55,636,511	57,163,470
NET POSITION, END OF YEAR	\$ 30,436,809	\$ 29,272,900	\$26,889,083	\$26,363,611	\$ 57,325,892	\$ 55,636,511



Governmental Activities

The cost of all governmental activities in 2020 was \$16.7 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$6.1 million, or 36.5 percent, an increase from 32.5 percent in the prior year. Other costs were paid by those who directly benefited from the programs (\$10.0 million, or 60.0 percent), and government agencies and organizations that subsidized funding with intergovernmental aid \$0.6 million or 3.5 percent percent). In the prior year, costs paid by those who directly benefited from programs were \$9.0 million, representing 52.4 percent of the total expenses. Expenses financed by other governments and agencies were \$0.4 million, or 2.2 percent of total governmental expenses.

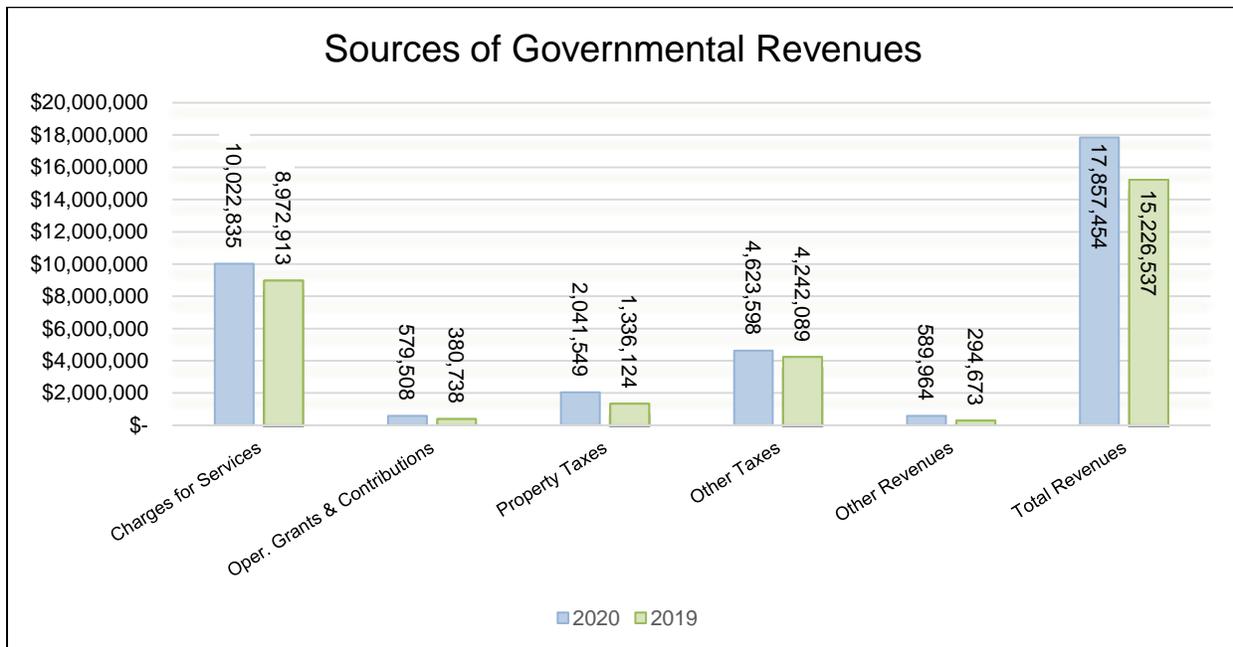
Tax revenue increased by \$1.1 million as a result of the increase in property tax and rental tax revenue. The value of assessed property increased from \$3.4 billion in fiscal year 2019 to \$3.5 billion in fiscal year 2020. The property tax rate of six cents per hundred dollars of assessed value increased from four cents per hundred dollars of assessed value in fiscal year 2019.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

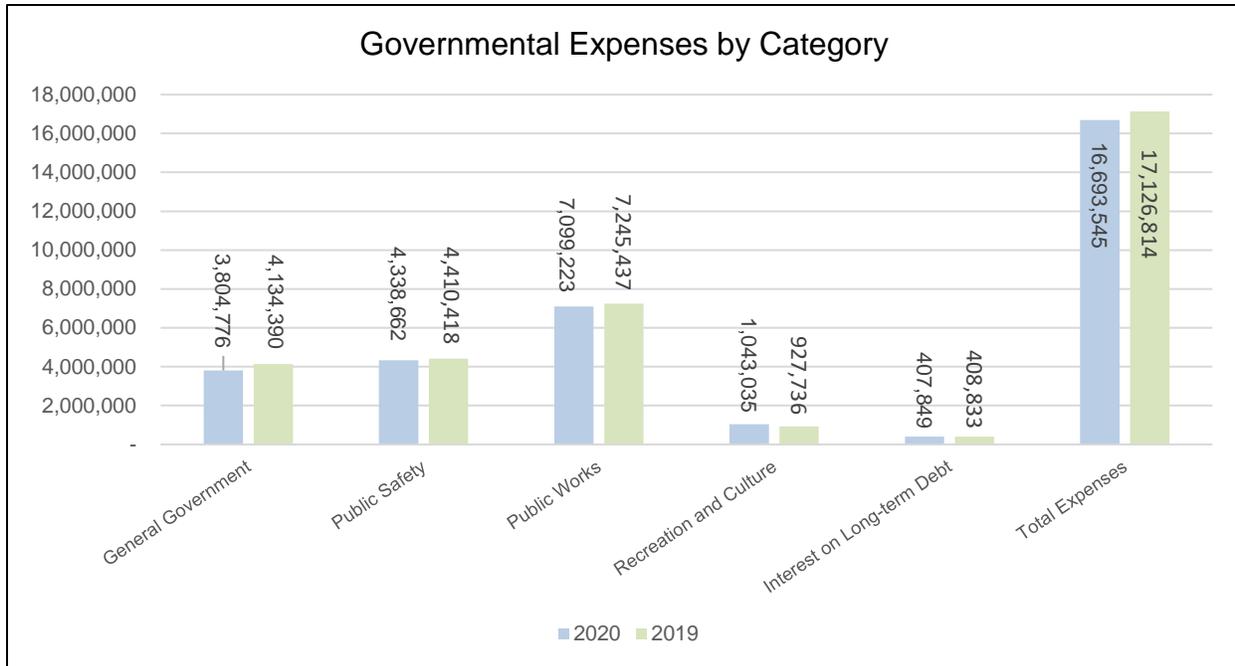
General government programs accounted for 22.8 percent of the City's governmental activities, a decrease of \$330 thousand from the prior year. This was largely due to the decrease in governmental capital outlays, and pension and OPEB expenses. The public safety expenses accounted for 26.0 percent of the City's governmental activities in the year ended March 31, 2020 and 25.8 percent in the prior year. Expenses in all departments decreased with the largest decrease, \$330 thousand, in the general government category. Public Safety, Public Works, and Recreation and Culture expenses decreased by \$72 thousand, \$146 thousand, and \$115 thousand, respectively.

Public Works expenses accounted for 42.5 percent of the City's governmental activities, or \$7.1 million, a decrease of \$146 thousand from 2019. Parking revenues and expenses are included in the Public Works function. The charges for services, consisting largely of parking revenues, exceeded the prior year by \$972 thousand. With the expenses in Public Works declining by \$146 thousand and the revenues increasing by \$972 thousand, the Public Works function's revenues exceeded expenses by \$853 thousand. Also, contributing to the net revenue effect in Public Works was \$177 thousand in grant revenues. In the prior year, Public Works expenses exceeded revenues (grants and charges for services) by \$442 thousand.

The Public Safety function consists of the City's police department, 911 Dispatch Center, and the Beach Patrol. In the current fiscal year, the expenses remained relatively flat from the prior year with only a \$72 thousand increase. The revenue from grants and charges for services (largely fines) were \$303 thousand in the current fiscal year, or \$185 thousand greater than in the prior year. Net expenses (expenses less charges for services) were \$4 million in the current year and \$4.3 million in fiscal year 2019.



**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**



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 and wastewater services. These arrangements provide additional revenue to the City by the sharing of the costs of operating the water and the wastewater plants.

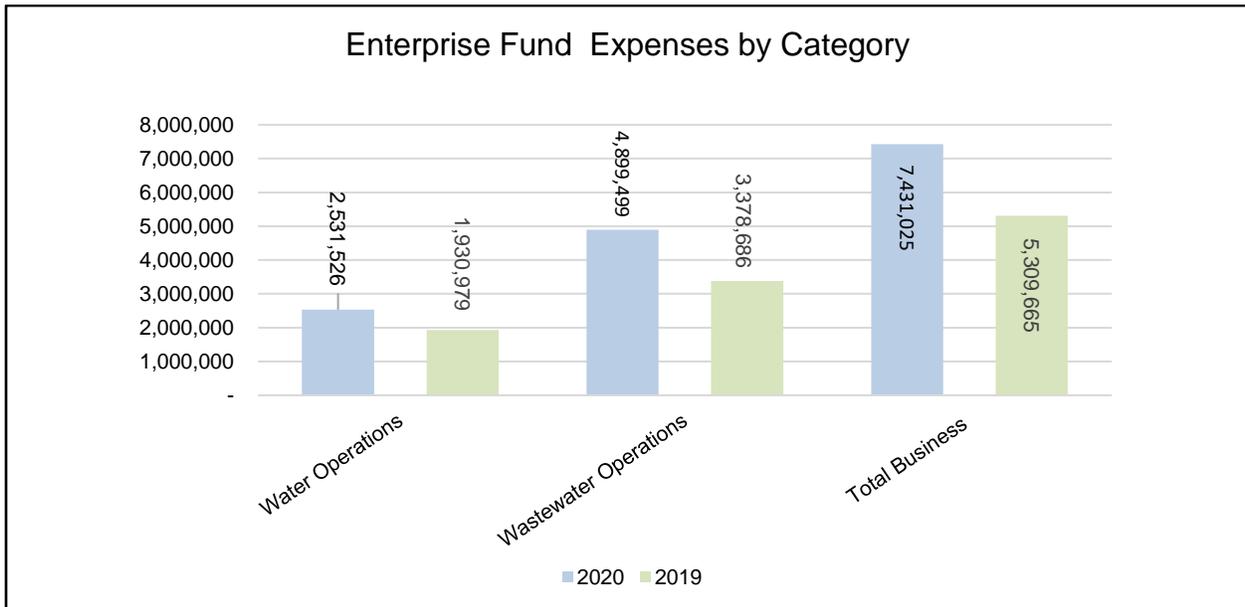
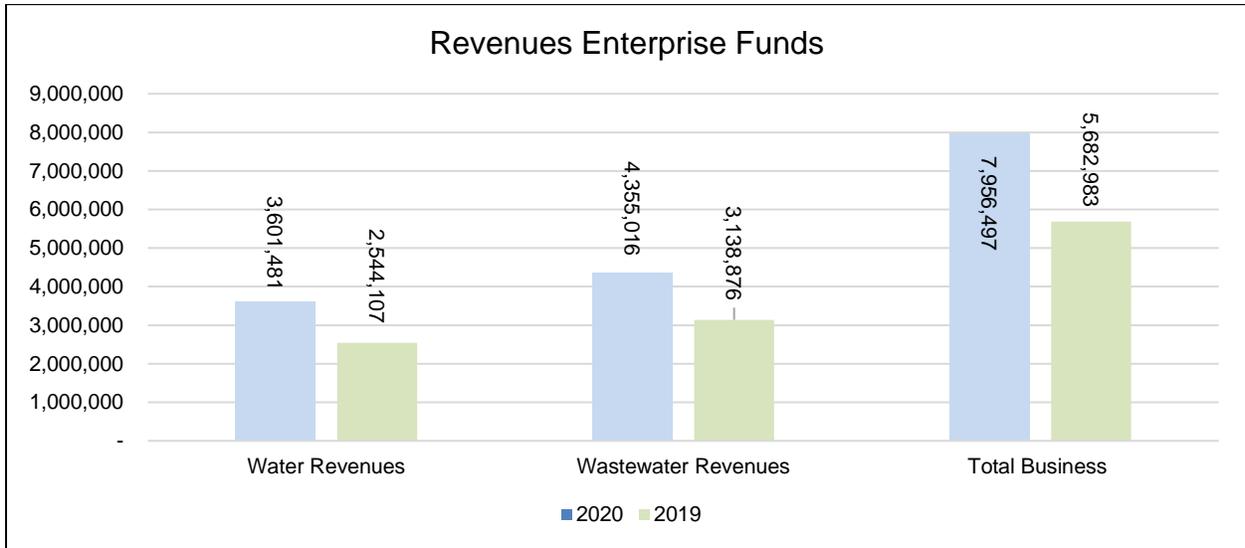
Charges for services represent the principal revenue source for the City's business-type activities.

Water fund revenues increased by \$1.1 million in the current year. In-town and out-of-town revenue increased by \$1.0 million. This was almost the amount of the entire revenue increase in the Water Fund. Rate increases are attributed to the overall revenue increase while the volume of water distributed remained relatively stable. Expenses in the Water Department increased by \$468 thousand as expenses in general maintenance, utility patching, engineering, chemicals, and personnel costs and related benefits increased by \$190 thousand, \$73 thousand, \$50 thousand, \$47 thousand, and \$59 thousand, respectively.

Wastewater Fund operating revenues increased from the prior year by \$1.3 million. As a result of increased rates, metered wastewater revenue from in-town users increased by \$1.4 million. The Towns of Dewey Beach and Henlopen Acres and the community of North Shores share the costs of operating

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

the wastewater facility, primarily based upon their percentage of flows to the plant. Total wastewater revenue from the three communities was \$1.3 million. This was an increase of \$269 thousand from the prior year. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges until the new rates became effective in October 2019.



**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

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, 2020, the City's governmental funds reported combined ending fund balances of \$9.0 million, an increase of \$2.0 million as compared to the prior year. The amount of the fund balance restricted or assigned for special purposes is \$174 thousand. The \$11.8 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion. The City's \$3.2 million fund balance deficit in the capital projects fund will be eliminated when the fund is reimbursed for costs incurred on behalf of other funds of the City.

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 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 \$1.7 million from the prior year. The increase is primarily driven by an increase of \$1.3 million in capital outlays.

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

- Outlays for street paving were \$534 thousand.
- Outlays for technology upgrades, including computers, copiers and office equipment were \$48 thousand.
- Outlays for the North Shores water meter replacements were \$391 thousand.
- Outlays for the Delaware, Baltimore and Rehoboth Ave restroom renovations were \$276 thousand, \$255 thousand, and \$126 thousand, respectively.
- Outlays for improvements to the Delaware Ave stormwater drainage system were \$431 thousand.
- Outlays for the Parking Department's license plate recognition hardware and software and the new T2 parking meters were \$60 thousand and \$291 thousand, respectively.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 49 - 50. A summary of significant variations between budget amounts and actual results are as follows:

- Before transfers to other funds, total revenue exceeded expenses by \$2.9 million. Taxes (excluding prior year encumbered valuations) and licenses and permits exceeded budget by \$1 million and \$213 thousand, respectively. Within the tax category, transfer tax exceeded budget by \$612 thousand, and rental tax was above budget by \$310 thousand. Charges for services were \$1.1 million above budget, with revenue from parking meters and permits exceeding budget by \$938 thousand and \$164 thousand, respectively.
- Expenditures in the General Fund operating expenditures were \$934 thousand less than budget while capital outlays were \$261 thousand below budget. Capital outlays were less than budget because projects were not completed in the fiscal year.
- Expenditures for the departments within Public Safety were \$189 thousand less than budget. Police Department salaries and related costs were \$202 thousand less than budget, accounting for the favorable budget variance. Specifically, the temporary vacancies in full-time and seasonal police department positions caused actual personnel costs to be less than budget.
- Streets and Refuse Department expenditures were below budget by \$213 thousand, as salaries and related personnel costs and refuse disposal costs were below budget by \$81 thousand and \$73 thousand. The lower than budgeted personnel costs were a result of vacant positions in the full-time and overtime categories. Disposal costs are dependent upon the volume of solid waste disposed as well as the fees charged.
- Administrative expenditures were \$404 thousand less than budget. Budgeted funds for contingencies were \$288 thousand less than required.
- The Mayor and Commissioners expenditures exceeded budget by \$46 thousand. Legal fees of \$266 thousand were over budget by \$66 thousand and were the cause of the department's overall variance. The volume of building and zoning issues confronting the Commissioners, including one related to a major subdivision, resulted in the variance in legal fee expenditures.
- Building and license expenditures were \$96 thousand less than budget. Salary and medical insurance expenditures were \$44 thousand and \$21 thousand less than budget, respectively, the result of a vacant position and lower costs for medical insurance than budgeted.
- Information and Technology's expenditures were \$93 thousand less than budget. The salaries, equipment and supplies, and medical insurance were \$23 thousand, \$29 thousand, and \$13 thousand less than budget.
- 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, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities, as of March 31, 2020, amounted to \$100.5 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total current year depreciation was \$6.6 million government wide.

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

Debt Administration

As of March 31, 2020, the City had a principal balance of \$16,271,079 on the \$18 million USDA loan obtained for the construction of the new City Hall. The interest rate is fixed for the term of the loan at 2.375 percent. The loan will be repaid in December 2041.

As of March 31, 2019, the City had a principal balance of \$2,475,219 on the \$5 million loan obtained for the construction of the Lynch Well. The loan was obtained from the State of Delaware's Drinking Water State Revolving Fund. The interest rate is fixed for the term of the loan at a rate of 2.76 percent. The loan will be repaid in November 2027.

The City has obtained loans in the amount of \$52,481,095 from the Delaware Water Pollution Control Revolving Fund for the construction of the Ocean Outfall and related infrastructure. Because construction for wastewater plant improvements are not completed, the City has only drawn \$43,197,223 as of March 31, 2020. The City is paying interest at a rate of two percent, with Sussex County sharing 42 percent of the debt service cost. Upon the completion of construction, the City will begin making principal and interest payments. Final maturity on \$12 million of the original debt will be March 1, 2038 with the remaining portion, \$40,481,095, maturing on March 1, 2043.

In 2015, the City obtained a \$450,000 loan for the replacement of sewer lines in the Schoolvue section of Rehoboth Beach. The loan has a rate of three percent and will mature on November 1, 2023. The loan balance as of March 31, 2020 was \$214,940.

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

- The 2020 - 2021 budget for all City operations is \$26.2 million. The capital portion of the budget is \$5.47 million, with \$985 thousand for Water Fund capital outlays and \$1.29 million for Wastewater Fund Outlays. Outlays for Wastewater plant project upgrades will continue and will be funded by draws from the remaining balance of the Delaware Water Pollution Control Fund.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2020**

- The City's newly approved three percent hotel occupancy tax became effective on January 1, 2020 and is expected to generate over \$450 thousand of revenue for fiscal year 2021. This amount will be less than the original budgeted amount of \$800 thousand. Without any impact from the pandemic in fiscal 2022, the hotel revenue is expected reach a range of \$800 thousand to \$1 million.

- The City Commissioners have approved new water and wastewater rates beginning with the usage period on October 1, 2019. The wastewater rates have been established at a level to cover the operating costs of the Wastewater Fund as well as the debt related to the Ocean Outfall Project. The City's water rates will also be increased to cover the operating costs of the Water Fund operations and capital requirements.

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, 2020
(With Summarized Comparative Data for March 31, 2019)

	Governmental Activities	Business-type Activities	Totals	
			2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash and cash equivalents	\$ 15,082,328	\$ 8,308,763	\$ 23,391,091	\$ 17,670,376
Taxes receivable	35,882	-	35,882	26,884
Accounts receivable	452,449	614,746	1,067,195	1,098,029
Loan proceeds receivable	-	-	-	13,300
Prepaid expenses	243,882	95,714	339,596	211,862
Inventory	14,739	399,836	414,575	398,424
Internal balances	(6,147,067)	6,147,067	-	-
Capital Assets:				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	134,896	5,809	140,705	19,411
Depreciable capital assets, net of depreciation	39,093,666	58,277,332	97,370,998	100,706,927
TOTAL ASSETS	<u>51,725,734</u>	<u>74,042,203</u>	<u>125,767,937</u>	<u>123,153,108</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows relating to pension	702,315	-	702,315	531,953
Deferred outflows relating to OPEB	780,721	182,642	963,363	1,040,944
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,483,036</u>	<u>182,642</u>	<u>1,665,678</u>	<u>1,572,897</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 53,208,770</u>	<u>\$ 74,224,845</u>	<u>\$ 127,433,615</u>	<u>\$ 124,726,005</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current Liabilities:				
Accounts payable	\$ 266,419	\$ 71,337	\$ 337,756	\$ 335,733
Accrued salaries and benefits	134,810	29,200	164,010	337,455
Accrued interest	12,305	70,100	82,405	117,740
Deposits	128,018	-	128,018	120,928
Unearned revenues	127,639	-	127,639	15,000
Contingency reserve	-	40,343	40,343	-
Notes and bonds payable	604,426	1,765,474	2,369,900	2,302,183
Noncurrent Liabilities:				
Notes and bonds payable	15,666,653	44,121,908	59,788,561	59,082,207
Compensated absences	605,442	165,029	770,471	703,762
Net OPEB liability	4,139,639	968,431	5,108,070	4,888,800
Net pension liability	395,001	-	395,001	323,763
TOTAL LIABILITIES	<u>22,080,352</u>	<u>47,231,822</u>	<u>69,312,174</u>	<u>68,227,571</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows relating to pension	247,309	-	247,309	238,787
Deferred inflows relating to OPEB	444,300	103,940	548,240	623,136
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>691,609</u>	<u>103,940</u>	<u>795,549</u>	<u>861,923</u>
NET POSITION				
Net investment in capital assets	25,772,442	12,588,695	38,361,137	42,349,843
Restricted:				
Police expenses	49,866	-	49,866	42,948
Public works expenses	124,393	-	124,393	103,683
Unrestricted	4,490,108	14,300,388	18,790,496	13,140,037
TOTAL NET POSITION	<u>30,436,809</u>	<u>26,889,083</u>	<u>57,325,892</u>	<u>55,636,511</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 53,208,770</u>	<u>\$ 74,224,845</u>	<u>\$ 127,433,615</u>	<u>\$ 124,726,005</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, 2020
(With Summarized Comparative Data for the Year Ended March 31, 2019)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES:							
General government	\$ 3,804,776	\$ 1,629,670	\$ -	\$ -	\$ (2,175,106)	\$ -	\$ (2,175,106)
Public safety	4,338,662	146,763	156,731	-	(4,035,168)	-	(4,035,168)
Public works	7,099,223	7,775,586	176,982	-	853,345	-	853,345
Recreation and culture	1,043,035	470,816	245,795	-	(326,424)	-	(326,424)
Interest on general long-term debt	407,849	-	-	-	(407,849)	-	(407,849)
TOTAL GOVERNMENTAL ACTIVITIES	16,693,545	10,022,835	579,508	-	(6,091,202)	-	(6,091,202)
BUSINESS-TYPE ACTIVITIES:							
Water	2,531,526	3,550,860	6,508	-	-	1,025,842	1,025,842
Sewer	4,899,499	4,230,172	73,605	-	-	(595,722)	(595,722)
TOTAL BUSINESS-TYPE ACTIVITIES	7,431,025	7,781,032	80,113	-	-	430,120	430,120
TOTAL PRIMARY GOVERNMENT	\$ 24,124,570	\$ 17,803,867	\$ 659,621	\$ -	(6,091,202)	430,120	(5,661,082)
GENERAL REVENUES:							
Taxes				6,665,147			6,665,147
Investment earnings				115,024		95,352	210,376
Franchise fees				177,629		-	177,629
Miscellaneous revenues				297,311		-	297,311
TOTAL GENERAL REVENUES				7,255,111		95,352	7,350,463
CHANGE IN NET POSITION				1,163,909		525,472	1,689,381
NET POSITION, BEGINNING OF YEAR				29,272,900		26,363,611	55,636,511
NET POSITION, END OF YEAR				\$ 30,436,809		\$ 26,889,083	\$ 57,325,892
							5,883,603
							(1,925,523)
							(4,292,219)
							(442,196)
							(704,392)
							(408,833)
							(7,773,163)
							608,267
							(245,666)
							362,601
							(7,410,562)
							5,578,213
							21,839
							169,693
							113,858
							5,883,603

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

**CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2020
(With Summarized Comparative Data for March 31, 2019)**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2020	2019
ASSETS					
Cash and cash equivalents	\$14,910,376	\$ 8,205	\$ 163,747	\$15,082,328	\$10,657,032
Taxes receivable	35,882	-	-	35,882	26,884
Accounts receivable	434,749	-	-	434,749	785,403
Lease receivable	17,700	-	-	17,700	17,400
Due from Alderman's Court	-	-	-	-	1,207
Prepaid expenditures	243,882	-	-	243,882	148,004
Inventory	14,739	-	-	14,739	27,522
Due from other funds	-	-	35,940	35,940	14,933
TOTAL ASSETS	\$15,657,328	\$ 8,205	\$ 199,687	\$15,865,220	\$11,678,385
LIABILITIES AND FUND BALANCES (DEFICIT)					
LIABILITIES:					
Accounts payable	\$ 237,239	\$ -	\$ 24,548	\$ 261,787	\$ 244,456
Due to Alderman's Court	4,632	-	-	4,632	-
Due to other funds	3,003,893	3,178,234	880	6,183,007	4,035,584
Accrued salaries and benefits	134,810	-	-	134,810	262,709
Deposits	128,018	-	-	128,018	120,928
Unearned revenue	127,639	-	-	127,639	15,000
TOTAL LIABILITIES	3,636,231	3,178,234	25,428	6,839,893	4,678,677
FUND BALANCES (DEFICIT):					
Nonspendable	258,621	-	-	258,621	175,526
Restricted:					
Police expenditures	-	-	49,866	49,866	42,948
Public works expenditures	-	-	124,393	124,393	103,683
Unassigned (deficit)	11,762,476	(3,170,029)	-	8,592,447	6,677,551
TOTAL FUND BALANCES (DEFICIT)	12,021,097	(3,170,029)	174,259	9,025,327	6,999,708
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$15,657,328	\$ 8,205	\$ 199,687	\$15,865,220	\$11,678,385

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, 2020**

TOTAL GOVERNMENTAL FUND BALANCES \$ 9,025,327

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. 42,043,521

The City's net pension liability is not a current financial obligation and, therefore, is not reported in the funds. (395,001)

The City's net OPEB liability is not a current financial obligation and, therefore, is not reported in the funds. (4,139,639)

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

Accrued interest	(12,305)
Notes and bonds payable	(16,271,079)
Compensated absences	(605,442)

Deferred outflows and inflows related to the City's net pension and OPEB liabilities 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 outflows relating to pension	\$ 702,315	
Deferred outflows relating to OPEB	780,721	
Deferred inflows of resources:		
Deferred inflows relating to pension	(247,309)	
Deferred inflows relating to OPEB	(444,300)	
	791,427	791,427

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 30,436,809

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, 2020
(With Summarized Comparative Data for the Year Ended March 31, 2019)

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2020	2019
REVENUES					
Taxes	\$ 6,665,147	\$ -	\$ -	\$ 6,665,147	\$ 5,578,213
Licenses and permits	1,629,670	-	-	1,629,670	1,521,883
Franchise fees	177,629	-	-	177,629	169,693
Intergovernmental revenues	400,734	-	178,774	579,508	559,088
Charges for services	6,875,380	-	-	6,875,380	5,780,830
Fines and forfeitures	1,046,969	-	-	1,046,969	962,258
Investment earnings	115,024	-	-	115,024	11,122
Rents and concessions	470,816	-	-	470,816	529,590
Contributions and donations	40,450	-	-	40,450	23,158
Miscellaneous revenues	209,594	-	-	209,594	87,321
TOTAL REVENUES	<u>17,631,413</u>	<u>-</u>	<u>178,774</u>	<u>17,810,187</u>	<u>15,223,156</u>
EXPENDITURES					
General government	3,384,216	-	-	3,384,216	3,413,569
Public safety	4,245,016	-	42,000	4,287,016	4,086,247
Public works	3,539,121	-	109,146	3,648,267	3,610,867
Recreation and culture	906,925	-	-	906,925	782,391
Debt service	986,400	-	-	986,400	986,400
Capital outlays	2,619,011	-	-	2,619,011	1,294,828
TOTAL EXPENDITURES	<u>15,680,689</u>	<u>-</u>	<u>151,146</u>	<u>15,831,835</u>	<u>14,174,302</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,950,724</u>	<u>-</u>	<u>27,628</u>	<u>1,978,352</u>	<u>1,048,854</u>
OTHER FINANCING SOURCES					
Proceeds from sale of assets	47,267	-	-	47,267	3,383
TOTAL OTHER FINANCING SOURCES	<u>47,267</u>	<u>-</u>	<u>-</u>	<u>47,267</u>	<u>3,383</u>
NET CHANGE IN FUND BALANCES	1,997,991	-	27,628	2,025,619	1,052,237
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>10,023,106</u>	<u>(3,170,029)</u>	<u>146,631</u>	<u>6,999,708</u>	<u>5,947,471</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 12,021,097</u>	<u>\$ (3,170,029)</u>	<u>\$ 174,259</u>	<u>\$ 9,025,327</u>	<u>\$ 6,999,708</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, 2020**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,025,619
 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 exceeded capital outlays in the period.	(1,267,013)
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.	578,551
In the statement of activities, compensated absences (vacation and sick leave) and other postemployment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences and other postemployment benefits are measured by the amount of financial resources used (essentially, the amounts actually paid).	(60,018)
In the statement of activities, proceeds from the disposal of capital assets are netted against the value of the asset net of depreciation. In the governmental funds, disposals of capital assets are recorded at the gross value of the consideration received.	(23,957)
Pension expense in the statement of activities differs 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.	90,602
OPEB expense in the statement of activities differs from the amount reported in the governmental funds because OPEB expense is recognized on the statement of activities based on the City's actuarial determined contribution, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.	(179,875)
CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES	<u>\$ 1,163,909</u>

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2020
(With Summarized Comparative Data for March 31, 2019)

	Water Fund	Sewer Fund	Totals	
			2020	2019
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,855,156	\$ 5,453,607	\$ 8,308,763	\$ 7,013,344
Accounts receivable	397,349	217,397	614,746	294,019
Due from other funds	3,577,639	2,569,428	6,147,067	4,020,651
Contingency reserve	-	-	-	13,300
Prepaid expenses	9,775	85,939	95,714	63,858
Inventory	318,231	81,605	399,836	370,902
Noncurrent Assets:				
Capital assets, net of depreciation	8,021,749	50,454,328	58,476,077	60,399,742
TOTAL ASSETS	<u>15,179,899</u>	<u>58,862,304</u>	<u>74,042,203</u>	<u>72,175,816</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to net OPEB liability	67,544	115,098	182,642	197,351
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>67,544</u>	<u>115,098</u>	<u>182,642</u>	<u>197,351</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$15,247,443</u>	<u>\$58,977,402</u>	<u>\$74,224,845</u>	<u>\$72,373,167</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 18,980	\$ 52,357	\$ 71,337	\$ 91,277
Accrued salaries and benefits	13,167	16,033	29,200	74,746
Accrued interest	28,465	41,635	70,100	105,435
Contingency reserve	-	40,343	40,343	-
Notes and bonds payable	280,544	1,484,930	1,765,474	1,696,770
Noncurrent Liabilities:				
Notes and bonds payable	2,194,675	41,927,233	44,121,908	42,837,990
Net OPEB liability	358,142	610,289	968,431	926,861
Compensated absences	69,196	95,833	165,029	158,338
TOTAL LIABILITIES	<u>2,963,169</u>	<u>44,268,653</u>	<u>47,231,822</u>	<u>45,891,417</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net OPEB liability	38,439	65,501	103,940	118,139
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>38,439</u>	<u>65,501</u>	<u>103,940</u>	<u>118,139</u>
NET POSITION				
Net investment in capital assets	5,546,530	7,042,165	12,588,695	15,864,982
Unrestricted	6,699,305	7,601,083	14,300,388	10,498,629
TOTAL NET POSITION	<u>12,245,835</u>	<u>14,643,248</u>	<u>26,889,083</u>	<u>26,363,611</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$15,247,443</u>	<u>\$58,977,402</u>	<u>\$74,224,845</u>	<u>\$72,373,167</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, 2020
(With Summarized Comparative Data for the Year Ended March 31, 2019)

	Water Fund	Sewer Fund	Totals	
			2020	2019
OPERATING REVENUES				
Charges for services	\$ 3,389,327	\$ 4,162,259	\$ 7,551,586	\$ 5,308,996
Other operating revenues	125,533	4,426	129,959	161,322
Total Operating Revenues	<u>3,514,860</u>	<u>4,166,685</u>	<u>7,681,545</u>	<u>5,470,318</u>
OPERATING EXPENSES				
Salaries and benefits	651,243	922,860	1,574,103	1,517,500
Materials and supplies	148,198	291,858	440,056	377,736
Administration expenses	4,252	34,324	38,576	58,041
Contractual services	136,492	71,449	207,941	146,455
Land and equipment rental	9,929	123,747	133,676	39,658
Repairs and maintenance	850,286	378,890	1,229,176	681,583
Utilities	98,750	244,211	342,961	396,155
Insurance	77,368	49,533	126,901	103,249
Depreciation	484,169	2,307,300	2,791,469	1,443,806
Total Operating Expenses	<u>2,460,687</u>	<u>4,424,172</u>	<u>6,884,859</u>	<u>4,764,183</u>
OPERATING INCOME (LOSS)	<u>1,054,173</u>	<u>(257,487)</u>	<u>796,686</u>	<u>706,135</u>
NONOPERATING REVENUES (EXPENSES)				
Water capitalization fees	36,000	-	36,000	41,500
Sewer impact fees	-	63,487	63,487	60,448
Investment income	44,113	51,239	95,352	10,717
Interest expense	(70,839)	(475,327)	(546,166)	(545,482)
Intergovernmental grants	6,508	73,605	80,113	100,000
Total Nonoperating Revenues (Expenses)	<u>15,782</u>	<u>(286,996)</u>	<u>(271,214)</u>	<u>(332,817)</u>
CHANGE IN NET POSITION	1,069,955	(544,483)	525,472	373,318
NET POSITION, BEGINNING OF YEAR	<u>11,175,880</u>	<u>15,187,731</u>	<u>26,363,611</u>	<u>25,990,293</u>
NET POSITION, END OF YEAR	<u>\$12,245,835</u>	<u>\$14,643,248</u>	<u>\$26,889,083</u>	<u>\$26,363,611</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, 2020
(With Summarized Comparative Data for the Year Ended March 31, 2019)

	Water Fund	Sewer Fund	Totals	
			2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 3,290,053	\$ 4,070,765	\$ 7,360,818	\$ 5,619,521
Cash paid for goods and services	(2,042,250)	(2,662,735)	(4,704,985)	(2,628,784)
Cash paid to employees	(651,528)	(919,350)	(1,570,878)	(1,487,437)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>596,275</u>	<u>488,680</u>	<u>1,084,955</u>	<u>1,503,300</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets purchased	(255,846)	(611,958)	(867,804)	(24,969,705)
Loans to other funds	-	-	-	9,108,429
Transfers from other funds	-	-	-	2,808,314
Proceeds received from capitalization and impact fees	36,000	63,487	99,487	101,948
Capital grants	6,508	73,605	80,113	100,000
Proceeds from bond payable	-	1,675,433	1,675,433	13,517,943
Principal paid on note payable	(272,958)	(49,853)	(322,811)	(313,968)
Interest paid on note payable	(73,979)	(475,327)	(549,306)	(548,535)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(560,275)</u>	<u>675,387</u>	<u>115,112</u>	<u>(195,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	44,113	51,239	95,352	80,632
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>44,113</u>	<u>51,239</u>	<u>95,352</u>	<u>80,632</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>80,113</u>	<u>1,215,306</u>	<u>1,295,419</u>	<u>1,388,358</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,775,043</u>	<u>4,238,301</u>	<u>7,013,344</u>	<u>5,624,986</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,855,156</u>	<u>\$ 5,453,607</u>	<u>\$ 8,308,763</u>	<u>\$ 7,013,344</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,054,173	\$ (257,487)	\$ 796,686	\$ 706,135
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	484,169	2,307,300	2,791,469	1,443,806
(Increase) Decrease in assets:				
Accounts receivable	(224,807)	(95,920)	(320,727)	149,203
Due from other funds	(697,973)	(1,785,199)	(2,483,172)	(704,183)
Inventory	(20,530)	(8,404)	(28,934)	(8,586)
Prepaid expenses	-	(31,856)	(31,856)	(10,470)
Deferred outflows of resources related to net OPEB liability	5,440	9,269	14,709	(174,920)
Increase (Decrease) in liabilities:				
Accounts payable	1,528	(21,468)	(19,940)	(144,918)
Contingency reserve	-	53,643	53,643	(27,664)
Accrued salaries and benefits	(16,739)	(28,807)	(45,546)	35,967
Accrued expenses	-	(32,195)	(32,195)	69,915
Due to other funds	-	356,756	356,756	-
Net OPEB liability	15,373	26,197	41,570	97,486
Compensated absences	892	5,799	6,691	(46,610)
Deferred inflows of resources related to net OPEB liability	(5,251)	(8,948)	(14,199)	118,139
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 596,275</u>	<u>\$ 488,680</u>	<u>\$ 1,084,955</u>	<u>\$ 1,503,300</u>

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Entity-wide and Fund Financial Statements

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

Governmental Funds

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

The City reports the following major governmental 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 construction of the recently completed 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 – These funds are 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, 2019, from which the comparative data was derived.

Cash, Cash Equivalents, and Investments

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

Property Taxes Receivable

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on July 1 and are payable on or before August 31. Taxes paid after the payable date are assessed interest at 1½ percent per month after the due date. The City bills and collects its own property taxes. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2020 was \$.06 per \$100 of assessed value.

Compensated Absences

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Inventories

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

Prepaid Expenses/Expenditures

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 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.

The *GASB Codification of Accounting and Financial Reporting Standards* ("GASB Codification") permits Phase III local governments to elect to not report infrastructure retroactively and to report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the City's infrastructure retroactively.

The service lives by type of asset are as follows:

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

Allowance for Doubtful Accounts

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The City currently has two items that qualify for reporting in this category. Pension and OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability and net OPEB 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 and net OPEB 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

- 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 accounting principles generally accepted in the United States of America.
- The Commissioners adopt legal annual budgets for the general fund and proprietary funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

- 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.
- Unused appropriations for all of the above annually budgeted funds lapse at year end.
- For 2020, the Police Grant Fund received grant revenues that were not budgeted. To fairly present the amount of the expenditure variances related to the use of the grant funds, certain budgeted expense categories were increased through formal budget amendments. No other amendments were made to the budget.

NOTE C CASH AND CASH EQUIVALENTS

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

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

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

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

Cash and cash equivalents in the water fund (\$2,855,156) and the sewer fund (\$5,453,607) represent funds dedicated to future capacity-related expenses.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

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, 2020, the carrying amount of the City's deposits was \$23,391,091, and the bank balance was \$24,214,266. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$23,964,266 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2020 is as follows:

<u>Due from</u>		<u>Due to</u>	
General Fund	\$3,003,893	Water Fund	\$3,577,639
Capital Projects Fund	3,178,234	Sewer Fund	2,569,428
Nonmajor Governmental Funds	<u>880</u>	Nonmajor Governmental Funds	<u>35,940</u>
	<u>\$6,183,007</u>		<u>\$6,183,007</u>

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

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

Capital asset activity for the year ended March 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	19,411	201,556	86,071	134,896
Total Capital Assets Not Being Depreciated	<u>2,834,370</u>	<u>201,556</u>	<u>86,071</u>	<u>2,949,855</u>
Capital assets being depreciated:				
Infrastructure and land improvements	51,808,648	534,240	21,769	52,321,119
Buildings and improvements	27,709,964	756,456	51,903	28,414,517
Machinery and equipment	7,380,015	1,020,066	970,790	7,429,291
Vehicles	1,764,772	164,562	14,233	1,915,101
Total Capital Assets Being Depreciated	<u>88,663,399</u>	<u>2,475,324</u>	<u>1,058,695</u>	<u>90,080,028</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

(cont'd)	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Infrastructure and land improvements	36,250,425	2,256,671	21,769	38,485,327
Buildings and improvements	4,498,686	990,402	41,160	5,447,928
Machinery and equipment	5,837,748	539,212	957,575	5,419,385
Vehicles	1,576,419	71,537	14,234	1,633,722
Total accumulated depreciation	<u>48,163,278</u>	<u>3,857,822</u>	<u>1,034,738</u>	<u>50,986,362</u>
Total Capital Assets Being Depreciated, Net	<u>40,500,121</u>	<u>(1,382,498)</u>	<u>23,957</u>	<u>39,093,666</u>
Governmental Activities Assets, Net	<u>\$43,334,491</u>	<u>\$(1,180,942)</u>	<u>\$ 110,028</u>	<u>\$42,043,521</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:		
General government		\$ 195,504
Public safety		130,678
Public works		3,395,530
Recreation and culture		<u>136,110</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 3,857,822</u>

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

Capital asset activity for the year ended March 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	-	22,562	16,753	5,809
Total Capital Assets Not Being Depreciated	<u>192,936</u>	<u>22,562</u>	<u>16,753</u>	<u>198,745</u>
Capital assets being depreciated:				
Buildings, infrastructure, and improvements	90,512,528	362,779	69,893	90,805,414
Machinery and equipment	2,385,146	499,216	-	2,884,362
Vehicles	850,721	-	58,287	792,434
Total Capital Assets Being Depreciated	<u>93,748,395</u>	<u>861,995</u>	<u>128,180</u>	<u>94,482,210</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

(cont'd)	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings, infrastructure, and improvements	30,795,622	2,643,450	36,220	33,402,852
Machinery and equipment	1,989,726	133,384	91,960	2,031,150
Vehicles	756,241	14,635	-	770,876
Total accumulated depreciation	<u>33,541,589</u>	<u>2,791,469</u>	<u>128,180</u>	<u>36,204,878</u>
 Total Capital Assets Being Depreciated, Net	 <u>60,206,826</u>	 <u>(1,929,474)</u>	 <u>-</u>	 <u>58,277,332</u>
 Business-type Activities Assets, Net	 <u>\$60,399,742</u>	 <u>\$ (1,906,912)</u>	 <u>\$ 16,753</u>	 <u>\$58,476,077</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:

Water	\$ 484,169
Sewer	<u>2,307,300</u>

Total Depreciation Expense - Business-type Activities \$ 2,791,469

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2020 is composed of the following:

Governmental Activities

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

\$ 16,271,079

Total Governmental Activities \$ 16,271,079

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.

\$ 2,475,219

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

<p>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.</p>	214,940
<p>General Obligation Bond of 2017 A, issued by the Delaware Department of Natural Resources and Environmental Control, to finance capital improvements in connection with the Ocean Outfall Disposal Project. The loan matures on March 1, 2043 and bears interest at 1% with an additional 1% administrative fee; payable on March 1 and September 1.</p>	40,481,095
<p>General Obligation Bond of 2017 B, issued by the Delaware Department of Natural Resources and Environmental Control, to finance capital improvements in connection with the Ocean Outfall Disposal Project. The loan matures on March 1, 2043 and bears interest at 1% with an additional 1% administrative fee; payable on March 1 and September 1.</p>	<u>2,716,128</u>
<p>Total Business-type Activities</p>	<u>\$ 45,887,382</u>

Annual requirements to retire long-term debt of all funds at March 31, 2020 are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 604,426	\$ 381,974	\$ 1,765,474	\$ 843,308
2022	619,810	366,590	1,771,837	836,944
2023	634,662	351,738	1,810,205	798,577
2024	649,870	336,530	1,849,421	759,361
2025	665,442	320,958	1,831,649	719,707
2026 - 2030	3,574,177	1,357,823	9,395,510	3,007,279
2031 - 2035	4,023,426	908,574	8,906,886	2,115,204
2036 - 2040	4,529,142	402,858	9,838,744	1,183,346
2041 - 2043	970,124	20,772	8,717,656	271,840
Total	<u>\$ 16,271,079</u>	<u>\$ 4,447,817</u>	<u>\$ 45,887,382</u>	<u>\$ 10,535,566</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE H CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term liability activity and balances for the City for the year ended March 31, 2020:

	Balance April 1, 2019	Increase	Decreases	Balance March 31, 2020	Due Within One Year
Governmental Activities:					
Notes and bonds payable	\$ 16,849,630	\$ -	\$ 578,551	\$ 16,271,079	\$ 604,426
Net pension liability	323,763	71,238	-	395,001	-
Net OPEB liability	3,961,939	177,700	-	4,139,639	-
Compensated absences	545,424	60,018	-	605,442	-
Total	\$ 21,680,756	\$ 308,956	\$ 578,551	\$ 21,411,161	\$ 604,426
Business-type Activities:					
Notes and bonds payable	\$ 44,534,760	\$ 1,675,433	\$ 322,811	\$ 45,887,382	\$ 1,765,474
Net OPEB liability	926,861	41,570	-	968,431	-
Compensated absences	158,338	6,691	-	165,029	-
Total	\$ 45,619,959	\$ 1,723,694	\$ 322,811	\$ 47,020,842	\$ 1,765,474

Governmental activities long-term liabilities are anticipated to be liquidated by the general fund. Business-type activities long-term liabilities are anticipated to be liquidated by the water and sewer funds.

NOTE I RETIREMENT PLANS

Thrift Plan

The City offers its employees, excluding uniformed police officers, a Thrift Plan adopted and created to meet all requirements for profit-sharing calculation under the Internal Revenue Code. The plan is administered by Massachusetts Mutual Life Insurance Company. Participation in the plan is voluntary and is available to all full-time employees completing six months of service. The plan permits employees to defer two percent to eight percent of their pretax compensation. Employees also have the option to contribute an additional two to twelve percent; however, the deferral is made from after-tax earnings.

Employee contributions are matched at a rate of 75 percent by the City, not to exceed six 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, 2020, 2019, and 2018, the City's employer contributions totaled \$69,062, \$72,203, and \$75,294, respectively.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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 and the Office of Pensions-State of Delaware website.

The following are brief descriptions of the Plan in effect as of June 30, 2019. 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: Final average monthly compensation of 2.5 percent multiplied by years of credited service up to 20 years, plus 3.5 percent of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Five years of credited service.

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

Disability Benefits:

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

- **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.

Employer Contributions

The City's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended March 31, 2020, the rate of the employer contributions was 26.46 percent of covered payroll. The City's contribution to the Plan for the year ended March 31, 2020 was \$347,246.

Actuarial Assumptions

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. These actuarial valuations used the following actuarial assumptions:

- Investment rate of return – 7.0%
- Projected salary increases – 2.5% + merit
- Cost of living adjustments – N/A

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. 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 assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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	29.5%	5.7%
International equity	13.5%	5.7%
Fixed income	27.7%	2.0%
Alternative investments	22.4%	7.8%
Cash equivalents	7.5%	-
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
City's proportionate share of the net pension liability (asset)	\$ 1,297,550	\$ 395,001	\$ (341,203)

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

For the year ended March 31, 2020, the City recognized pension expense of \$264,401. At March 31, 2020, 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	\$ 3,800	\$ -
Changes in proportions	3,545	6,937
Changes in assumptions	91,039	38,314
Difference between employer contributions and proportionate share of total contributions	101,991	124,811
Differences between expected and actual experience	241,505	77,247
Contributions subsequent to the date of measurement	260,435	-
	<u>\$ 702,315</u>	<u>\$ 247,309</u>

An amount of \$260,435 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, 2020. Other amounts will be reported as deferred outflows of 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,		Amount
2021	\$	20,870
2022		13,114
2023		13,114
2024		13,114
2025		12,164
2026 - 2030		122,195
	\$	194,571

NOTE J OPERATING LEASES

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

The City leases certain property designated as Lot 22, Rehoboth Avenue, Rehoboth Beach, Delaware. The lease expired on December 31, 2020, and has been renewed for an additional year. Under the agreement, the tenant has the option to extend the lease for up to an additional five-year period ending December 31, 2025. The lease calls for rental income to be adjusted each January and is paid in three installments due July 1, August 1, and September 1 of each year.

Future minimum receipts under the agreement are as follows:

For the Year Ended March 31,		Amount
2021	\$	70,800
Total	\$	70,800

Rental income under this lease for the year ended March 31, 2020 was \$111,783.

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS (cont'd)

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.

Construction Commitments

At March 31, 2020, the City reported \$140,705 in 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 OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in the preceding notes, the City has established benefits for eligible employees to have healthcare benefits provided after retirement.

Description of Plan

The City's postemployment healthcare plan is a single employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses and families. 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 postretirement 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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Duration of Medical Benefits

All benefits are provided until the retiree attains Medicare age. Upon reaching Medicare age, Medicare becomes the primary health insurance provider with coverage continued as excess to Medicare.

Funding Policy

The contribution requirements of the plan's members are established and may be amended by the City 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 City Commissioners. Member contributions are not required under the plan.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of April 1, 2019 was determined by rolling forward the plan's total OPEB liability as of April 1, 2018 to April 1, 2019. The actuarial cost method uses entry age normal.

Participants

As of April 1, 2019, the plan had ninety-five participants, consisting of eighty-six active participants, zero vested former participants, and nine retired participants.

Discount Rate

The discount rate used to measure the total OPEB liability was three percent based on the 20-Year High Municipal Rate Index at April 1, 2019.

Salary

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, annual salary increases are assumed to be 2.50 percent.

Withdrawal

The table below shows rates of withdrawal at selected ages.

<u>Age</u>	<u>Rate</u>
25	9.70%
40	7.80%
55	1.50%

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Mortality

Mortality rates are based on the RPH-2014 Healthy Annuitant (male and female weighted by headcount) as published by the Society of Actuaries.

Retirement

Retirement is assumed at 25 percent for age 60-61, 50 percent for ages 62-64, 95 percent for age 65, 50 percent for ages 66-79, and 100 percent for age 80.

Percent of Eligible Retirees Electing Coverage in Plan

One hundred percent of employees are assumed to elect medical coverage until age sixty-five.

Per Capita Claims Cost

Making use of weighted averages for various plan designs, the per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. The resulting costs are as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
0 - 49	\$ 9,235	\$ 9,235
50	\$ 11,082	\$ 13,760
55	\$ 14,499	\$ 15,977
60	\$ 18,655	\$ 18,655
64	\$ 22,811	\$ 21,887
65+	\$ 5,513	\$ 5,513

Retiree Contributions

Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate.

Healthcare Cost Trend Rate

The healthcare cost trend rate is 5.50 percent in 2018 and 5.4 percent in 2019. Rates gradually decrease from 5.3 percent in 2020 to 4.7 percent in 2058 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.00 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease 2.00%	Current Rate Discount Rate 3.00%	1% Increase 4.00%
Total OPEB liability	\$ 5,991,607	\$ 5,108,070	\$ 4,402,879
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 5,991,607</u>	<u>\$ 5,108,070</u>	<u>\$ 4,402,879</u>

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate of 5.4 percent decreasing to 4.7 percent, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Rate Healthcare Trend Rate	1% Increase
Total OPEB liability	\$ 4,147,776	\$ 5,108,070	\$ 6,337,040
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 4,147,776</u>	<u>\$ 5,108,070</u>	<u>\$ 6,337,040</u>

Changes in Total OPEB Liability

Total OPEB liability as of April 1, 2018	\$ 4,888,800
Service cost	177,815
Interest on OPEB obligation	147,737
Benefit payments	<u>(106,282)</u>
Total OPEB liability as of April 1, 2019	<u>\$ 5,108,070</u>

The amount of OPEB expense recognized by the City was \$362,995 for the year ended March 31, 2020. An amount of \$141,039 is reported as deferred outflows of resources resulting from

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

the City's benefit payments subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended March 31, 2021. At March 31, 2020, the City reported deferred outflows and inflows of resources relating to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 548,240
Changes of assumptions	822,324	-
Contributions subsequent to the measurement date	141,039	-
Total	\$ 963,363	\$ 548,240

Excluding contributions subsequent to the measurement date, deferred inflows and outflows of resources will be recognized in OPEB expense as follows:

Year Ending March 31,

2021	\$ 37,443
2022	37,443
2023	37,443
2024	37,443
2025	37,443
Thereafter	86,869
	\$ 274,084

NOTE N FUND BALANCES

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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

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

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

Unassigned – all other spendable amounts.

As of March 31, 2020, 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:				
Prepaid expenditures	\$ 243,882	\$ -	\$ -	\$ 243,882
Inventory	14,739	-	-	14,739
Restricted:				
Police expenditures	-	-	49,866	49,866
Public works expenditures	-	-	124,393	124,393
Unassigned (deficit)	<u>11,762,476</u>	<u>(3,170,029)</u>	<u>-</u>	<u>8,592,447</u>
Total Fund Balances (Deficit)	<u>\$12,021,097</u>	<u>\$(3,170,029)</u>	<u>\$ 174,259</u>	<u>\$ 9,025,327</u>

Deficit Fund Balance

At March 31, 2020, the capital projects fund had an unassigned deficit fund balance in the amount of \$3,170,029. The deficit occurred as a result of a balance of \$3,178,324 due to the fund from other funds at March 31, 2020. The City is evaluating multiple approaches for eliminating this deficit fund balance

NOTE O EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended March 31, 2020:

General government - mayor and council	\$ 46,496
Public safety - dispatch	\$ 47,710
Public safety - volunteer fire	\$ 6,256
Public works - parking	\$ 45,819

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE O EXCESS OF EXPENDITURES OVER APPROPRIATIONS (cont'd)

Recreation and culture - parks	\$ 126,091
Recreation and culture - museum	\$ 4,678
Recreation and culture – main street	\$ 2,748

The excess of expenditures over appropriations was financed with positive budget variances in other functions and revenues in excess of budgeted amounts.

NOTE P SUPPORT DONATED TO OTHER ENTITIES

The City provided the following financial support to local non-profit organizations, including the Rehoboth Beach Volunteer Fire Company, the Rehoboth Beach Public Library, Rehoboth Beach Main Street, and the Rehoboth Beach Historical Society during the year ended March 31, 2020.

<u>Organization</u>	<u>Donation</u>	<u>Expenses Paid on Behalf of Organization</u>	<u>Total</u>
Rehoboth Beach Volunteer Fire Company	\$ 100,300	\$ 5,956	\$ 106,256
Rehoboth Beach Main Street	50,000	2,748	52,748
Rehoboth Beach Historical Society	10,000	33,363	43,363
Rehoboth Beach Public Library	15,000	-	15,000
Total	<u>\$ 175,300</u>	<u>\$ 42,067</u>	<u>\$ 217,367</u>

NOTE Q UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus which continues to develop, economic and operational uncertainties have arisen which may impact the City in fiscal year 2021. The extent of the impact is unknown at this time, but revenues are anticipated to be lower than initially budgeted for 2021 due to state mandated closures impacting the City's tourism industry.

NOTE R SUBSEQUENT EVENTS

The City has evaluated all subsequent events through October 30, 2020, 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, 2020**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property tax	\$ 2,002,300	\$ 2,041,549	\$ 39,249
Rental tax	2,000,000	2,309,685	309,685
Transfer tax	1,600,000	2,211,827	611,827
Construction tax	55,000	70,560	15,560
Hotel accommodations tax	-	27,391	27,391
Penalties and interest	3,000	4,135	1,135
Encumbered prior year valuations	952,843	-	(952,843)
Total Taxes	<u>6,613,143</u>	<u>6,665,147</u>	<u>52,004</u>
Licenses and permits:			
Mercantile licenses	600,000	615,823	15,823
Building permits	750,000	961,657	211,657
Other	66,300	52,190	(14,110)
Total Licenses and Permits	<u>1,416,300</u>	<u>1,629,670</u>	<u>213,370</u>
Franchise fees	170,000	177,629	7,629
Intergovernmental revenues:			
Public works	85,000	47,126	(37,874)
Public safety	170,345	107,813	(62,532)
Recreation and culture	-	245,795	245,795
Total Intergovernmental Revenues	<u>255,345</u>	<u>400,734</u>	<u>145,389</u>
Charges for services:			
Parking meters	4,065,000	5,003,304	938,304
Parking permits	879,000	1,043,958	164,958
Waste collection	842,000	828,118	(13,882)
Total Charges for Services	<u>5,786,000</u>	<u>6,875,380</u>	<u>1,089,380</u>
Fines and forfeitures:			
Parking	736,500	900,206	163,706
Court	70,000	57,718	(12,282)
Police	125,000	89,045	(35,955)
Total Fines and Forfeitures	<u>931,500</u>	<u>1,046,969</u>	<u>115,469</u>
Investment earnings	140,500	115,024	(25,476)
Rents and concessions	534,260	470,816	(63,444)
Contributions and donations	22,000	40,450	18,450
Miscellaneous revenues	58,600	209,594	150,994
TOTAL REVENUES	<u>15,927,648</u>	<u>17,631,413</u>	<u>1,703,765</u>
EXPENDITURES			
General government:			
Mayor and Council	269,367	315,863	(46,496)
Assessors	2,837	2,307	530
Administrative	2,110,018	1,705,708	404,310
Alderman Court	71,294	62,080	9,214
Buildings and licensing	491,508	395,370	96,138
Information technology	555,173	462,517	92,656
Communications	378,015	362,064	15,951
Buildings and grounds	109,003	78,307	30,696
Total General Government	<u>3,987,215</u>	<u>3,384,216</u>	<u>602,999</u>

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2020**

	<u>Original and Final Appropriated Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (cont'd)			
Public safety:			
Police	2,999,382	2,769,159	230,223
Dispatch	678,302	726,012	(47,710)
Volunteer fire	100,000	106,256	(6,256)
Beach patrol	655,990	643,589	12,401
Total Public Safety	<u>4,433,674</u>	<u>4,245,016</u>	<u>188,658</u>
Public works:			
Streets and refuse	2,511,684	2,252,563	259,121
Parking	1,240,739	1,286,558	(45,819)
Total Public Works	<u>3,752,423</u>	<u>3,539,121</u>	<u>213,302</u>
Recreation and culture:			
Comfort stations	228,500	180,528	47,972
Parks	317,681	443,772	(126,091)
Library	15,000	15,000	-
Museum	38,685	43,363	(4,678)
Main Street	50,000	52,748	(2,748)
Recreation and tennis	54,427	43,487	10,940
Bandstand	132,135	128,027	4,108
Total Recreation and Culture	<u>836,428</u>	<u>906,925</u>	<u>(70,497)</u>
Debt service:			
Interest and principal	986,400	986,400	-
Capital outlays	2,879,574	2,619,011	260,563
TOTAL EXPENDITURES	<u>16,875,714</u>	<u>15,680,689</u>	<u>1,195,025</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(948,066)</u>	<u>1,950,724</u>	<u>2,898,790</u>
OTHER FINANCING SOURCES			
Proceeds from sale of capital assets	-	47,267	47,267
Transfers in (out)	948,066	-	(948,066)
TOTAL OTHER FINANCING SOURCES	<u>948,066</u>	<u>47,267</u>	<u>(900,799)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	1,997,991	<u>\$ 1,997,991</u>
FUND BALANCE, BEGINNING OF YEAR		<u>10,023,106</u>	
FUND BALANCE, END OF YEAR		<u>\$12,021,097</u>	

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

	MEASUREMENT DATE				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
City's proportion of the net pension asset (liability)	1.3752%	1.4058%	1.3791%	1.4716%	1.4716%
City's proportion of the net pension asset (liability) - dollar value	\$ (395,001)	\$ (323,763)	\$ (139,030)	\$ (248,287)	\$ 77,560
City's covered employee payroll	1,062,087	1,032,042	1,130,652	1,237,682	1,298,035
City's proportionate share of the net pension asset (liability) as a percentage of its covered employee payroll	-37.19%	-31.37%	-12.30%	-20.06%	5.98%
Plan fiduciary net position as a percentage of the total pension asset (liability)	93.25%	94.10%	97.00%	94.70%	101.97%

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

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

	<u>March 31, 2020</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Contractually required contribution	\$ 347,246	\$ 125,220	\$ 121,112	\$ 142,832	\$ 169,967
Contributions in relation to the contractually required contribution	<u>347,246</u>	<u>125,220</u>	<u>121,112</u>	<u>142,832</u>	<u>169,967</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 1,312,202	\$ 1,062,087	\$ 1,013,490	\$ 1,244,181	\$ 1,234,328
Contributions as a percentage of covered-employee payroll	26.46%	11.79%	11.95%	11.48%	13.77%

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

**CITY OF REHOBOTH BEACH
SCHEDULE OF THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS**

	<u>MEASUREMENT DATE</u>	
	<u>April 1, 2019</u>	<u>April 1, 2018</u>
TOTAL OPEB LIABILITY		
Service cost	\$ 177,815	\$ 106,656
Interest on total OPEB liability	147,737	176,884
Difference between expected and actual experience	-	(698,032)
Effect of change in assumptions	-	1,047,003
Benefit payments	<u>(106,282)</u>	<u>(118,313)</u>
 NET CHANGE IN TOTAL OPEB LIABILITY	 219,270	 514,198
 TOTAL OPEB LIABILITY, BEGINNING OF YEAR	 <u>4,888,800</u>	 <u>4,374,602</u>
 TOTAL OPEB LIABILITY, END OF YEAR	 <u>\$ 5,108,070</u>	 <u>\$ 4,888,800</u>
 CITY'S NET OPEB LIABILITY	 <u>\$ 5,108,070</u>	 <u>\$ 4,888,800</u>
 Plan fiduciary net position as a percentage of total OPEB liability	 0.00%	 0.00%
 Covered employee payroll	 \$ 4,598,121	 \$ 4,485,972
 City's net OPEB liability as a percentage of covered payroll	 111.09%	 108.98%

In accordance with GASB Statement No. 75, 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
SCHEDULE OF CITY OPEB CONTRIBUTIONS**

<u>Year</u>	<u>Actuarial Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contribution as a Percentage of Payroll</u>
2019	\$ -	\$ -	\$ -	\$ 4,485,972	0.00%
2020	\$ -	\$ -	\$ -	\$ 4,598,121	0.00%

Notes to Schedule:

In accordance with GASB Statement No. 75, 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.

Valuation Date: April 1, 2018

Methods and Assumptions Used:

Actuarial cost method	Entry age normal
Asset valuation method	Market value
Discount rate	3.00%
Healthcare trend rates	5.4% in 2019 gradually reducing to 4.7 in 2058 and later.

COMBINING FUND STATEMENTS

**CITY OF REHOBOTH BEACH
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
MARCH 31, 2020**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 134,234	\$ 29,513	\$ 163,747
Due from other funds	-	35,940	35,940
TOTAL ASSETS	<u>\$ 134,234</u>	<u>\$ 65,453</u>	<u>\$ 199,687</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 8,961	\$ 15,587	\$ 24,548
Due to other funds	880	-	880
TOTAL LIABILITIES	<u>9,841</u>	<u>15,587</u>	<u>25,428</u>
FUND BALANCES			
Restricted:			
Police expenditures	-	49,866	49,866
Public works expenditures	124,393	-	124,393
TOTAL FUND BALANCES	<u>124,393</u>	<u>49,866</u>	<u>174,259</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 134,234</u>	<u>\$ 65,453</u>	<u>\$ 199,687</u>

**CITY OF REHOBOTH BEACH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2020**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 129,856	\$ 48,918	\$ 178,774
TOTAL REVENUES	<u>129,856</u>	<u>48,918</u>	<u>178,774</u>
EXPENDITURES			
Public safety	-	42,000	42,000
Public works	109,146	-	109,146
TOTAL EXPENDITURES	<u>109,146</u>	<u>42,000</u>	<u>151,146</u>
CHANGE IN FUND BALANCES	20,710	6,918	27,628
FUND BALANCES, BEGINNING OF YEAR	<u>103,683</u>	<u>42,948</u>	<u>146,631</u>
FUND BALANCES, END OF YEAR	<u>\$ 124,393</u>	<u>\$ 49,866</u>	<u>\$ 174,259</u>

CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF NET POSITION - SEWER FUNDS
MARCH 31, 2020

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,453,607	\$ -	\$ 5,453,607
Accounts receivable	217,397	-	217,397
Due from other funds	2,256,832	312,596	2,569,428
Prepaid expenses	85,939	-	85,939
Inventory	81,605	-	81,605
Noncurrent Assets:			
Capital assets, net of depreciation	49,900,079	554,249	50,454,328
TOTAL ASSETS	<u>57,995,459</u>	<u>866,845</u>	<u>58,862,304</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows relating to net OPEB liability	115,098	-	115,098
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>115,098</u>	<u>-</u>	<u>115,098</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	<u>\$ 58,110,557</u>	<u>\$ 866,845</u>	<u>\$ 58,977,402</u>
 LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 21,816	\$ 30,541	\$ 52,357
Accrued salaries and benefits	16,033	-	16,033
Accrued interest	41,635	-	41,635
Contingency reserve	40,343	-	40,343
Note payable	1,484,930	-	1,484,930
Noncurrent Liabilities:			
Notes and bonds payable	41,927,233	-	41,927,233
Net OPEB liability	610,289	-	610,289
Compensated absences	95,833	-	95,833
TOTAL LIABILITIES	<u>44,238,112</u>	<u>30,541</u>	<u>44,268,653</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred inflows relating to net OPEB liability	65,501	-	65,501
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>65,501</u>	<u>-</u>	<u>65,501</u>
 NET POSITION			
Net investment in capital assets	6,487,916	554,249	7,042,165
Unrestricted	7,319,028	282,055	7,601,083
TOTAL NET POSITION	<u>13,806,944</u>	<u>836,304</u>	<u>14,643,248</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
	<u>\$ 58,110,557</u>	<u>\$ 866,845</u>	<u>\$ 58,977,402</u>

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2020**

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 4,162,259	\$ -	\$ 4,162,259
Other operating revenues	4,426	-	4,426
Total Operating Revenues	<u>4,166,685</u>	<u>-</u>	<u>4,166,685</u>
OPERATING EXPENSES			
Salaries and benefits	922,860	-	922,860
Materials and supplies	291,858	-	291,858
Administration expenses	34,324	-	34,324
Contractual services	71,449	-	71,449
Land and equipment rental	123,747	-	123,747
Repairs and maintenance	378,890	-	378,890
Utilities	244,211	-	244,211
Insurance	49,533	-	49,533
Depreciation	<u>2,307,300</u>	<u>-</u>	<u>2,307,300</u>
Total Operating Expenses	<u>4,424,172</u>	<u>-</u>	<u>4,424,172</u>
OPERATING LOSS	<u>(257,487)</u>	<u>-</u>	<u>(257,487)</u>
NONOPERATING REVENUES (EXPENSES)			
Sewer impact fees	63,487	-	63,487
Investment income	51,239	-	51,239
Interest expense	(475,327)	-	(475,327)
Intergovernmental grants	73,605	-	73,605
Total Nonoperating Expenses	<u>(286,996)</u>	<u>-</u>	<u>(286,996)</u>
CHANGE IN NET POSITION	(544,483)	-	(544,483)
NET POSITION, BEGINNING OF YEAR	<u>14,351,427</u>	<u>836,304</u>	<u>15,187,731</u>
NET POSITION, END OF YEAR	<u>\$ 13,806,944</u>	<u>\$ 836,304</u>	<u>\$ 14,643,248</u>

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF CASH FLOWS - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2020**

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 4,070,765	\$ -	\$ 4,070,765
Cash paid for goods and services	(3,046,806)	384,071	(2,662,735)
Cash paid to employees	(919,350)	-	(919,350)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>104,609</u>	<u>384,071</u>	<u>488,680</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital assets purchased	(227,887)	(384,071)	(611,958)
Proceeds received from capitalization and impact fees	63,487	-	63,487
Capital grants	73,605	-	73,605
Proceeds from issuance of bonds	1,675,433	-	1,675,433
Principal paid on note payable	(49,853)	-	(49,853)
Interest paid on long term debt	(475,327)	-	(475,327)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,059,458</u>	<u>(384,071)</u>	<u>675,387</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	51,239	-	51,239
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>51,239</u>	<u>-</u>	<u>51,239</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,215,306	-	1,215,306
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,238,301</u>	<u>-</u>	<u>4,238,301</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,453,607</u>	<u>\$ -</u>	<u>\$ 5,453,607</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating loss	\$ (257,487)	\$ -	\$ (257,487)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	2,307,300	-	2,307,300
(Increase) Decrease in assets:			
Accounts receivable	(95,920)	-	(95,920)
Due from other funds	(1,785,199)	-	(1,785,199)
Inventory	(8,404)	-	(8,404)
Prepaid expenses	(31,856)	-	(31,856)
Deferred outflows of resources related to net OPEB liability	9,269	-	9,269
Increase (Decrease) in liabilities:			
Accounts payable	(48,783)	27,315	(21,468)
Contingency reserve	53,643	-	53,643
Accrued salaries and benefits	(28,807)	-	(28,807)
Accrued expenses	(32,195)	-	(32,195)
Due to other funds	-	356,756	356,756
Net OPEB liability	26,197	-	26,197
Compensated absences	5,799	-	5,799
Deferred inflows of resources related to net OPEB liability	(8,948)	-	(8,948)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 104,609</u>	<u>\$ 384,071</u>	<u>\$ 488,680</u>

SINGLE AUDIT SUPPLEMENT



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

October 30, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2020.

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.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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.

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 CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

October 30, 2020

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, 2020. 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.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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.

Opinion on Major Federal Program

In our opinion, the City of Rehoboth Beach, Rehoboth Beach, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2020.

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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2020**

GRANTOR	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES MARCH 31, 2020	PASSED THROUGH TO SUBRECIPIENTS	OUTSTANDING LOAN BALANCE
<u>U.S. Environmental Protection Agency</u>						
Passed through Delaware Department of Natural Resources and Environmental Conservation						
Capitalization Grants for Clean Water State Revolving Funds	I	66.458	N/A	\$ 1,675,433	-	\$ 43,197,223
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				<u>1,675,433</u>	<u>-</u>	<u>43,197,223</u>
<u>U.S. Department of Transportation</u>						
Passed through Delaware Department of Transportation						
State and Community Highway Safety	I	20.600	N/A	12,350	-	-
Minimum Penalties for Repeat Offenders For Driving While Intoxicated	I	20.608	N/A	7,050	-	-
National Priority Safety Programs	I	20.616	N/A	13,780	-	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>33,180</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 1,708,613</u>	<u>\$ -</u>	<u>\$ 43,197,223</u>
TOTAL HIGHWAY SAFETY CLUSTER (CFDA #s 20.600 and 20.616)				<u>\$ 26,130</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CLEAN WATER STATE REVOLVING FUND CLUSTER (CFDA # 66.458)				<u>\$ 1,675,433</u>	<u>\$ -</u>	<u>\$ 43,197,223</u>

Source Code:

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, 2020, 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, 2019, the City was awarded a \$52,481,085 loan from the Delaware Natural Resources and Environmental Control, which is funded by passed through federal funds. The loan balance originating from federal funds at March 31, 2020 was \$43,197,223.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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 program:

- 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 program [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

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

_____ Yes _____ X No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

66.458

Capitalization Grants for Clean Water State Revolving Funds

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

Finding #2019-001

FILING OF DATA COLLECTION FORM (CFDA #66.458)

Condition: The City's data collection form for the year ended March 31, 2018 was not filed within nine months of the end of their fiscal year, or December 31, 2018. The form was originally filed on December 28, 2018, but the City was subsequently informed that a loan received by the City was funded with federal funding. The revised data collection form was submitted after December 31, 2018.

Criteria: In accordance with the provisions of the Office of Management and Budget's Uniform Guidance, organizations which are subject to single audits must file a data collection form and a copy of their annual audit with the Federal Audit Clearinghouse within nine months of the end of their fiscal year.

Cause: Unavailability of information needed to make determination.

Effect: As a result of the delay in filing, the City's final data collection form was not available for review and approval by granting agencies in accordance with the timeline noted above.

Recommendation: We recommended that the City take steps to implement procedures to ensure complete and accurate data collection forms are filed in a timely manner.

Status: The City's data collection form for the year ended March 31, 2019 was filed within nine months of the end of their fiscal year. This finding is deemed to be resolved.

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

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.