



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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

MARCH 31, 2018

CITY OF REHOBOTH BEACH

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INDEPENDENT AUDITOR'S REPORT

December 12, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of March 31, 2018, 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 2017 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 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 12, budgetary comparison schedule - general fund on pages 43 - 44, schedule of the City's proportionate share of the net pension asset (liability) on page 45, and schedule of City contributions on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements on pages 47 - 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 58 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The combining 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 December 12, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED
MARCH 31, 2018**

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, 2018. Please read it in conjunction with the City's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at March 31, 2018 by \$59.7 million (net position). Of this amount, \$240 thousand is reported as an unrestricted net deficit. The City's net position increased by \$1.7 million.

As of March 31, 2018, the City's governmental funds reported combined ending fund balances of \$5.9 million, a decrease of \$558 thousand as compared to the prior year. The current year decrease in fund balance can be attributed primarily to Capital Projects Fund expenditures exceeding revenue by \$1.7 million, offset partially by General Fund revenues which exceeded expenditures by \$1.2 million. Total governmental funds revenue increased by \$1.1 million compared to the prior year, other financing sources decreased \$11.1 million compared to the prior year, and expenditures decreased by \$9.0 million compared to the prior year. The components of revenue that contributed significantly to the overall revenue increase were taxes and intergovernmental revenue, increasing by \$614 thousand and \$796 thousand, respectively. The increase in tax revenue was driven by an increase in property transfer tax revenue, due to increased property sales within the City due to overall economic conditions. The increase in public works intergovernmental revenue was due to a \$924 thousand grant received to reimburse the City for repairs related to the winter storm that hit the City of January 22 - 23, 2017.

As of March 31, 2018, the City's proprietary funds reported combined net position of \$26.5 million, an increase of \$1.7 million compared to the prior year. The increase can be attributed to the following: a) \$115 thousand increase in charges for services; and b) a \$405 thousand increase in other operating revenues. Resources of \$30.4 million were spent on capital asset additions and construction during the current year.

Overview of the Financial Statements

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

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

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

CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018

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

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

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

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

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

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

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

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Entity-wide Financial Analysis

The following table presents a summary of the statement of net position for the City as of March 31, 2018 and 2017.

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	\$ 6,914,704	\$ 8,533,387	\$ 21,794,018	\$ 9,080,537	\$ 28,708,722	\$ 17,613,924
Capital assets, net	46,635,853	40,337,680	49,425,165	20,192,329	96,061,018	60,530,009
TOTAL ASSETS	53,550,557	48,871,067	71,219,183	29,272,866	124,769,740	78,143,933
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Pension	366,026	431,077	-	-	366,026	431,077
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	53,916,583	49,302,144	71,219,183	29,272,866	125,135,766	78,575,010

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
(cont'd)						
LIABILITIES						
Other liabilities	1,905,571	2,966,640	13,151,791	673,680	15,057,362	3,640,320
Long-term liabilities	18,583,459	12,939,969	31,593,221	3,856,570	50,176,680	16,796,539
TOTAL LIABILITIES	20,489,030	15,906,609	44,745,012	4,530,250	65,234,042	20,436,859
DEFERRED INFLOWS OF RESOURCES						
Deferred Pension	186,003	107,561	-	-	186,003	107,561
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	20,675,033	16,014,170	44,745,012	4,530,250	65,420,045	20,544,420
NET POSITION						
Net investment in capital assets	29,208,656	28,428,322	30,645,702	16,560,023	59,854,358	44,988,345
Restricted	101,156	131,055	-	-	101,156	131,055
Unrestricted (deficit)	3,931,738	4,728,597	(4,171,531)	8,182,593	(239,793)	12,911,190
TOTAL NET POSITION	\$ 33,241,550	\$ 33,287,974	\$ 26,474,171	\$ 24,742,616	\$ 59,715,721	\$ 58,030,590

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	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program revenues:						
Charges for services	\$ 8,248,802	\$ 8,596,873	\$ 6,440,752	\$ 5,699,868	\$ 14,689,554	\$ 14,296,741
Operating grants/contributions	688,193	814,093	93,643	52,557	781,836	866,650
Capital grants/contributions	927,119	-	-	157,710	927,119	157,710
General revenues:						
Taxes	4,908,765	4,294,859	-	-	4,908,765	4,294,859
Investment earnings	2,477	1,678	2,394	2,195	4,871	3,873
Franchise fees	175,840	133,241	-	-	175,840	133,241
Miscellaneous	181,389	114,371	-	-	181,389	114,371
TOTAL REVENUES	15,132,585	13,955,115	6,536,789	5,912,330	21,669,374	19,867,445

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

**TABLE 2
CHANGES IN NET POSITION**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
EXPENSES						
General government	2,937,720	3,216,351	-	-	2,937,720	3,216,351
Public safety	4,342,772	3,943,481	-	-	4,342,772	3,943,481
Public works	6,674,921	6,736,520	-	-	6,674,921	6,736,520
Recreation and culture	804,320	750,699	-	-	804,320	750,699
Interest on long-term debt	419,276	34,320	-	-	419,276	34,320
Water operations	-	-	1,888,681	2,077,821	1,888,681	2,077,821
Sewer operations	-	-	2,916,553	2,708,277	2,916,553	2,708,277
TOTAL EXPENSES	15,179,009	14,681,371	4,805,234	4,786,098	19,984,243	19,467,469
INCREASE (DECREASE) IN NET POSITION	(46,424)	(726,256)	1,731,555	1,126,232	1,685,131	399,976
NET POSITION, BEGINNING OF YEAR	33,287,974	34,014,230	24,742,616	23,616,384	58,030,590	57,630,614
NET POSITION, END OF YEAR	\$ 33,241,550	\$ 33,287,974	\$ 26,474,171	\$ 24,742,616	\$ 59,715,721	\$ 58,030,590

Governmental Activities

The cost of all governmental activities in 2018 was \$15.2 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$5.3 million, or 35.0 percent, an increase from 29.2 percent in the prior year. Other costs were paid by those who directly benefited from the programs (\$8.2 million, or 53.9 percent), and government agencies and organizations that subsidized funding with intergovernmental aid (\$1.6 million or 10.5 percent). In the prior year, costs paid by those who directly benefited from programs were \$8.6 million, representing 58.6 percent of the total expenses. Expenses financed by other governments and agencies were \$814 thousand, or 5.5 percent of total governmental expenses.

Capital grants and contributions increased from the prior year by \$927 thousand due to a one-time grant received in the current year. Tax revenue increased by \$614 thousand. This was a result of the additional property sales within the City. The value of assessed property increased from \$3.30 billion in fiscal year 2017 to \$3.32 billion in fiscal year 2018. The rate per hundred dollars of assessed value remained unchanged at \$.04.

As indicated by the governmental program expenses, general government programs accounted for 19.4 percent of the City's governmental activities, which decreased \$279 thousand from the prior year. This was due to a decrease in amounts paid for professional and contractual services, which were slightly offset by an increase in salaries and benefits. The public safety expenses accounted for 28.6 percent of the City's governmental activities in the year ended March 31, 2018 and 26.9 percent in the prior year. The increase was due to increased depreciation expense as well as increased salaries and

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

benefits. Public works expenses accounted for 44.0 percent of the City's governmental activities, or \$6.7 million. Public works decreased slightly due to fluctuations in utilization and overtime, offset by cost-of-living increases for wages and medical insurance.

Business-type Activities

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

Charges for services represent the principal revenue source for the City's business-type activities. Current sewer rates remained unchanged for 2018. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges. Charges for services in the water fund remained steady increasing less than \$1 thousand in the current year. Water capitalization revenue increased by \$80 thousand to \$174 thousand. Wastewater operating revenue increased by \$425 thousand to \$3.6 million.

The overall operating expense of business-type activities increased by \$28 thousand from the prior year, with water department expenses decreasing by \$182 thousand and wastewater department expenses increasing by \$210 thousand. Salaries and benefits in the Water Department decreased \$22 thousand and increased in the Wastewater Department by \$112 thousand. Contractual costs decreased in the Water Department by \$11 thousand and increased in the Wastewater Department by \$42 thousand. Repairs and maintenance decreased in the Water Department by \$124 thousand and increased in the Wastewater Department by \$157 thousand.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of March 31, 2018, the City's governmental funds reported combined ending fund balances of \$5.9 million, a decrease of \$558 thousand as compared to the prior year. The amount of the fund balance restricted or assigned for special purposes is \$101 thousand. The \$8.4 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

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 decreased by approximately \$9.0 million from the prior year. The decrease is primarily driven by a decrease of \$3.0 million in capital outlays as the City Hall project was completed during 2018. Additionally, debt service decreased \$6.7 million primarily due to a debt refunding in the prior year.

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

- Construction-in-progress related to construction of the new City Hall in the amount of \$17.4 million was placed in service.
- Construction-in-progress related to Lake Avenue Streetscape Improvements in the amount of \$1.8 million was placed in service.
- Construction-in-progress additions relating to the outfall project amounted to \$30.1 million. The balance of construction-in-progress at year end related to the outfall project was \$34.0 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Total revenues received exceeded budget by approximately \$2.4 million. Taxes, Licenses and Permits, and Intergovernmental Revenue exceeded budget by \$1.0 million, \$90 thousand, and \$1.3 million, respectively. Within taxes, Transfer Tax exceeded budget by \$859 thousand and Rental Tax exceeded budget by \$115 thousand. Public works intergovernmental revenue exceeded budget by \$1.3 million.
- Parking Meter revenues were \$259 thousand less than budget.
- Total General Fund expenditures were \$859 thousand less than budget.
- Streets and Refuse Department expenditures were below budget by \$70 thousand and \$108 thousand, respectively.
- Administrative expenditures were \$411 thousand less than budgeted.
- The Mayor and Commissioners' expenses were under budget by \$57 thousand.
- Building and grounds expenses were under budget by \$138 thousand.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

- All other fluctuations in revenues from budget to actual are deemed reasonable, based upon the element of uncertainty when budgeting for such revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities, as of March 31, 2018, amounted to \$96.1 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total net increase in the City's capital assets for the current fiscal year was \$40.5 million. Current year depreciation was \$5.0 million government-wide. Construction-in-progress of \$34.3 million consisted primarily of Ocean Outfall construction progress (\$34.2 million).

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

Debt Administration

In fiscal year 2017 - 2018, the City made draws of \$6.0 million on a USDA loan available for the construction of City Hall. In addition, the City issued GOB 2017 A and B for the Outfall project. Current year drawdowns amounted to \$15.5 million, with an additional \$12.6 million receivable as of March 31, 2018. The City made debt service principal payments in the amount of \$811 thousand on its General Fund projects loan and Water Department loans. All general obligation notes are backed by the full faith and credit of the City.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The 2018 - 2019 budget for all City operations is \$21 million. Included in the operating budget are expenses of \$2.1 million for City administration, \$2.8 million for the police department, \$3.2 million for the streets department, and \$1.1 million for the parking department. The budget calls for \$1.3 million in parking meter revenue, \$1.3 million in property tax revenue, \$1.4 million in transfer tax revenue, and \$2 million in rental tax revenue.
- An increase in revenues of \$975,000 is expected from the rental tax due to the rate increasing from three to six percent.
- Parking fees are set to increase in the upcoming year. The weekly permits will increase from \$60 to \$80, three-day weekend permits from \$35 to \$45, weekend daily from \$15 to \$20, and the weekday daily from \$10 to \$15. Deauville Beach seasonal permits will increase from \$75 to \$250, and daily permits from \$10 to \$20. Bus permits for parking at City Hall will raise from \$50 to \$250.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2018**

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, 2018
(With Summarized Comparative Data for March 31, 2017)**

	Governmental Activities	Business-type Activities	Totals	
			2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash and cash equivalents	\$ 8,852,916	\$ 5,624,986	\$ 14,477,902	\$ 14,748,553
Taxes receivable	18,578	-	18,578	18,986
Accounts receivable	483,356	443,222	926,578	691,703
Interest receivable	-	324	324	324
Loan proceeds receivable	-	12,551,322	12,551,322	1,497,828
Prepaid expenses	259,437	53,388	312,825	300,675
Inventory	58,877	362,316	421,193	355,855
Internal balances	(2,758,460)	2,758,460	-	-
Capital Assets:				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	157,762	34,172,851	34,330,613	18,288,986
Depreciable capital assets, net of depreciation	43,663,132	15,059,378	58,722,510	39,233,128
TOTAL ASSETS	<u>53,550,557</u>	<u>71,219,183</u>	<u>124,769,740</u>	<u>78,143,933</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows relating to pension	366,026	-	366,026	431,077
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>366,026</u>	<u>-</u>	<u>366,026</u>	<u>431,077</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 53,916,583</u>	<u>\$ 71,219,183</u>	<u>\$ 125,135,766</u>	<u>\$ 78,575,010</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current Liabilities:				
Accounts payable	\$ 665,199	\$ 12,787,517	\$ 13,452,716	\$ 1,962,185
Accrued salaries and benefits	189,380	38,779	228,159	81,020
Accrued interest	12,305	38,573	50,878	54,437
Accrued expense	-	6,980	6,980	6,980
Deposits	112,654	-	112,654	76,554
Contingency reserve	-	14,364	14,364	227,744
Notes and bonds payable	926,033	1,304,929	2,230,962	1,231,400
Noncurrent Liabilities:				
Notes and bonds payable	16,501,164	30,025,856	46,527,020	14,310,264
Other postemployment benefits	1,380,973	323,066	1,704,039	1,514,208
Compensated absences	562,292	204,948	767,240	723,780
Net pension liability	139,030	-	139,030	248,287
TOTAL LIABILITIES	<u>20,489,030</u>	<u>44,745,012</u>	<u>65,234,042</u>	<u>20,436,859</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows relating to pension	186,003	-	186,003	107,561
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>186,003</u>	<u>-</u>	<u>186,003</u>	<u>107,561</u>
NET POSITION				
Net investment in capital assets	29,208,656	18,094,380	47,303,036	44,988,345
Restricted:				
Police expenses	18,828	-	18,828	35,969
Public works expenses	82,328	-	82,328	95,086
Unrestricted (deficit)	3,931,738	8,379,791	12,311,529	12,911,190
TOTAL NET POSITION	<u>33,241,550</u>	<u>26,474,171</u>	<u>59,715,721</u>	<u>58,030,590</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 53,916,583</u>	<u>\$ 71,219,183</u>	<u>\$ 125,135,766</u>	<u>\$ 78,575,010</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, 2018
(With Summarized Comparative Data for the Year Ended March 31, 2017)**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Totals	
							2018	2017
GOVERNMENTAL ACTIVITIES:								
General government	\$ 2,937,720	\$ 1,415,756	\$ 535,048	\$ -	\$ (986,916)	\$ -	\$ (986,916)	\$ (1,553,309)
Public safety	4,342,772	900,519	148,145	-	(3,294,108)	-	(3,294,108)	(3,570,064)
Public works	6,674,921	5,707,537	-	927,119	(40,265)	-	(40,265)	412,997
Recreation and culture	804,320	224,990	5,000	-	(574,330)	-	(574,330)	(525,709)
Interest on general long-term debt	419,276	-	-	-	(419,276)	-	(419,276)	(34,320)
TOTAL GOVERNMENTAL ACTIVITIES	15,179,009	8,248,802	688,193	927,119	(5,314,895)	-	(5,314,895)	(5,270,405)
BUSINESS-TYPE ACTIVITIES:								
Water	1,888,681	2,763,703	-	-	-	875,022	875,022	537,871
Sewer	2,916,553	3,677,049	93,643	-	-	854,139	854,139	586,166
TOTAL BUSINESS-TYPE ACTIVITIES	4,805,234	6,440,752	93,643	-	-	1,729,161	1,729,161	1,124,037
TOTAL PRIMARY GOVERNMENT	\$ 19,984,243	\$14,689,554	\$ 781,836	\$ 927,119	(5,314,895)	1,729,161	(3,585,734)	(4,146,368)
GENERAL REVENUES:								
					4,908,765	-	4,908,765	4,294,859
					2,477	2,394	4,871	3,873
					175,840	-	175,840	133,241
					181,389	-	181,389	114,371
TOTAL GENERAL REVENUES					5,268,471	2,394	5,270,865	4,546,344
CHANGE IN NET POSITION					(46,424)	1,731,555	1,685,131	399,976
NET POSITION, BEGINNING OF YEAR					33,287,974	24,742,616	58,030,590	57,630,614
NET POSITION, END OF YEAR					\$33,241,550	\$26,474,171	\$59,715,721	\$58,030,590

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

**CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2018
(With Summarized Comparative Data for March 31, 2017)**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2018	2017
ASSETS					
Cash and cash equivalents	\$ 8,686,230	\$ 59,911	\$ 106,775	\$ 8,852,916	\$ 8,000,700
Taxes receivable	18,578	-	-	18,578	18,986
Accounts receivable	483,356	-	-	483,356	272,341
Loan proceeds receivable	-	-	-	-	1,497,828
Prepaid expenditures	259,437	-	-	259,437	245,305
Inventory	58,877	-	-	58,877	56,257
Due from other funds	116,840	-	43,590	160,430	129,738
TOTAL ASSETS	<u>\$ 9,623,318</u>	<u>\$ 59,911</u>	<u>\$ 150,365</u>	<u>\$ 9,833,594</u>	<u>\$10,221,155</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 555,560	\$ 61,310	\$ 48,329	\$ 665,199	\$ 1,870,728
Due to other funds	-	2,918,010	880	2,918,890	1,687,768
Accrued salaries and benefits	189,380	-	-	189,380	81,020
Deposits	112,654	-	-	112,654	76,554
TOTAL LIABILITIES	<u>857,594</u>	<u>2,979,320</u>	<u>49,209</u>	<u>3,886,123</u>	<u>3,716,070</u>
FUND BALANCES:					
Nonspendable	318,314	-	-	318,314	301,562
Restricted:					
Police expenditures	-	-	18,828	18,828	35,969
Public works expenditures	-	-	82,328	82,328	95,086
Assigned:					
Municipal building project	-	-	-	-	236,366
Unassigned (deficit)	8,447,410	(2,919,409)	-	5,528,001	5,836,102
TOTAL FUND BALANCES (DEFICIT)	<u>8,765,724</u>	<u>(2,919,409)</u>	<u>101,156</u>	<u>5,947,471</u>	<u>6,505,085</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,623,318</u>	<u>\$ 59,911</u>	<u>\$ 150,365</u>	<u>\$ 9,833,594</u>	<u>\$10,221,155</u>

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

**CITY OF REHOBOTH BEACH
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
MARCH 31, 2018**

TOTAL GOVERNMENTAL FUND BALANCES	\$ 5,947,471
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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.	46,635,853
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The City's net pension liability is not a current financial obligation and, therefore is not reported in the funds.	(139,030)
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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	(17,427,197)
Other postemployment benefits	(1,380,973)
Compensated absences	(562,292)

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

Deferred outflows of resources:	
Deferred outflows relating to pension	366,026
Deferred inflows of resources:	
Deferred inflows relating to pension	<u>(186,003)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 33,241,550</u></u>
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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, 2018
(With Summarized Comparative Data for the Year Ended March 31, 2017)

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2018	2017
REVENUES					
Taxes	\$ 4,908,765	\$ -	\$ -	\$ 4,908,765	\$ 4,294,859
Licenses and permits	1,322,236	-	-	1,322,236	1,534,819
Franchise fees	175,840	-	-	175,840	133,241
Intergovernmental revenues	1,453,471	-	156,841	1,610,312	814,093
Charges for services	5,683,776	-	-	5,683,776	5,821,363
Fines and forfeitures	924,206	-	-	924,206	887,478
Investment earnings	2,477	-	-	2,477	1,678
Rents and concessions	323,511	-	-	323,511	353,213
Contributions and donations	24,320	-	-	24,320	24,921
Miscellaneous revenues	73,437	59,772	-	133,209	84,414
TOTAL REVENUES	<u>14,892,039</u>	<u>59,772</u>	<u>156,841</u>	<u>15,108,652</u>	<u>13,950,079</u>
EXPENDITURES					
General government	3,021,993	24,958	-	3,046,951	2,866,715
Public safety	4,024,785	-	63,824	4,088,609	3,687,129
Public works	3,152,015	-	122,916	3,274,931	3,260,824
Recreation and culture	671,421	-	-	671,421	613,036
Debt service	613,037	312,052	-	925,089	7,587,363
Capital outlays	2,248,645	7,458,205	-	9,706,850	12,713,228
TOTAL EXPENDITURES	<u>13,731,896</u>	<u>7,795,215</u>	<u>186,740</u>	<u>21,713,851</u>	<u>30,728,295</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,160,143</u>	<u>(7,735,443)</u>	<u>(29,899)</u>	<u>(6,605,199)</u>	<u>(16,778,216)</u>
OTHER FINANCING SOURCES					
Proceeds from sale of assets	23,933	-	-	23,933	5,036
Proceeds from long-term debt	-	6,023,652	-	6,023,652	17,136,121
TOTAL OTHER FINANCING SOURCES	<u>23,933</u>	<u>6,023,652</u>	<u>-</u>	<u>6,047,585</u>	<u>17,141,157</u>
NET CHANGE IN FUND BALANCES	1,184,076	(1,711,791)	(29,899)	(557,614)	362,941
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>7,581,648</u>	<u>(1,207,618)</u>	<u>131,055</u>	<u>6,505,085</u>	<u>6,142,144</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 8,765,724</u>	<u>\$(2,919,409)</u>	<u>\$ 101,156</u>	<u>\$ 5,947,471</u>	<u>\$ 6,505,085</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, 2018**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (557,614)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$3,766,818) was exceeded by capital outlays (\$10,064,991) in the period. 6,298,173

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. (5,517,839)

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). (234,908)

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. (34,236)

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (46,424)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2018
(With Summarized Comparative Data for March 31, 2017)

	Water Fund	Sewer Fund	Totals	
			2018	2017
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,728,684	\$ 2,896,302	\$ 5,624,986	\$ 6,747,853
Accounts receivable	175,299	267,923	443,222	419,362
Due from other funds	2,175,482	582,978	2,758,460	1,558,030
Interest receivable	-	324	324	324
Loan proceeds receivable	-	12,551,322	12,551,322	-
Prepaid expenses	9,775	43,613	53,388	55,370
Inventory	300,333	61,983	362,316	299,598
Noncurrent Assets:				
Capital assets, net of depreciation	8,661,754	40,763,411	49,425,165	20,192,329
TOTAL ASSETS	<u>\$14,051,327</u>	<u>\$57,167,856</u>	<u>\$71,219,183</u>	<u>\$29,272,866</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 59,448	\$12,728,069	\$12,787,517	\$ 91,457
Accrued salaries and benefits	12,008	26,771	38,779	-
Accrued interest	34,658	3,915	38,573	42,132
Accrued expenses	-	6,980	6,980	6,980
Contingency reserve	-	14,364	14,364	227,744
Notes and bonds payable	265,578	1,039,351	1,304,929	305,367
Noncurrent Liabilities:				
Notes and bonds payable	2,748,177	27,277,679	30,025,856	3,326,939
Other postemployment benefits	119,475	203,591	323,066	323,066
Compensated absences	70,284	134,664	204,948	206,565
TOTAL LIABILITIES	<u>3,309,628</u>	<u>41,435,384</u>	<u>44,745,012</u>	<u>4,530,250</u>
NET POSITION				
Net investment in capital assets	5,647,999	12,446,381	18,094,380	16,560,023
Unrestricted (deficit)	5,093,700	3,286,091	8,379,791	8,182,593
TOTAL NET POSITION	<u>10,741,699</u>	<u>15,732,472</u>	<u>26,474,171</u>	<u>24,742,616</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$14,051,327</u>	<u>\$57,167,856</u>	<u>\$71,219,183</u>	<u>\$29,272,866</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, 2018
(With Summarized Comparative Data for the Year Ended March 31, 2017)

	Water Fund	Sewer Fund	Totals	
			2018	2017
OPERATING REVENUES				
Charges for services	\$ 2,384,723	\$ 3,063,764	\$ 5,448,487	\$ 5,333,916
Other operating revenues	205,479	565,432	770,911	365,952
Total Operating Revenues	<u>2,590,202</u>	<u>3,629,196</u>	<u>6,219,398</u>	<u>5,699,868</u>
OPERATING EXPENSES				
Salaries and benefits	494,689	978,271	1,472,960	1,383,140
Materials and supplies	97,402	282,043	379,445	348,927
Administration expenses	10,004	31,970	41,974	29,076
Contractual services	129,972	64,482	194,454	163,900
Land and equipment rental	-	38,250	38,250	38,250
Repairs and maintenance	428,978	422,793	851,771	818,734
Utilities	102,200	291,262	393,462	377,246
Insurance	59,668	65,204	124,872	144,535
Depreciation	480,199	732,410	1,212,609	1,378,391
Total Operating Expenses	<u>1,803,112</u>	<u>2,906,685</u>	<u>4,709,797</u>	<u>4,682,199</u>
OPERATING INCOME	<u>787,090</u>	<u>722,511</u>	<u>1,509,601</u>	<u>1,017,669</u>
NONOPERATING REVENUES (EXPENSES)				
Water capitalization fees	173,500	-	173,500	94,000
Sewer impact fees	-	47,853	47,853	63,710
Investment income	1,069	1,324	2,393	2,195
Interest expense	(85,569)	(9,868)	(95,437)	(103,899)
Intergovernmental grants	-	93,643	93,643	52,557
Total Nonoperating Revenues	<u>89,000</u>	<u>132,952</u>	<u>221,952</u>	<u>108,563</u>
CHANGE IN NET POSITION	876,090	855,463	1,731,553	1,126,232
NET POSITION, BEGINNING OF YEAR	<u>9,865,609</u>	<u>14,877,009</u>	<u>24,742,618</u>	<u>23,616,384</u>
NET POSITION, END OF YEAR	<u>\$10,741,699</u>	<u>\$15,732,472</u>	<u>\$26,474,171</u>	<u>\$24,742,616</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, 2018
(With Summarized Comparative Data for the Year Ended March 31, 2017)

	Water Fund	Sewer Fund	Totals	
			2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,586,477	\$ 3,609,061	\$ 6,195,538	\$ 5,768,832
Cash paid for goods and services	(1,663,496)	(1,749,220)	(3,412,716)	(2,878,085)
Cash paid to employees	(504,297)	(922,759)	(1,427,056)	(1,384,643)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>418,684</u>	<u>937,082</u>	<u>1,355,766</u>	<u>1,506,104</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets purchased	(70,217)	(17,823,908)	(17,894,125)	(1,704,909)
Proceeds received from capitalization and impact fees	173,500	47,853	221,353	157,710
Capital grants	-	93,643	93,643	52,557
Principal paid on note payable	(258,397)	(46,971)	(305,368)	(297,002)
Interest paid on note payable	(85,569)	(10,455)	(96,024)	(106,790)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(240,683)</u>	<u>(2,240,343)</u>	<u>(17,980,521)</u>	<u>(1,898,434)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	1,069	1,324	2,393	1,631
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,069</u>	<u>1,324</u>	<u>2,393</u>	<u>1,631</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	179,070	(1,301,937)	-	(390,699)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,549,614</u>	<u>4,198,239</u>	<u>6,747,853</u>	<u>7,138,552</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,728,684</u>	<u>\$ 2,896,302</u>	<u>\$ 6,747,853</u>	<u>\$ 6,747,853</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 787,090	\$ 722,511	\$ 1,509,601	\$ 1,017,669
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	480,199	732,410	1,212,609	1,378,391
(Increase) Decrease in assets:				
Accounts receivable	(3,725)	(20,135)	(23,860)	68,964
Due from other funds	(795,184)	(405,246)	(1,200,430)	296,723
Inventory	(70,077)	7,359	(62,718)	47,257
Prepaid expenses	5,642	(3,660)	1,982	11,739
Increase (Decrease) in liabilities:				
Accounts payable	27,319	70,453	97,772	(11,652)
Due to other funds	-	-	-	(1,308,684)
Contingency reserve	-	(213,380)	(213,380)	220
Accrued salaries and benefits	12,008	26,771	38,779	(33,483)
Accrued expenses	(2,972)	-	(2,972)	6,980
Other postemployment benefits	-	-	-	39,573
Compensated absences	(21,616)	19,999	(1,617)	(7,593)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 418,684</u>	<u>\$ 937,082</u>	<u>\$ 1,355,766</u>	<u>\$ 1,506,104</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets acquired through the incurrence of payables	<u>\$ -</u>	<u>\$ 12,551,322</u>	<u>\$ 12,551,322</u>	<u>\$ 30,429</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 ongoing construction of the new City Hall complex.

Proprietary Funds

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

The City reports the following major proprietary funds:

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

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the City's financial statements for the year ended March 31, 2017, 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 2018 was \$.04 per \$100 of assessed value.

Compensated Absences

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Inventories

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

Prepaid Expenses/Expenditures

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

Capital Assets

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

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

Use of Estimates in the Preparation of Financial Statements

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

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

- Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- 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.
- 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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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 2018, there were no revisions to any legally adopted budgets.

NOTE C CASH AND CASH EQUIVALENTS

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

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

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

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

Cash and cash equivalents in the water fund (\$2,728,684) and the sewer fund (\$2,896,302) represent funds dedicated to future capacity-related expenses.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At March 31, 2018, the carrying amount of the City's deposits was \$14,477,902, and the bank balance was \$14,655,337. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$14,155,337 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE D INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2018 is as follows:

<u>Due to</u>		<u>Due from</u>	
General Fund	\$ 116,840	Capital Projects Fund	\$2,918,010
Water Fund	2,175,482	Nonmajor Governmental Funds	880
Sewer Fund	582,978		
Nonmajor Governmental Funds	<u>43,590</u>		
	<u>\$2,918,890</u>		<u>\$2,918,890</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, 2018 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	<u>14,418,948</u>	<u>7,816,864</u>	<u>22,078,050</u>	<u>157,762</u>
Total Capital Assets Not Being Depreciated	<u>17,233,907</u>	<u>7,816,864</u>	<u>22,078,050</u>	<u>2,972,721</u>
Capital assets being depreciated:				
Infrastructure and land improvements	47,877,448	3,344,121	-	51,221,569
Buildings and improvements	9,672,836	19,842,724	1,917,342	27,598,218
Machinery and equipment	6,097,480	1,040,780	12,714	7,125,546
Vehicles	1,863,358	98,552	42,461	1,919,449
Total Capital Assets Being Depreciated	<u>65,511,122</u>	<u>24,326,177</u>	<u>1,972,517</u>	<u>87,864,782</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	30,734,258	2,926,185	-	33,660,443
Buildings and improvements	4,658,721	794,883	1,917,342	3,536,261
Machinery and equipment	5,345,588	45,169	12,714	5,378,043
Vehicles	1,668,782	582	42,461	1,626,903
Total accumulated depreciation	<u>42,407,349</u>	<u>3,766,818</u>	<u>1,972,517</u>	<u>44,201,650</u>
Total Capital Assets Being Depreciated, Net	<u>23,103,773</u>	<u>20,559,359</u>	<u>-</u>	<u>43,663,132</u>
Governmental Activities Assets, Net	<u>\$40,337,680</u>	<u>\$28,376,223</u>	<u>\$22,078,050</u>	<u>\$46,635,853</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 190,892
Public safety	127,595
Public works	3,315,432
Recreation and culture	<u>132,899</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,766,818</u>

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

Capital asset activity for the year ended March 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	<u>3,870,038</u>	<u>30,302,813</u>	-	<u>34,172,851</u>
Total Capital Assets Not Being Depreciated	<u>4,062,974</u>	<u>30,302,813</u>	-	<u>34,365,787</u>
Capital assets being depreciated:				
Buildings, infrastructure, and improvements	44,244,075	11,250	-	44,255,325
Machinery and equipment	2,027,728	81,634	-	2,109,401
Vehicles	834,059	49,750	-	883,809
Total Capital Assets Being Depreciated	<u>47,105,902</u>	<u>142,634</u>	-	<u>47,248,535</u>
Less accumulated depreciation for:				
Buildings, infrastructure, and improvements	28,428,597	1,095,574	-	29,524,173
Machinery and equipment	1,747,668	93,211	-	1,840,879
Vehicles	800,282	23,824	-	824,105
Total accumulated depreciation	<u>30,976,547</u>	<u>1,210,609</u>	-	<u>32,189,157</u>
Total Capital Assets Being Depreciated, Net	<u>16,129,355</u>	<u>(1,069,977)</u>	-	<u>15,059,378</u>
Business-type Activities Assets, Net	<u>\$20,192,329</u>	<u>\$29,232,836</u>	\$ -	<u>\$49,425,165</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:	
Water	\$ 480,199
Sewer	<u>732,410</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,210,609</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2018 is composed of the following:

Governmental Activities

The Town 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.

\$ 17,427,197

Total Governmental Activities

\$ 17,427,197

Business-type Activities

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

\$ 3,013,755

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.

313,183

General Obligation Bond of 2017A, 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.

27,237,384

General Obligation Bond of 2017B, 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.

766,463

Total Business-type Activities

\$ 31,330,785

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

Annual requirements to retire long-term debt of all funds at March 31, 2018, excluding \$13,243,711 in funds not yet drawn as of March 31, 2018 on the GOB Series 2017A, are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 926,033	\$ 427,226	\$ 1,304,929	\$ 365,900
2020	577,435	408,965	1,323,728	347,102
2021	590,155	396,245	1,342,874	327,954
2022	605,413	380,987	1,362,380	308,449
2023	619,920	366,480	1,382,250	288,578
2024 - 2028	3,324,538	1,603,355	6,980,581	1,143,860
2029 - 2033	3,745,581	1,185,375	5,586,804	745,522
2034 - 2038	4,218,609	713,391	5,873,123	459,203
2039 - 2043	2,828,394	193,853	6,174,116	158,211
Total	<u>\$ 17,427,197</u>	<u>\$ 5,675,877</u>	<u>\$ 31,330,785</u>	<u>\$ 4,144,779</u>

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, 2018:

	Balance April 1, 2017	Increase	Decreases	Balance March 31, 2018	Due Within One Year
Governmental Activities:					
Notes and bonds payable	\$ 11,909,358	\$ 6,023,652	\$ 505,813	\$ 17,427,197	\$ 926,033
OPEB	1,191,142	189,831	-	1,380,973	-
Compensated absences	517,215	45,077	-	562,292	-
Total	<u>\$ 13,617,715</u>	<u>\$ 6,258,560</u>	<u>\$ 505,813</u>	<u>\$ 19,370,462</u>	<u>\$ 926,033</u>
Business-type Activities:					
Notes and bonds payable	\$ 3,632,306	\$27,237,384	\$ 305,368	\$ 31,330,785	\$1,304,929
OPEB	323,066	-	-	323,066	-
Compensated absences	206,565	-	1,617	204,948	-
Total	<u>\$ 4,161,937</u>	<u>\$27,237,384</u>	<u>\$ 306,985</u>	<u>\$ 31,858,799</u>	<u>\$1,304,929</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS

Thrift Plan

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

Employee contributions are matched at a rate of 50 percent by the City, not to exceed three percent. All employee contributions are 100 percent vested at the time of contribution; and employer contributions vest at the rate of 20 percent per year starting after two years of service and become fully vested after six years of service. For the years ended March 31, 2018, 2017, and 2016, the City's employer contributions totaled \$75,294, \$65,642, and \$65,155, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

Plan Description

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

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

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

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

The following are brief descriptions of the Plan in effect as of June 30, 2017. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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

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

Vesting: Five years of credited service.

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

Disability Benefits:

- **Duty – Total Disability** – 75 percent of final average compensation plus 10 percent for each dependent not to exceed 25 percent for all dependents.
- **Duty – Partial Disability** – Calculated the same as Service Benefits, subject to minimum of 50 percent of final average compensation.

Non-Duty: Same as Service Benefits, total disability subject to a minimum of 50 percent of final average monthly compensation plus 5 percent of each dependent not to exceed 20 percent for all dependents. Partial disability to a minimum of 30 percent of final average monthly compensation.

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

Actuarial Assumptions

The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

- Investment rate of return – 7.0%
- Projected salary increases – 4.5% + Merit
- Cost of living adjustments – N/A

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	33.5%	5.7%
International equity	13.7%	5.7%
Fixed income	26.6%	2.0%
Alternative investments	22.7%	7.8%
Cash equivalents	3.5%	-
	<u>100%</u>	

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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.

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)	\$ 879,112	\$ 139,030	\$ (463,578)

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

For the year ended March 31, 2018, the City recognized pension expense of \$160,239. At March 31, 2018, 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	\$ 70,864	\$ -
Changes in proportions	3,622	5,972
Changes in assumptions	117,379	51,229
Difference between employer contributions and proportionate share of total contributions	19,780	44,015
Differences between expected and actual experience	33,269	84,787
Contributions subsequent to the date of measurement	121,112	-
	\$ 366,026	\$ 186,003

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

An amount of \$121,112 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, 2019. 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:

<u>Year Ended March 31,</u>		
2019	\$	16,490
2020		16,490
2021		16,490
2022		16,490
2023		(1,226)
2024 - 2028		<u>(5,823)</u>
	<u>\$</u>	<u>58,911</u>

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 expires on December 31, 2020. The lease calls for rental income to be adjusted each January and is paid in three installments due July 1, August 1, and September 1 of each year.

Future minimum receipts under the agreement are as follows:

<u>For the Year Ended March 31,</u>		<u>Amount</u>
2019	\$	68,400
2020		69,600
2021		<u>70,800</u>
Total	<u>\$</u>	<u>208,800</u>

Rental income under this lease for the year ended March 31, 2017 was \$67,200.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

Regulatory Matter

The City is currently receiving legal counsel regarding implementation of a consent order it has entered into with the Delaware Department of Natural Resources and Environmental Control ("DNREC"). This agreement is the result of the City's challenge to a regulation promulgated by DNREC which imposes a total daily maximum load on wastewater effluent discharges from the City's sewage treatment plant. Both the City and DNREC have agreed to cooperatively and voluntarily resolve and settle all issues regarding the implementation of a National Pollutant Discharge Elimination System ("NPDES") designed to protect the surrounding waters from wastewater discharge from the City's sewage treatment plant. The City is required to consider the feasibility of two different options for implementing NPDES. Such feasibility studies are in their preliminary expected completion date, and total cost estimation of any NPDES project is not known as of March 31, 2018.

Construction Commitments

At March 31, 2018, the City had approved contracts for various capital projects totaling \$35,245,000 and payments for progress on contracts of \$33,978,614, resulting in outstanding commitments of \$1,266,386. In addition, the City reported another \$351,999 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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE L RISK MANAGEMENT (cont'd)

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 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The City follows the GASB Codification reporting requirements for certain postemployment healthcare benefits provided by the City. The GASB Codification generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the postemployment benefits liability at the date of transition.

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. 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. As of March 31, 2018, three individuals were receiving postemployment benefits.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of Commissioners. For fiscal year 2018, the City contributed \$124,704 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan.

Annual required contribution	\$ 331,866
Interest on net OPEB obligation	44,422
Adjustment to annual required contribution	<u>(61,753)</u>
Annual OPEB cost (expense)	314,535
Contributions made	<u>(124,704)</u>
Increase in net OPEB obligation	189,831
Net OPEB obligation - beginning of year	<u>1,514,208</u>
Net OPEB obligation - end of year	<u>\$ 1,704,039</u>

Funded Status and Funding Progress

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

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Actuarial Methods and Assumptions

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

In the April 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of ten percent in 2017, reduced by decrements to an ultimate rate of five percent in 2021 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2018 was 21 years.

NOTE N FUND BALANCES

As of March 31, 2018, fund balances of the governmental funds are classified, if applicable, as follows:

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

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

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

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

Unassigned – all other spendable amounts.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

As of March 31, 2018, 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	\$ 318,314	\$ -	\$ -	\$ 318,314
Restricted:				
Police expenditures	-	-	18,828	18,828
Public works expenditures	-	-	82,328	82,328
Unassigned (deficit)	<u>8,447,410</u>	<u>(2,919,409)</u>	<u>-</u>	<u>5,528,001</u>
Total Fund Balances (Deficit)	<u>\$ 8,765,724</u>	<u>\$(2,919,409)</u>	<u>\$ 101,156</u>	<u>\$ 5,947,471</u>

NOTE O SUBSEQUENT EVENTS

The City has evaluated all subsequent events through December 12, 2018, 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, 2018**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property tax	\$ 1,325,500	\$ 1,330,477	\$ 4,977
Rental tax	1,025,000	1,140,186	115,186
Transfer tax	1,500,000	2,358,798	858,798
Construction tax	55,000	75,059	20,059
Penalties and interest	3,000	4,245	1,245
Total Taxes	<u>3,908,500</u>	<u>4,908,765</u>	<u>1,000,265</u>
Licenses and permits:			
Mercantile licenses	518,000	436,193	(81,807)
Building permits	650,000	819,507	169,507
Other	64,300	66,536	2,236
Total Licenses and Permits	<u>1,232,300</u>	<u>1,322,236</u>	<u>89,936</u>
Franchise fees	<u>140,000</u>	<u>175,840</u>	<u>35,840</u>
Intergovernmental revenues:			
General government	5,325	-	(5,325)
Public works	9,000	1,305,326	1,296,326
Public safety	177,514	148,145	(29,369)
Total Intergovernmental Revenues	<u>191,839</u>	<u>1,453,471</u>	<u>1,261,632</u>
Charges for services:			
Parking meters	4,327,000	4,068,142	(258,858)
Parking permits	705,000	797,883	92,883
Waste collection	766,500	817,751	51,251
Total Charges for Services	<u>5,798,500</u>	<u>5,683,776</u>	<u>(114,724)</u>
Fines and forfeitures:			
Parking	653,000	744,324	91,324
Court	90,000	77,146	(12,854)
Police	94,000	102,736	8,736
Total Fines and Forfeitures	<u>837,000</u>	<u>924,206</u>	<u>87,206</u>
Investment earnings	<u>2,008</u>	<u>2,477</u>	<u>469</u>
Rents and concessions	<u>369,303</u>	<u>323,511</u>	<u>(45,792)</u>
Contributions and donations	<u>20,200</u>	<u>24,320</u>	<u>4,120</u>
Miscellaneous revenues	<u>21,700</u>	<u>73,437</u>	<u>51,737</u>
TOTAL REVENUES	<u>12,521,350</u>	<u>14,892,039</u>	<u>2,370,689</u>
EXPENDITURES			
General government:			
Mayor and Council	259,772	202,925	56,847
Assessors	3,038	2,568	470
Administrative	1,900,575	1,489,387	411,188
Alderman Court	70,154	66,786	3,368
Buildings and licensing	506,524	522,703	(16,179)
Information technology	420,998	364,766	56,232
Buildings and grounds	510,733	372,858	137,875
Total General Government	<u>3,671,794</u>	<u>3,021,993</u>	<u>649,801</u>

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2018**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
EXPENDITURES (cont'd)			
Public safety:			
Police	2,666,579	2,676,536	(9,957)
Dispatch	628,195	657,582	(29,387)
Volunteer fire	60,700	63,044	(2,344)
Beach patrol	640,631	627,623	13,008
Total Public Safety	<u>3,996,105</u>	<u>4,024,785</u>	<u>(28,680)</u>
Public works:			
Streets	1,042,070	972,158	69,912
Waste collection	1,103,803	996,272	107,531
Parking	1,206,126	1,183,585	22,541
Total Public Works	<u>3,351,999</u>	<u>3,152,015</u>	<u>199,984</u>
Recreation and culture:			
Comfort stations	200,500	186,267	14,233
Parks	247,815	262,579	(14,764)
Library	15,000	15,000	-
Main Street	24,000	21,785	2,215
Museum	50,000	25,579	24,421
Recreation	182,017	160,211	21,806
Total Recreation and Culture	<u>719,332</u>	<u>671,421</u>	<u>47,911</u>
Debt service:			
Interest and principal	614,053	613,037	1,016
Capital outlays	2,237,434	2,248,645	(11,211)
TOTAL EXPENDITURES	<u>14,590,717</u>	<u>13,731,896</u>	<u>858,821</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,069,367)</u>	<u>1,160,143</u>	<u>3,229,510</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	23,933	23,933
Transfers in (out)	2,069,367	-	(2,069,367)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,069,367</u>	<u>23,933</u>	<u>(2,045,434)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	1,184,076	<u>\$ 1,184,076</u>
FUND BALANCE, BEGINNING OF YEAR		<u>7,581,648</u>	
FUND BALANCE, END OF YEAR		<u>\$ 8,765,724</u>	

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

	Measurement Date		
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net pension asset (liability)	1.3791%	1.4716%	1.4716%
City's proportion of the net pension asset (liability) - dollar value	\$ (139,030)	\$ (248,287)	\$ 77,560
City's covered employee payroll	1,397,733	1,237,682	1,298,035
City's proportionate share of the net pension asset (liability) as a percentage of its covered employee payroll	-9.95%	-20.06%	5.98%
Plan fiduciary net position as a percentage of the total pension liability	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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS
Delaware Public Employees' Retirement System (DPERS)
County and Municipal Police and Firefighters' Pension Plan**

	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Contractually required contribution	\$ 121,112	\$ 142,832	\$ 169,967
Contributions in relation to the contractually required contribution	<u>121,112</u>	<u>142,832</u>	<u>169,967</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,397,733	\$ 1,244,181	\$ 1,234,328
Contributions as a percentage of covered-employee payroll	8.66%	11.48%	13.77%

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

COMBINING FUND STATEMENTS

**CITY OF REHOBOTH BEACH
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 MARCH 31, 2018**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 92,795	\$ 13,980	\$ 106,775
Due from other funds	-	43,590	43,590
TOTAL ASSETS	<u>\$ 92,795</u>	<u>\$ 57,570</u>	<u>\$ 150,365</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,587	\$ 38,742	\$ 48,329
Due to other funds	880	-	880
TOTAL LIABILITIES	<u>10,467</u>	<u>38,742</u>	<u>49,209</u>
FUND BALANCES			
Restricted:			
Police expenditures	-	18,828	18,828
Public works expenditures	82,328	-	82,328
TOTAL FUND BALANCES	<u>82,328</u>	<u>18,828</u>	<u>101,156</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 92,795</u>	<u>\$ 57,570</u>	<u>\$ 150,365</u>

**CITY OF REHOBOTH BEACH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2018**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 110,158	\$ 46,683	\$ 156,841
TOTAL REVENUES	<u>110,158</u>	<u>46,683</u>	<u>156,841</u>
EXPENDITURES			
Public safety	-	63,824	63,824
Public works	122,916	-	122,916
TOTAL EXPENDITURES	<u>122,916</u>	<u>63,824</u>	<u>186,740</u>
CHANGE IN FUND BALANCES	(12,758)	(17,141)	(29,899)
FUND BALANCES, BEGINNING OF YEAR	<u>95,086</u>	<u>35,969</u>	<u>131,055</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 82,328</u></u>	<u><u>\$ 18,828</u></u>	<u><u>\$ 101,156</u></u>

CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF NET POSITION - SEWER FUNDS
MARCH 31, 2018

	Sewer Fund	Sewer Capital Projects Fund	Interfund Eliminations	Totals
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,896,302	\$ -	\$ -	\$ 2,896,302
Accounts receivable	267,923	-	-	267,923
Due from other funds	28,431,880	6,921,976	(34,770,878)	582,978
Interest receivable	324	-	-	324
Loan proceeds receivable	12,551,322	-	-	12,551,322
Prepaid expenses	43,613	-	-	43,613
Inventory	61,983	-	-	61,983
Noncurrent Assets:				
Capital assets, net of depreciation	6,784,798	33,978,613	-	40,763,411
TOTAL ASSETS	\$ 51,038,145	\$ 40,900,589	\$(34,770,878)	\$ 57,167,856
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 77,202	\$ 12,650,867	\$ -	\$ 12,728,069
Accrued salaries and benefits	26,771	-	-	26,771
Accrued interest	3,915	-	-	3,915
Accrued expenses	6,980	-	-	6,980
Contingency reserve	14,364	-	-	14,364
Due to other funds	6,410,292	28,360,586	(34,770,878)	-
Note payable	1,039,351	-	-	1,039,351
Noncurrent Liabilities:				
Notes and bonds payable	27,277,679	-	-	27,277,679
Other postemployment liability	203,591	-	-	203,591
Compensated absences	134,664	-	-	134,664
TOTAL LIABILITIES	35,194,809	41,011,453	(34,770,878)	41,435,384
NET POSITION				
Net investment in capital assets	(21,532,232)	33,978,613	-	12,446,381
Unrestricted (deficit)	37,375,568	(34,089,477)	-	3,286,091
TOTAL NET POSITION (DEFICIT)	15,843,336	(110,864)	-	15,732,472
TOTAL LIABILITIES AND NET POSITION	\$ 51,038,145	\$ 40,900,589	\$ -	\$ 57,167,856

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2018**

	Sewer Fund	Sewer Capital Projects Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 3,063,764	\$ -	\$ 3,063,764
Other operating revenues	565,432	-	565,432
Total Operating Revenues	<u>3,629,196</u>	<u>-</u>	<u>3,629,196</u>
OPERATING EXPENSES			
Salaries and benefits	978,271	-	978,271
Materials and supplies	282,043	-	282,043
Administration expenses	15,063	16,907	31,970
Contractual services	64,482	-	64,482
Land and equipment rental	38,250	-	38,250
Repairs and maintenance	422,793	-	422,793
Utilities	291,262	-	291,262
Insurance	65,204	-	65,204
Depreciation	732,410	-	732,410
Total Operating Expenses	<u>2,889,778</u>	<u>16,907</u>	<u>2,906,685</u>
OPERATING INCOME (LOSS)	<u>739,418</u>	<u>(16,907)</u>	<u>722,511</u>
NONOPERATING REVENUES (EXPENSES)			
Sewer impact fees	47,853	-	47,853
Investment income	1,324	-	1,324
Interest expense	(9,868)	-	(9,868)
Intergovernmental grants	93,643	-	93,643
Total Nonoperating Revenues	<u>132,952</u>	<u>-</u>	<u>132,952</u>
CHANGE IN NET POSITION	872,370	(16,907)	855,463
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>14,970,966</u>	<u>(93,957)</u>	<u>14,877,009</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$15,843,336</u>	<u>\$ (110,864)</u>	<u>\$15,732,472</u>

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF CASH FLOWS - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2018**

	Sewer Fund	Sewer Capital Projects Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 3,609,061	\$ -	\$ 3,609,061
Cash paid for goods and services	(1,749,220)	-	(1,749,220)
Cash paid to employees	(922,759)	-	(922,759)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>937,082</u>	<u>-</u>	<u>937,082</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital assets purchased	(130,545)	(17,693,363)	(17,823,908)
Loans from other funds	(17,693,363)	17,693,363	-
Proceeds received from capitalization and impact fees	47,853	-	47,853
Capital grants	93,643	-	93,643
Proceeds from issuance of bonds	15,499,495	-	15,499,495
Principal paid on note payable	(46,971)	-	(46,971)
Interest paid on note payable	(10,455)	-	(10,455)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,240,343)</u>	<u>-</u>	<u>(2,240,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	1,324	-	1,324
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,324</u>	<u>-</u>	<u>1,324</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,301,937)	-	(1,301,937)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,198,239	-	4,198,239
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,896,302</u>	<u>\$ -</u>	<u>\$ 2,896,302</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 739,418	\$ (16,907)	\$ 722,511
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	732,410	-	732,410
(Increase) Decrease in assets:			
Accounts receivable	(20,135)	-	(20,135)
Due from other funds	(405,246)	-	(405,246)
Inventory	7,359	-	7,359
Prepaid expenses	(3,660)	-	(3,660)
Increase (Decrease) in liabilities:			
Accounts payable	53,546	16,907	70,453
Contingency reserve	(213,380)	-	(213,380)
Accrued salaries and benefits	26,771	-	26,771
Compensated absences	19,999	-	19,999
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 937,082</u>	<u>\$ -</u>	<u>\$ 937,082</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital assets acquired through the incurrence of payables	<u>\$ -</u>	<u>\$ 12,551,322</u>	<u>\$ 12,551,322</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

December 12, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

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

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Compliance and Other Matters

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

Purpose of This Report

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

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

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

December 12, 2018

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, 2018. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Opinion on Major Federal Program

In our opinion, the City of Rehoboth Beach, Rehoboth Beach, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2018.

Report on Internal Control Over Compliance

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

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

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

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


BARBACANE, THORNTON & COMPANY LLP

CITY OF REHOBOTH BEACH
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified

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

 Yes X No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

10.766

Community Facilities Loan and Grants

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

\$750,000

Auditee qualified as low-risk auditee?

 X Yes No

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

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**CITY OF REHOBOTH BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2018**

GRANTOR	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES MARCH 31, 2018	PASSED THROUGH TO SUB-RECIPIENTS	OUTSTANDING LOAN BALANCE
<u>U.S. Department of Agriculture</u>						
Community Facilities Loans and Grants	D	10.766	N/A	\$ 7,035,345	\$ -	\$ 17,427,197
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>7,035,345</u>	<u>-</u>	<u>17,427,197</u>
<u>U.S. Department of Transportation</u>						
<u>Passed through Delaware Department of Transportation</u>						
Alcohol Open Container Requirements	I	20.607	N/A	1,475	-	-
State and Community Highway Safety	I	20.600	N/A	12,073	-	-
Minimum Penalties for Repeat Offenders For Driving While Intoxicated	I	20.608	N/A	1,080	-	-
National Priority Safety Programs	I	20.616	N/A	<u>2,400</u>	<u>-</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>17,028</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Justice</u>						
<u>Passed Through State of Delaware</u>						
Edward Byrne Memorial Justice Assistance Grant Program	I	16.738	N/A	<u>7,050</u>	<u>-</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF JUSTICE				<u>7,050</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 7,059,423</u>	<u>\$ -</u>	<u>\$ 17,427,197</u>
TOTAL HIGHWAY SAFETY CLUSTER				<u>\$ 14,473</u>	<u>\$ -</u>	<u>\$ -</u>

Source Codes:
D = Direct Funding
I = Indirect Funding

CITY OF REHOBOTH BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A REPORTING ENTITY

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended March 31, 2018, there were no indirect costs included in the schedule of expenditures of federal awards.

NOTE D LOAN BALANCES INVOLVING FEDERAL FUNDS

During the year ended March 31, 2017, the City was awarded an \$18,000,000 loan from the U.S. Department of Agriculture for construction of a new City Hall. During the year ended March 31, 2018, the City drew down an additional \$6,023,652 on the loan. The loan balance at March 31, 2018 was \$17,427,197.