



---

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**MARCH 31, 2014**

---

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 12
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	13
- Statement of Activities	14
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	15
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	16
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
- Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	18
- Statement of Net Position - Proprietary Funds	19
- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	20
- Statement of Cash Flows - Proprietary Funds	21
NOTES TO FINANCIAL STATEMENTS	22 - 37
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	38 - 39
COMBINING NONMAJOR FUND STATEMENTS	
- Combining Balance Sheet - Nonmajor Governmental Funds	40
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	41

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTAL REPORT	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42 - 43

## INDEPENDENT AUDITOR'S REPORT

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

December 1, 2014

T 302.478.8940  
F 302.468.4001  
www.btcpa.com

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

### 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, 2014, 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 2013 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 November 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 12 and the budgetary comparison schedule - general fund on pages 38 - 39 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rehoboth Beach's basic financial statements. The combining nonmajor fund financial statements on pages 40 - 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the City of Rehoboth Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rehoboth Beach's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED  
MARCH 31, 2014**

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, 2014. Please read it in conjunction with the City's financial statements, which begin on page 13.

### **FINANCIAL HIGHLIGHTS**

The assets of the City exceeded its liabilities at March 31, 2014 by \$58.4 million (net position). Of this amount, \$10.4 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net position decreased by \$547 thousand.

As of March 31, 2014, the City's governmental funds reported combined ending fund balances of \$5.5 million, an increase of \$1.4 million as compared to the prior year. The current year increase in fund balance can be attributed to higher than budgeted revenues. Total governmental fund revenue increased by \$282 thousand while expenditures increased by \$93 thousand. The components of revenue that contributed most significantly to the overall revenue increase were transfer tax and building permits, increasing by \$369 thousand and \$129 thousand, respectively. There was no material change in the amount of revenue collected from property tax.

As of March 31, 2014, the City's proprietary funds reported combined net position of \$22.6 million, a decrease of \$26 thousand compared to the prior year. The decrease can be attributed to the following: a) \$213 thousand decrease in operating revenues, including a \$292 thousand decline in charges for services; and b) \$127 thousand increase in operating expenses. The water and wastewater funds transferred \$806 thousand to the general fund, a decrease of \$43 thousand from the prior year. Water capitalization fees increased by \$106 thousand while interest expense decreased by \$13 thousand. These later items offset a portion of the declines in revenues.

### **Overview of the Financial Statements**

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The discussion and analysis is intended to serve as an introduction to the City of Rehoboth Beach's basic financial statements. The City of Rehoboth Beach's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are entity-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the entity-wide statements.

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

**CITY OF REHOBOTH BEACH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)**  
**MARCH 31, 2014**

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

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

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

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

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

**Governmental Funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in reconciliation statements on pages 16 and 18 of the financial statements.

**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

**CITY OF REHOBOTH BEACH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)**  
**MARCH 31, 2014**

more detail and additional information, such as cash flows, for the City's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the entity-wide financial statements. The City uses proprietary funds to account for its water and sewer operations.

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

**Required Supplementary Information** - In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City. A budgetary comparison schedule has been provided for the general fund.

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

**Entity-wide Financial Analysis**

The following table presents a summary of the statement of net position for the City as of March 31, 2013 and 2014.

**Table 1 – Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Current and other assets	\$ 5,775,367	\$ 4,563,624	\$ 7,092,934	\$ 6,235,866	\$ 12,868,301	\$ 10,799,490
Capital assets, net	33,947,087	36,346,994	20,334,298	21,448,550	54,281,385	57,795,544
<b>TOTAL ASSETS</b>	<b>39,722,454</b>	<b>40,910,618</b>	<b>27,427,232</b>	<b>27,684,416</b>	<b>67,149,686</b>	<b>68,595,034</b>
<b>LIABILITIES</b>						
Other liabilities	937,616	1,010,145	687,635	706,481	1,625,251	1,716,626
Long-term debt	2,967,392	3,561,799	4,176,190	4,388,543	7,143,582	7,950,342
<b>TOTAL LIABILITIES</b>	<b>3,905,008</b>	<b>4,571,944</b>	<b>4,863,825</b>	<b>5,095,024</b>	<b>8,768,833</b>	<b>9,666,968</b>
<b>NET POSITION</b>						
Net investment in capital assets	31,534,763	33,296,902	16,328,124	17,210,813	47,862,887	50,507,715
Restricted	76,214	65,258	-	-	76,214	65,258
Unrestricted	4,206,469	2,976,514	6,235,283	5,378,579	10,441,752	8,355,093
<b>TOTAL NET POSITION</b>	<b>\$ 35,817,446</b>	<b>\$ 36,338,674</b>	<b>\$ 22,563,407</b>	<b>\$ 22,589,392</b>	<b>\$ 58,380,853</b>	<b>\$ 58,928,066</b>

The largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to residents and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF REHOBOTH BEACH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)**  
**MARCH 31, 2014**

**Table 2 – Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 6,390,523	\$ 6,362,284	\$ 4,911,253	\$ 5,126,999	\$ 11,301,776	\$ 11,489,293
Operating grants/contributions	327,808	373,294	14,643	-	342,451	373,294
Capital grants/contributions	128,535	303,324	315,565	257,294	444,100	560,618
General revenues:						
Taxes	4,145,463	3,689,704	-	-	4,145,463	3,689,704
Investment earnings	7,961	10,423	7,951	11,250	15,912	21,673
Franchise fees	83,061	79,422	-	-	83,061	79,422
Miscellaneous	113,070	184,623	-	-	113,070	184,263
Transfers	806,279	849,481	-	-	806,279	849,481
<b>TOTAL REVENUES</b>	<b>12,002,700</b>	<b>11,852,555</b>	<b>5,249,412</b>	<b>5,395,543</b>	<b>17,252,112</b>	<b>17,248,098</b>
<b>EXPENSES</b>						
General government	2,482,945	2,353,970	-	-	2,482,945	2,353,970
Public safety	2,847,393	2,805,281	-	-	2,847,393	2,805,281
Public works	5,839,092	5,755,252	-	-	5,839,092	5,755,252
Recreation and culture	1,259,280	1,265,294	-	-	1,259,280	1,265,294
Interest on long-term debt	95,218	116,952	-	-	95,218	116,952
Water operations	-	-	1,958,214	1,802,086	1,958,214	1,802,086
Sewer operations	-	-	2,510,904	2,552,686	2,510,904	2,552,686
Transfers	-	-	806,279	849,481	806,279	849,481
<b>TOTAL EXPENSES</b>	<b>12,523,928</b>	<b>12,296,749</b>	<b>5,275,397</b>	<b>5,204,253</b>	<b>17,799,325</b>	<b>17,501,002</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(521,228)</b>	<b>(444,194)</b>	<b>(25,985)</b>	<b>191,290</b>	<b>(547,213)</b>	<b>(252,904)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>36,338,674</b>	<b>36,782,868</b>	<b>22,589,392</b>	<b>22,398,102</b>	<b>58,928,066</b>	<b>59,180,970</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 35,817,446</b>	<b>\$ 36,338,674</b>	<b>\$ 22,563,407</b>	<b>\$ 22,589,392</b>	<b>\$ 58,380,853</b>	<b>\$ 58,928,066</b>

**Governmental Activities**

The cost of all governmental activities in 2014 was \$12.5 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$4.1 million, or 33.1 percent. Other costs were paid by those who directly benefited from the programs (\$6.4 million, or 51.0 percent), government agencies and organizations that subsidized funding with intergovernmental aid (\$0.5 million or 3.6 percent), and transfers from water and wastewater funds (\$0.8 million, or 6.4 percent).

Capital grants and contributions decreased from the prior year by \$0.2 million. The decline is attributed to the completion of the Energy Competitive Project and the Delaware Avenue restroom renovation and the grant funding associated with the projects. Property tax revenue decreased by \$1 thousand as a result differences in the timing of property tax receipts. The property tax rate of \$1.78 per hundred remained unchanged from the prior year. Property Transfer Tax revenue increased by \$369 thousand or 26 percent as a resulted of increased real estate sales. Charges for services directly associated with program functions increased by \$28 thousand from the prior year.

**CITY OF REHOBOTH BEACH**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)**  
**MARCH 31, 2014**

As indicated by the governmental program expenses, general government programs accounted for 19.8 percent of the City's governmental activities. Increases for governmental activities are due to cost-of-living increases for wages, medical insurance inflation, legal, and professional services. Public safety expenses accounted for 22.7 percent of the City's governmental activities in the year ended March 31, 2014 and 22.8 percent in the prior year. The increased costs were due to cost-of-living increases for wages and inflation for benefit costs. Public works expenses accounted for 46.6 percent of the City's governmental activities or \$5.8 million. Public works also experienced increases due to cost-of-living increases for wages and medical insurance inflation. Culture and recreation expenses accounted for 10.1 percent of the City's governmental activities and represented a decrease of 0.2 percent from the prior year.

**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 Dewey Beach, Henlopen Acres, and North Shores for wastewater treatment services and water distribution.

Charges for services represent the principal revenue source for the City's business-type activities. Current water rates were not increased during the fiscal year. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges. Total revenue in the Water Department increased in the amount of \$147 thousand. Sources contributing to the increase over the prior year were out-of-town water capitalization fees (\$106 thousand increase) and new meter installations (\$50,000 increase). Wastewater Department revenue declined by \$293 thousand. Compared to the prior year, Dewey Beach sewer revenue declined by \$140 thousand, and the combination of sewer charges and surcharges declined by \$75 thousand. Revenue received from Dewey Beach and Henlopen Acres for their shares of the sewer outfall engineering costs declined by \$48 thousand. As the Outfall Project has been delayed, pending approval by DNREC, there was a reduction in engineering costs which are shared by the City of Rehoboth Beach, Dewey Beach, and Henlopen Acres.

The overall operating expense of business-type activities increased by \$127 thousand or 3.0 percent. Legal costs increased by \$62 thousand, primarily as a result of litigation pertaining to a water/sewer line easement matter. General maintenance expenses for the Water and Wastewater Departments increased by \$56 thousand and \$46 thousand, respectively. The \$63 thousand emergency repair of a force main at State Road attributed to the \$46 thousand general maintenance cost increase in the Wastewater Department. Significant construction activity in the City increased the cost of new connections and repairs by \$76 thousand over the previous fiscal year. This cost was offset by revenue derived from the installation of new meters and components. There was a \$14 thousand unanticipated replacement cost of the 6" wet tap at the fire main located at 143 Rehoboth Avenue.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)  
MARCH 31, 2014

### 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 unassigned 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, 2014, the City's governmental funds reported combined ending fund balances of \$5.5 million, an increase of \$1.4 million as compared to the prior year. The fund balance increase is almost entirely attributed to the \$1.1 million positive variance from the prior year in general fund revenues. Less than 1.4 percent, or \$76 thousand, constitutes fund balance restricted for special purposes. The \$5.05 million unassigned portion of fund balance in the City's general fund is available to be used at the City's discretion. The City has also assigned \$179 thousand of the fund balance for the Municipal Building Project.

The general fund is the chief operating fund of the City. The City also has two non-major governmental funds, one to account for certain police grants and another to account for certain grants awarded for street operations and maintenance.

The City's departmental expenditures increased by approximately \$155 thousand from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average 3.0 percent wage increase for all City employees, effective April 1, 2014. In accordance with their collective bargaining agreement, police officers also received a three percent increase, effective April 1, 2012. There was a \$243 thousand increase in wage expense in the governmental funds. The largest increases from the prior year were in the Police and Information Technology Departments. The three percent annual wage increase and the filling of positions that had been vacant in the prior year were responsible for the \$90,000 increase. The IT Department wages increased by \$61 thousand primarily as a result of the new IT Director being hired as an employee, whereas the retiring IT Director was an independent contractor.
- The City experienced a decrease in electric costs of approximately \$19 thousand.

During 2014, the City's governmental funds decreased capital outlays by \$374 thousand to \$888 thousand.

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

- \$145.8 thousand for a New Way Cobra trash truck,
- \$ 75.7 thousand to complete a phase of the sidewalk improvement project,
- \$ 67.1 thousand toward the Wastewater Department standby electric generator project,
- \$ 64.1 thousand toward the Brooklyn Avenue storm drainage project,
- \$ 57.6 thousand toward the Wastewater Department Schoolvue sewer project,
- \$ 56.6 thousand for two police vehicles,
- \$ 50.5 thousand toward the ongoing construction costs of the Lake Avenue Streetscape,
- \$ 49.6 thousand for computer servers and software, and
- \$ 48.5 thousand for the City Hall Feasibility Study.

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)  
MARCH 31, 2014**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the City's budget and actual results can be found on pages 38 - 39. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$1.14 million. Taxes, licenses and permits, and intergovernmental revenues exceeded budget by \$822 thousand, \$365.6 thousand, and \$162 thousand, respectively. Transfer tax exceeded budget by \$725.2 thousand. Charges for services (parking meter/lot revenue and waste collection) were \$38 thousand below budget.
- Rental tax was \$55 thousand more than budget. Parking fines were \$34.7 thousand less than budget.
- Total general fund expenditures were \$62 thousand less than budget.
- Street Department expenditures, including charges for engineering services, sidewalk maintenance, and supplies, exceeded budget by \$95 thousand. The Waste Collection Department expenditures were \$92 thousand in excess of budget. The most significant expenditure categories attributing to the variance were salaries (\$42 thousand), refuse disposal fees (\$19 thousand), workmen's compensation (\$15 thousand), and vehicle maintenance (\$19 thousand).
- Parking Department expenditures were \$151 thousand below budget.
- Police Department expenditures were \$34 thousand less than budget. Legal expenses and workmen's compensation were \$25 thousand and \$80 thousand greater than budget, respectively.
- Administrative expenditures were \$86 thousand over budget as the Planning Commission and Board of Adjustment exceeded budget by \$12.5 thousand and \$8.2 thousand respectively. Legal fees represent the largest component of their budgets. The new city manager search and travel costs were \$22.6 thousand and were not included in the 2013-2014 budget. Supplies and material costs were \$12.3 thousand in excess of budget and included expenditures for computer/copier supplies and office equipment.
- All other fluctuations in revenues and expenditures from budget to actual are deemed reasonable, based on 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, 2014, amounted to \$54.3 million (net of accumulated depreciation). Capital assets include land, building and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction-in-progress. The total net decrease in the City's capital assets for the

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)  
MARCH 31, 2014**

current fiscal year was approximately \$3.5 million. Current year depreciation of \$4.6 million exceeded capital asset additions by \$3.5 million. Construction-in-progress of \$1.9 million consisted primarily of Ocean Outfall engineering costs (\$1.25 million). Forty percent of the amount in Ocean Outfall construction-in-progress has been paid by Dewey Beach and Henlopen Acres.

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

### **Debt Administration**

During the year ended March 31, 2014, the City did not incur any additional debt. In addition, the City made debt service principal payments in the amount of \$869 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. In fiscal year 2014-2015, the City expects to issue \$450,000 of bonds payable to the Delaware Water Pollution Control Revolving Fund for the Schoolvue sanitary sewer line replacement project. The bonds will mature on May 1, 2023 and bear interest at three percent.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- As a result of the general improvement in real estate sales throughout our region, transfer taxes increased by \$725 thousand as compared to the prior year. This was an exceptional increase that is unlikely to occur in our 2014-2015 year.
- The 2014-2015 combined budgets for the governmental and proprietary funds reflect total appropriations in the amount of \$17,277,851, a \$1,549,823 increase from the prior year. The budget for capital outlays is \$325 thousand above the prior year. Ocean Outfall project costs are \$132 thousand above the prior year. Salary expense and payroll taxes as a result of the annual three percent rate increase increased the budget by over \$325 thousand.
- The 2013-2014 property tax rate was unchanged at \$1.78 per hundred of assessed property value.
- The wastewater surcharge will remain at 50 percent of sewer bills.
- The 2014-2015 budget calls for three percent wage increase for all City employees.
- The City has allocated \$1.6 million to the 2014-2015 capital improvement program budget. The largest components of the capital improvements budget are the fire hydrant and valve project (\$225 thousand), design work for the municipal building project (\$245 thousand), new street equipment for the Public Works Department (\$478 thousand), and infrastructure upgrades in the Water and Wastewater Departments (\$193 thousand).

**CITY OF REHOBOTH BEACH  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (cont'd)  
MARCH 31, 2014**

**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, 2014**  
(With Summarized Comparative Data for March 31, 2013)

	Governmental Activities	Business-type Activities	Totals	
			2014	2013
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,420,043	\$ 6,340,495	\$11,760,538	\$ 9,469,229
Taxes receivable	8,129	-	8,129	6,657
Accounts receivable	151,558	377,709	529,267	644,413
Interest receivable	-	723	723	2,256
Due from other governments	979	-	979	3,979
Prepaid expenses	164,181	50,374	214,555	205,686
Inventory	30,477	323,633	354,110	323,520
Loan receivable	-	-	-	143,750
<b>CAPITAL ASSETS</b>				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	481,618	1,431,444	1,913,062	1,444,728
Depreciable capital assets, net of depreciation	<u>30,650,510</u>	<u>18,709,918</u>	<u>49,360,428</u>	<u>53,342,921</u>
<b>TOTAL ASSETS</b>	<u><u>\$39,722,454</u></u>	<u><u>\$27,427,232</u></u>	<u><u>\$67,149,686</u></u>	<u><u>\$68,595,034</u></u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 141,779	\$ 70,503	\$ 212,282	\$ 359,751
Accrued salaries and benefits	89,954	20,263	110,217	97,931
Accrued interest	7,225	46,071	53,296	57,879
Deposits	38,727	-	38,727	39,171
Unearned revenues	-	-	-	1,000
Contingency reserve	-	312,800	312,800	291,732
Note payable	659,931	237,998	897,929	869,162
Noncurrent Liabilities:				
Note payable	1,752,393	3,768,176	5,520,569	6,418,667
Liability for other post-employment benefits	776,794	210,344	987,138	845,052
Compensated absences	438,205	197,670	635,875	686,623
<b>TOTAL LIABILITIES</b>	<u><u>3,905,008</u></u>	<u><u>4,863,825</u></u>	<u><u>8,768,833</u></u>	<u><u>9,666,968</u></u>
<b>NET POSITION</b>				
Net investment in capital assets	31,534,763	16,328,124	47,862,887	50,507,715
Restricted:				
Police expenditures	16,040	-	16,040	10,594
Public works expenditures	60,174	-	60,174	54,664
Unrestricted	4,206,469	6,235,283	10,441,752	8,355,093
<b>TOTAL NET POSITION</b>	<u><u>35,817,446</u></u>	<u><u>22,563,407</u></u>	<u><u>58,380,853</u></u>	<u><u>58,928,066</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$39,722,454</u></u>	<u><u>\$27,427,232</u></u>	<u><u>\$67,149,686</u></u>	<u><u>\$68,595,034</u></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, 2014  
(With Summarized Comparative Data for the Year Ended March 31, 2013)**

	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	
							2014	2013
<b>GOVERNMENTAL ACTIVITIES:</b>								
General government	\$ 2,482,945	\$ 1,607,892	\$ 21,494	\$ 95,209	\$ (758,350)	\$ -	\$ (758,350)	\$ (646,284)
Public safety	2,847,393	116,706	192,855	-	(2,537,832)	-	(2,537,832)	(2,467,902)
Public works	5,839,092	4,614,506	113,459	33,326	(1,077,801)	-	(1,077,801)	(805,178)
Recreation and culture	1,259,280	51,419	-	-	(1,207,861)	-	(1,207,861)	(1,221,531)
Interest on general long-term debt	95,218	-	-	-	(95,218)	-	(95,218)	(116,952)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>12,523,928</b>	<b>6,390,523</b>	<b>327,808</b>	<b>128,535</b>	<b>(5,677,062)</b>	<b>-</b>	<b>(5,677,062)</b>	<b>(5,257,847)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Water	1,958,214	2,274,141	-	312,431	-	628,358	628,358	637,981
Sewer	2,510,904	2,637,112	14,643	3,134	-	143,985	143,985	391,540
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>4,469,118</b>	<b>4,911,253</b>	<b>14,643</b>	<b>315,565</b>	<b>-</b>	<b>772,343</b>	<b>772,343</b>	<b>1,029,521</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$16,993,046</b>	<b>\$11,301,776</b>	<b>\$ 342,451</b>	<b>\$ 444,100</b>	<b>(5,677,062)</b>	<b>772,343</b>	<b>(4,904,719)</b>	<b>(4,228,326)</b>
<b>GENERAL REVENUES AND TRANSFERS:</b>								
Taxes					4,145,463	-	4,145,463	3,689,704
Investment earnings					7,961	7,951	15,912	21,673
Franchise fees					83,061	-	83,061	79,422
Miscellaneous revenues					113,070	-	113,070	184,623
TRANSFERS					806,279	(806,279)	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>5,155,834</b>	<b>(798,328)</b>	<b>4,357,506</b>	<b>3,975,422</b>
<b>CHANGE IN NET POSITION</b>					<b>(521,228)</b>	<b>(25,985)</b>	<b>(547,213)</b>	<b>(252,904)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>					<b>36,338,674</b>	<b>22,589,392</b>	<b>58,928,066</b>	<b>59,180,970</b>
<b>NET POSITION, END OF YEAR</b>					<b>\$35,817,446</b>	<b>\$22,563,407</b>	<b>\$58,380,853</b>	<b>\$58,928,066</b>

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

**CITY OF REHOBOTH BEACH**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2014**  
(With Summarized Comparative Data for March 31, 2013)

	General Fund	Nonmajor Governmental Funds	Totals	
			2014	2013
<b>ASSETS</b>				
Cash and cash equivalents	\$5,339,808	\$ 80,235	\$5,420,043	\$4,087,946
Taxes receivable	8,129	-	8,129	6,657
Accounts receivable	151,558	-	151,558	126,087
Grants receivable	979	-	979	3,979
Prepaid expenditures	164,181	-	164,181	164,108
Inventory	30,477	-	30,477	31,097
Loan receivable	-	-	-	143,750
<b>TOTAL ASSETS</b>	<u>\$5,695,132</u>	<u>\$ 80,235</u>	<u>\$5,775,367</u>	<u>\$4,563,624</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 137,758	\$ 4,021	\$ 141,779	\$ 243,062
Accrued salaries and benefits	89,954	-	89,954	80,168
Deposits	38,727	-	38,727	39,171
Unearned revenue	-	-	-	1,000
<b>TOTAL LIABILITIES</b>	<u>266,439</u>	<u>4,021</u>	<u>270,460</u>	<u>363,401</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenues - loan receivable	-	-	-	143,750
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,750</u>
<b>FUND BALANCES:</b>				
Nonspendable	194,658	-	194,658	195,205
Restricted:				
Police expenditures	-	16,040	16,040	10,594
Public works expenditures	-	60,174	60,174	54,664
Assigned:				
Municipal building project	179,122	-	179,122	113,191
Unassigned	5,054,913	-	5,054,913	3,682,819
<b>TOTAL FUND BALANCES</b>	<u>5,428,693</u>	<u>76,214</u>	<u>5,504,907</u>	<u>4,056,473</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$5,695,132</u>	<u>\$ 80,235</u>	<u>\$5,775,367</u>	<u>\$4,563,624</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, 2014**

TOTAL GOVERNMENTAL FUND BALANCES \$ 5,504,907

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. 33,947,087

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	(7,225)
Note payable	(2,412,324)
Other post-employment benefits	(776,794)
Compensated absences	(438,205)
	<u>33,947,087</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 35,817,446

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, 2014**  
**(With Summarized Comparative Data for the Year Ended March 31, 2013)**

	General Fund	Nonmajor Governmental Funds	Totals	
			2014	2013
<b>REVENUES</b>				
Taxes	\$ 4,145,463	\$ -	\$ 4,145,463	\$ 3,689,704
Licenses and permits	1,244,577	-	1,244,577	1,092,435
Franchise fees	83,061	-	83,061	79,422
Intergovernmental revenues	307,653	148,690	456,343	701,620
Charges for services	4,153,974	-	4,153,974	4,087,417
Fines and forfeitures	720,988	-	720,988	794,927
Investment earnings	7,961	-	7,961	10,423
Rents and concessions	414,734	-	414,734	387,505
Contributions and donations	19,682	-	19,682	15,470
Miscellaneous revenues	63,270	-	63,270	169,152
<b>TOTAL REVENUES</b>	<u>11,161,363</u>	<u>148,690</u>	<u>11,310,053</u>	<u>11,028,075</u>
<b>EXPENDITURES</b>				
General government	2,315,372	-	2,315,372	2,118,114
Public safety	2,710,413	26,793	2,737,206	2,648,337
Public works	2,794,517	104,831	2,899,348	2,755,871
Recreation and culture	1,123,010	-	1,123,010	1,085,761
Debt service	734,906	-	734,906	734,906
Capital outlays	888,174	-	888,174	1,262,176
<b>TOTAL EXPENDITURES</b>	<u>10,566,392</u>	<u>131,624</u>	<u>10,698,016</u>	<u>10,605,165</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>594,971</u>	<u>17,066</u>	<u>612,037</u>	<u>422,910</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	30,118	-	30,118	-
Transfers	812,389	(6,110)	806,279	849,481
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>842,507</u>	<u>(6,110)</u>	<u>836,397</u>	<u>849,481</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,437,478	10,956	1,448,434	1,272,391
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>3,991,215</u>	<u>65,258</u>	<u>4,056,473</u>	<u>2,784,082</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 5,428,693</u>	<u>\$ 76,214</u>	<u>\$ 5,504,907</u>	<u>\$ 4,056,473</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, 2014**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,448,434

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 (\$3,238,269) exceeded capital outlays (\$838,362) in the period. (2,399,907)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (143,750)

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. 637,768

In the statement of activities, compensated absences (vacation and sick leave) and other post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences and other post-employment benefits are measured by the amount of financial resources used (essentially, the amounts actually paid). (65,693)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,920

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (521,228)

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

**CITY OF REHOBOTH BEACH**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**MARCH 31, 2014**  
**(With Summarized Comparative Data for March 31, 2013)**

	Water Fund	Sewer Fund	Totals	
			2014	2013
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,023,487	\$ 4,317,008	\$ 6,340,495	\$ 5,381,283
Accounts receivable	169,216	208,493	377,709	518,326
Accrued interest	137	586	723	2,256
Prepaid expenses	7,919	42,455	50,374	41,578
Inventory	261,023	62,610	323,633	292,423
Noncurrent Assets:				
Capital assets, net of depreciation	10,233,388	10,100,910	20,334,298	21,448,550
<b>TOTAL ASSETS</b>	<u>\$12,695,170</u>	<u>\$14,732,062</u>	<u>\$27,427,232</u>	<u>\$27,684,416</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 6,180	\$ 64,323	\$ 70,503	\$ 116,689
Accrued salaries and benefits	6,605	13,658	20,263	17,763
Accrued interest	46,071	-	46,071	48,734
Contingency reserve	-	312,800	312,800	291,732
Note payable	237,998	-	237,998	231,563
Noncurrent Liabilities:				
Note payable	3,768,176	-	3,768,176	4,006,174
Other post-employment liability	77,097	133,247	210,344	179,394
Compensated absences	83,817	113,853	197,670	202,975
<b>TOTAL LIABILITIES</b>	<u>4,225,944</u>	<u>637,881</u>	<u>4,863,825</u>	<u>5,095,024</u>
<b>NET POSITION</b>				
Net investment in capital assets	6,227,214	10,100,910	16,328,124	17,210,813
Unrestricted	2,242,012	3,993,271	6,235,283	5,378,579
<b>TOTAL NET POSITION</b>	<u>8,469,226</u>	<u>14,094,181</u>	<u>22,563,407</u>	<u>22,589,392</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$12,695,170</u>	<u>\$14,732,062</u>	<u>\$27,427,232</u>	<u>\$27,684,416</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, 2014**  
**(With Summarized Comparative Data for the Year Ended March 31, 2013)**

	Water Fund	Sewer Fund	Totals	
			2014	2013
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,964,443	\$ 2,582,357	\$ 4,546,800	\$ 4,838,470
Other operating revenues	309,698	4,668	314,366	236,081
<b>Total Operating Revenues</b>	<u>2,274,141</u>	<u>2,587,025</u>	<u>4,861,166</u>	<u>5,074,551</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	410,452	786,094	1,196,546	1,175,236
Materials and supplies	91,896	254,305	346,201	366,902
Administration expenses	12,005	6,415	18,420	12,528
Contractual services	122,745	4,361	127,106	76,796
Land and equipment rental	-	36,302	36,302	38,609
Repairs and maintenance	502,175	244,546	746,721	689,583
Utilities	106,090	273,275	379,365	391,641
Insurance	68,100	84,217	152,317	123,886
Depreciation	532,039	821,389	1,353,428	1,353,794
<b>Total Operating Expenses</b>	<u>1,845,502</u>	<u>2,510,904</u>	<u>4,356,406</u>	<u>4,228,975</u>
<b>OPERATING INCOME</b>	<u>428,639</u>	<u>76,121</u>	<u>504,760</u>	<u>845,576</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Water capitalization fees	312,431	-	312,431	206,000
Sewer impact fees	-	50,087	50,087	52,448
Investment income	2,736	5,215	7,951	11,250
Interest expense	(112,712)	-	(112,712)	(125,797)
Intergovernmental grants	-	14,643	14,643	-
<b>Total Nonoperating Revenues</b>	<u>202,455</u>	<u>69,945</u>	<u>272,400</u>	<u>143,901</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	631,094	146,066	777,160	989,477
Capital contributions	-	3,134	3,134	51,294
Transfers out	(587,137)	(219,142)	(806,279)	(849,481)
<b>CHANGE IN NET POSITION</b>	43,957	(69,942)	(25,985)	191,290
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>8,425,269</u>	<u>14,164,123</u>	<u>22,589,392</u>	<u>22,398,102</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 8,469,226</u>	<u>\$14,094,181</u>	<u>\$22,563,407</u>	<u>\$22,589,392</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, 2014**  
**(With Summarized Comparative Data for the Year Ended March 31, 2013)**

	Water Fund	Sewer Fund	Totals	
			2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 2,289,056	\$ 2,712,727	\$ 5,001,783	\$ 4,960,121
Cash paid for goods and services	(955,308)	(916,248)	(1,871,556)	(1,461,412)
Cash paid to employees	(399,604)	(768,797)	(1,168,401)	(1,116,878)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>934,144</u>	<u>1,027,682</u>	<u>1,961,826</u>	<u>2,381,831</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers out	(587,137)	(219,142)	(806,279)	(849,481)
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(587,137)</u>	<u>(219,142)</u>	<u>(806,279)</u>	<u>(849,481)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital assets purchased	-	(239,176)	(239,176)	(292,397)
Proceeds received from capitalization and impact fees	312,431	50,087	362,518	258,448
Capital grants	-	14,643	14,643	-
Capital contributions	-	3,134	3,134	51,294
Principal paid on note payable	(231,563)	-	(231,563)	(562,365)
Interest paid on note payable	(115,375)	-	(115,375)	(131,792)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(34,507)</u>	<u>(171,312)</u>	<u>(205,819)</u>	<u>(676,812)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	3,206	6,278	9,484	9,318
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>3,206</u>	<u>6,278</u>	<u>9,484</u>	<u>9,318</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	315,706	643,506	959,212	864,856
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,707,781</u>	<u>3,673,502</u>	<u>5,381,283</u>	<u>4,516,427</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,023,487</u>	<u>\$ 4,317,008</u>	<u>\$ 6,340,495</u>	<u>\$ 5,381,283</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 428,639	\$ 76,121	\$ 504,760	\$ 845,576
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	532,039	821,389	1,353,428	1,353,794
(Increase) Decrease in assets:				
Accounts receivable	14,915	125,702	140,617	(114,430)
Due from other funds	-	-	-	173,469
Inventory	(15,163)	(16,047)	(31,210)	(93)
Prepaid expenses	476	(9,272)	(8,796)	(33,038)
Increase (Decrease) in liabilities:				
Accounts payable	(37,610)	(8,576)	(46,186)	51,050
Contingency reserve	-	21,068	21,068	47,145
Accrued salaries and benefits	147	2,353	2,500	4,508
Other post-employment benefits	10,980	19,970	30,950	34,105
Compensated absences	(279)	(5,026)	(5,305)	19,745
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 934,144</u>	<u>\$ 1,027,682</u>	<u>\$ 1,961,826</u>	<u>\$ 2,381,831</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 potential 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.

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.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

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.

The City reports the following major governmental fund:

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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

The City reports the following major proprietary funds:

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

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

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

The entity-wide statement of net position, statement of activities, and proprietary fund statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total 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 exchange, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

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, 2013, 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 2014 was \$1.78 per \$100 of assessed value.

Compensated Absences

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

Inventories

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

Prepaid Expenses/Expenditures

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Capital Assets

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

GASB Statement No. 34 permits Phase III local governments to elect to not report infrastructure retroactively and to report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the City's infrastructure retroactively.

The service lives by type of asset are as follows:

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

Allowance for Doubtful Accounts

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time.

Use of Estimates in the Preparation of Financial Statements

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Implementation of GASB Statement No. 65

During the current year, the City implemented the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." As a result of implementation, the City has reclassified certain items which were previously recorded as assets and liabilities to now reflect those items as deferred inflows of resources and deferred outflows of resources.

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

- a. Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Commissioners adopt legal annual budgets for the general fund and proprietary funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.
- c. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Commissioners. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2014, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended March 31, 2014, expenditures exceeded appropriations in the City's programs as follows:

General Government	\$	63,819
Public Works	\$	36,161

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS

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

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

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

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

Cash and cash equivalents in the water fund (\$2,023,487) and the sewer fund (\$4,317,008) 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, 2014, the carrying amount of the City's deposits was \$11,760,538, and the bank balance was \$12,100,051. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$11,850,051 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERFUND TRANSFERS

Interfund transfers for the year ended March 31, 2014 consisted of the following:

<u>Transfers In</u>		<u>Transfers Out</u>	
General Fund	\$ 587,137	Water Fund	\$ 587,137
General Fund	219,142	Sewer Fund	219,142
General Fund	<u>6,110</u>	Nonmajor Governmental Funds	<u>6,110</u>
Total	<u>\$ 812,389</u>	Total	<u>\$ 812,389</u>

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Capital asset activity for the year ended March 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	148,578	333,040	-	481,618
Total Capital Assets Not Being Depreciated	<u>2,963,537</u>	<u>333,040</u>	<u>-</u>	<u>3,296,577</u>
Capital assets being depreciated:				
Infrastructure and land improvements	47,362,393	15,314	-	47,377,707
Buildings and improvements	8,683,663	37,593	-	8,721,256
Machinery and equipment	4,792,918	215,043	-	5,007,961
Vehicles	1,584,190	237,372	156,768	1,664,794
Total Capital Assets Being Depreciated	<u>62,423,164</u>	<u>505,322</u>	<u>156,768</u>	<u>62,771,718</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	19,976,358	2,649,014	-	22,625,372
Buildings and improvements	3,624,952	246,061	-	3,871,013
Machinery and equipment	4,174,771	228,580	-	4,403,351
Vehicles	1,263,626	114,614	156,768	1,221,472
Total accumulated depreciation	<u>29,039,707</u>	<u>3,238,269</u>	<u>156,768</u>	<u>32,121,208</u>
Total Capital Assets Being Depreciated, Net	<u>33,383,457</u>	<u>(2,732,947)</u>	<u>-</u>	<u>30,650,510</u>
Governmental Activities Assets, Net	<u>\$36,346,994</u>	<u>\$(2,399,907)</u>	<u>\$ -</u>	<u>\$33,947,087</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 143,979
Public safety	131,806
Public works	2,886,265
Recreation and culture	<u>76,219</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,238,269</u>

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Capital asset activity for the year ended March 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	1,296,150	135,294	-	1,431,444
Total Capital Assets Not Being Depreciated	<u>1,489,086</u>	<u>135,294</u>	<u>-</u>	<u>1,624,380</u>
Capital assets being depreciated:				
Buildings, infrastructure and improvements	43,071,279	-	-	43,071,279
Machinery and equipment	1,638,376	74,576	-	1,712,952
Vehicles	765,503	29,306	-	794,809
Total Capital Assets Being Depreciated	<u>45,475,158</u>	<u>103,882</u>	<u>-</u>	<u>45,579,040</u>
Less accumulated depreciation for:				
Buildings, infrastructure and improvements	23,735,778	1,163,194	-	24,898,972
Machinery and equipment	1,085,602	159,605	-	1,245,207
Vehicles	694,314	30,629	-	724,943
Total accumulated depreciation	<u>25,515,694</u>	<u>1,353,428</u>	<u>-</u>	<u>26,869,122</u>
Total Capital Assets Being Depreciated, Net	<u>19,959,464</u>	<u>(1,249,546)</u>	<u>-</u>	<u>18,709,918</u>
Business-type Activities Assets, Net	<u>\$21,448,550</u>	<u>\$ (1,114,252)</u>	<u>\$ -</u>	<u>\$20,334,298</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:	
Water	\$ 532,039
Sewer	<u>821,389</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,353,428</u>

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2014 is composed of the following:

Governmental Activities

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

\$ 2,412,324

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

Business-type Activities

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

\$ 4,006,174

Annual requirements to retire long-term debt of all funds at March 31, 2014 are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 659,931	\$ 74,976	\$ 237,998	\$ 108,939
2016	682,927	51,980	244,612	102,325
2017	706,964	27,943	251,410	95,527
2018	362,502	4,748	258,397	88,541
2019	-	-	265,578	81,360
2020-2024	-	-	1,442,788	291,902
2025-2028	-	-	1,305,391	82,362
Total	<u>\$ 2,412,324</u>	<u>\$ 159,647</u>	<u>\$ 4,006,174</u>	<u>\$ 850,956</u>

NOTE H CHANGES IN DEBT

The following is a summary of long-term debt activity and balances for the City for the year ended March 31, 2014:

	Balance April 1, 2013	Increase	Decreases	Balance March 31, 2014
Governmental Activities:				
Note payable	\$ 3,050,092	\$ -	\$ 637,768	\$ 2,412,324
OPEB	665,658	111,136	-	776,794
Compensated absences	483,648	-	45,443	438,205
Total	<u>\$ 4,199,398</u>	<u>\$ 111,136</u>	<u>\$ 683,211</u>	<u>\$ 3,627,323</u>
Business-type Activities:				
Note payable	\$ 4,237,737	\$ -	\$ 231,563	\$ 4,006,174
OPEB	179,394	30,950	-	210,344
Compensated absences	202,975	-	5,305	197,670
Total	<u>\$ 4,620,106</u>	<u>\$ 30,950</u>	<u>\$ 236,868</u>	<u>\$ 4,414,188</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 IIT 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 10 percent per year and become fully vested after six years of service. For the years ended March 31, 2014, 2013, and 2012, the City's employer contributions totaled \$67,893, \$69,824, and \$65,624, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

The City contributes to the Delaware County and Municipal Police/Firefighter Pension Plan, which is a cost-sharing multiple-employer defined-benefit plan administered by the Delaware Public Employees' Retirement System ("DPERS"). The plan covers City police employees hired on or after February 1, 1993. Benefit provisions of the plan are established under the provisions of State law and may be amended by an act of the State legislature. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute seven percent of base compensation. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The City's contributions to the plan for the years ended March 31, 2014, 2013, and 2012 were \$144,040, \$126,784, and \$124,126, respectively. DPERS issues a separate plan financial report that includes financial statements for the plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE J OPERATING LEASES

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

Lessee

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE J OPERATING LEASES (cont'd)

Future minimum lease obligations are as follows:

<u>For the Year Ended March 31,</u>	<u>Amount</u>
2015	\$ 38,250
2016	38,250
2017	38,250
2018	<u>38,250</u>
Total	<u>\$ 153,000</u>

Rental expense under this lease for the year ended March 31, 2014 was \$38,250.

Lessor

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

Future minimum receipts under the agreement are as follows:

<u>For the Year Ended March 31,</u>	<u>Amount</u>
2015	\$ 63,600
2016	<u>64,800</u>
Total	<u>\$ 128,400</u>

Rental income under this lease for the year ended March 31, 2014 was \$73,984.

NOTE K CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS (cont'd)

Litigation

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

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, 2014.

Construction Commitments

At March 31, 2014, the City had approved contracts for various capital projects totaling \$1,132,378 and payments for progress on contracts of \$342,540, resulting in outstanding commitments of \$789,838. In addition, the City's governmental activities report another \$236,481 in construction-in-progress costs for projects without ongoing construction commitments, and the proprietary funds report \$1,334,041 in engineering and related fees associated with a planned outfall project as well as construction-in-progress costs for projects without ongoing construction commitments.

NOTE L RISK MANAGEMENT

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

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The City has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits provided by the City. This statement generally provides for prospective

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

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

The City provides post-retirement benefits to all employees who retire on or after attaining age 60 and who have been employed by the City for a minimum of 25 continuous years prior to the date of retirement. Coverage is based on a formula that is based on years of completed service. The City also provides health insurance benefits for up to two years for those employees who are on disability. As of March 31, 2014, three individuals were receiving post-employment benefits.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of Commissioners. For fiscal year 2014, the City contributed \$34,357 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 238,687
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	238,687
Contributions made	<u>(96,601)</u>
Increase in net OPEB obligation	142,086
Net OPEB obligation - beginning of year	<u>845,052</u>
Net OPEB obligation - end of year	<u>\$ 987,138</u>

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

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

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

In the April 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of 10 percent in 2010, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2014 was 25 years.

NOTE N FUND BALANCES

As of March 31, 2014, fund balances of the governmental funds are classified, if applicable, as follows:

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

CITY OF REHOBOTH BEACH  
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES (cont'd)

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

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

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

*Unassigned* – all other spendable amounts.

As of March 31, 2014, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 194,658	\$ -	\$ 194,658
Restricted:			
Police expenditures	-	16,040	16,040
Public works expenditures	-	60,174	60,174
Assigned:			
Municipal building project	179,122	-	179,122
Unassigned	<u>5,054,913</u>	<u>-</u>	<u>5,054,913</u>
Total Fund Balances	<u>\$ 5,428,693</u>	<u>\$ 76,214</u>	<u>\$ 5,504,907</u>

NOTE O SUBSEQUENT EVENTS

In May 2014, the City began drawing on a \$450,000 general obligation bond obtained from the Delaware Water Pollution Control Revolving Fund. The proceeds from this bond will be used for the City's Schoolvue sanitary sewer line replacement project. The bonds bear interest at a rate of three percent and will mature on May 1, 2023.

The City has evaluated all subsequent events through December 1, 2014, 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, 2014**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Property tax	\$ 1,325,000	\$ 1,318,620	\$ (6,380)
Rental tax	890,000	945,043	55,043
Transfer tax	1,080,000	1,805,221	725,221
Construction tax	25,000	74,323	49,323
Penalties and interest	2,500	2,256	(244)
Total Taxes	<u>3,322,500</u>	<u>4,145,463</u>	<u>822,963</u>
Licenses and permits:			
Mercantile licenses	407,000	418,882	11,882
Building permits	420,000	742,564	322,564
Other	52,000	83,131	31,131
Total Licenses and Permits	<u>879,000</u>	<u>1,244,577</u>	<u>365,577</u>
Franchise fees			
	<u>73,000</u>	<u>83,061</u>	<u>10,061</u>
Intergovernmental revenues:			
General government	-	109,241	109,241
Public works	-	32,461	32,461
Public safety	146,000	132,625	(13,375)
Recreation and culture	-	33,326	33,326
Total Intergovernmental Revenues	<u>146,000</u>	<u>307,653</u>	<u>161,653</u>
Charges for services:			
Parking meters	2,815,000	2,759,622	(55,378)
Parking permits	577,900	608,580	30,680
Waste collection	799,200	785,772	(13,428)
Total Charges for Services	<u>4,192,100</u>	<u>4,153,974</u>	<u>(38,126)</u>
Fines and forfeitures:			
Parking	639,000	604,282	(34,718)
Court	72,000	68,258	(3,742)
Police	57,000	48,448	(8,552)
Total Fines and Forfeitures	<u>768,000</u>	<u>720,988</u>	<u>(47,012)</u>
Investment earnings			
	<u>3,000</u>	<u>7,961</u>	<u>4,961</u>
Rents and concessions			
	<u>410,975</u>	<u>414,734</u>	<u>3,759</u>
Contributions and donations			
	<u>13,000</u>	<u>19,682</u>	<u>6,682</u>
Miscellaneous revenues			
	<u>210,775</u>	<u>63,270</u>	<u>(147,505)</u>
<b>TOTAL REVENUES</b>	<u>10,018,350</u>	<u>11,161,363</u>	<u>1,143,013</u>
<b>EXPENDITURES</b>			
General government:			
Mayor and Council	81,034	83,000	(1,966)
Assessors	10,844	5,683	5,161
Administrative	1,094,854	1,181,158	(86,304)
Alderman Court	76,084	56,938	19,146
Buildings and licensing	403,171	389,951	13,220
Information technology	205,164	196,498	8,666
Buildings and grounds	380,402	402,144	(21,742)
Total General Government	<u>2,251,553</u>	<u>2,315,372</u>	<u>(63,819)</u>

Continued on next page.

**CITY OF REHOBOTH BEACH  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2014**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
EXPENDITURES (cont'd)			
Public safety:			
Police	2,207,271	2,173,505	33,766
Dispatch	508,071	506,207	1,864
Volunteer fire	30,600	30,701	(101)
Total Public Safety	<u>2,745,942</u>	<u>2,710,413</u>	<u>35,529</u>
Public works:			
Streets	867,007	962,421	(95,414)
Waste collection	928,670	1,020,369	(91,699)
Parking	962,679	811,727	150,952
Total Public Works	<u>2,758,356</u>	<u>2,794,517</u>	<u>(36,161)</u>
Recreation and culture:			
Comfort stations	158,725	150,477	8,248
Parks	172,802	176,239	(3,437)
Lifeguards	593,685	596,072	(2,387)
Library	12,000	12,000	-
Main Street	21,500	13,128	8,372
Museum	38,000	38,000	-
Recreation	140,500	137,094	3,406
Total Recreation and Culture	<u>1,137,212</u>	<u>1,123,010</u>	<u>14,202</u>
Debt service:			
Interest and principal	734,906	734,906	-
Capital outlays	1,000,345	888,174	112,171
TOTAL EXPENDITURES	<u>10,628,314</u>	<u>10,566,392</u>	<u>61,922</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(609,964)</u>	<u>594,971</u>	<u>1,204,935</u>
OTHER FINANCING SOURCES			
Proceeds from sale of capital assets	30,000	30,118	118
Transfers in	-	812,389	812,389
TOTAL OTHER FINANCING SOURCES	<u>30,000</u>	<u>842,507</u>	<u>812,507</u>
NET CHANGE IN FUND BALANCE	<u>\$ (579,964)</u>	1,437,478	<u>\$ 2,017,442</u>
FUND BALANCE, BEGINNING OF YEAR		<u>3,991,215</u>	
FUND BALANCE, END OF YEAR		<u>\$ 5,428,693</u>	

**COMBINING NONMAJOR FUND STATEMENTS**

**CITY OF REHOBOTH BEACH  
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
 MARCH 31, 2014**

	Municipal Street Aid	State of Delaware Police Grants	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 64,195	\$ 16,040	\$ 80,235
<b>TOTAL ASSETS</b>	<u>\$ 64,195</u>	<u>\$ 16,040</u>	<u>\$ 80,235</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 4,021	\$ -	\$ 4,021
<b>FUND BALANCES</b>			
Assigned:			
Police expenditures	-	16,040	16,040
Public works expenditures	60,174	-	60,174
<b>TOTAL FUND BALANCES</b>	<u>60,174</u>	<u>16,040</u>	<u>76,214</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 64,195</u>	<u>\$ 16,040</u>	<u>\$ 80,235</u>

**CITY OF REHOBOTH BEACH**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	Municipal Street Aid	State of Delaware Police Grants	Total
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Intergovernmental	\$ 113,459	\$ 35,231	\$ 148,690
TOTAL REVENUES	<u>113,459</u>	<u>35,231</u>	<u>148,690</u>
EXPENDITURES			
Public safety	-	26,793	26,793
Public works	104,831	-	104,831
TOTAL EXPENDITURES	<u>104,831</u>	<u>26,793</u>	<u>131,624</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>8,628</u>	<u>8,438</u>	<u>17,066</u>
OTHER FINANCING USES			
Transfers out	(3,118)	(2,992)	(6,110)
TOTAL OTHER FINANCING USES	<u>(3,118)</u>	<u>(2,992)</u>	<u>(6,110)</u>
CHANGE IN FUND BALANCES	5,510	5,446	10,956
FUND BALANCES, BEGINNING OF YEAR	<u>54,664</u>	<u>10,594</u>	<u>65,258</u>
FUND BALANCES, END OF YEAR	<u>\$ 60,174</u>	<u>\$ 16,040</u>	<u>\$ 76,214</u>

## SUPPLEMENTAL REPORT

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

Barbacane, Thornton & Company LLP  
200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
T 302.478.8940  
F 302.468.4001  
www.btcpa.com

December 1, 2014

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Rehoboth Beach's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Honorable Mayor and Commissioners  
City of Rehoboth Beach

Compliance and Other Matters

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

Purpose of this Report

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

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