



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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

MARCH 31, 2019

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	14
- Statement of Activities	15
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	16
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	17
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
- Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	19
- Statement of Net Position - Proprietary Funds	20
- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	21
- Statement of Cash Flows - Proprietary Funds	22
NOTES TO FINANCIAL STATEMENTS	23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	48
Schedule of the City's Proportionate Share of the Net Pension Asset (Liability)	50
Schedule of City Pension Contributions	51

CITY OF REHOBOTH BEACH

TABLE OF CONTENTS

	<u>PAGE</u>
Schedule of the City's Net OPEB Liability and Related Ratios	52
Schedule of City OPEB Contributions	53
COMBINING FUND STATEMENTS	
- Combining Balance Sheet - Nonmajor Governmental Funds	54
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	55
- Combining Statement of Net Position - Sewer Funds	56
- Combining Statement of Revenues, Expenses, and Changes in Net Position - Sewer Funds	57
- Combining Statement of Cash Flows - Sewer Funds	58
SINGLE AUDIT	
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>	59
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	61
Schedule of Findings and Recommendations	64
Schedule of Expenditures of Federal Awards	66
Notes to Schedule of Expenditures of Federal Awards	67
Management's Response to Finding and Recommendation	68



INDEPENDENT AUDITOR'S REPORT

October 28, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of March 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A to the financial statements, the City of Rehoboth Beach has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the City's other postemployment benefits. As a result, the beginning governmental activities, business-type activities, water fund, and sewer fund net position have been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the City of Rehoboth Beach's 2018 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated December 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 13, and the budgetary comparison schedule - general fund, schedule of the City's proportionate share of the net pension asset (liability), schedule of City pension contributions, schedule of the City's net OPEB liability and related ratios, and schedule of

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

City OPEB contributions on pages 48 - 53 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's basic financial statements. The combining fund financial statements on pages 54 - 58 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 66 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and is also not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED
MARCH 31, 2019**

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, 2019. Please read it in conjunction with the City's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at March 31, 2019 by \$55.6 million (net position). Of this amount, \$13.1 million is reported as unrestricted net position. The City's net position decreased by \$1.5 million.

As of March 31, 2019, the City's governmental funds reported combined ending fund balances of \$7.0 million, an increase of \$1.0 million as compared to the prior year. The current year decrease in fund balance can be attributed primarily to transfers from the general fund to the sewer fund. Total governmental funds revenue increased by \$114.5 thousand compared to the prior year. Other financing sources decreased \$6.0 million compared to the prior year, and expenditures decreased by \$7.5 million compared to the prior year. The components of revenue that contributed significantly to the overall revenue increase were taxes and licenses and permits, increasing by \$669 thousand and \$200 thousand, respectively. The increase in tax revenue was driven by an increase in property transfer tax revenue as a result of increased property sales within the City. Intergovernmental revenues consisted primarily of public works and public safety grants. The \$1.1 million decline from the prior year was largely a result of the one-time \$925 thousand grant received in fiscal year 2018 for the reimbursement for boardwalk repairs caused by storm damages.

As of March 31, 2019, the City's proprietary funds reported combined net position of \$26.4 million, an increase of \$373 thousand compared to the prior year.

Overview of the Financial Statements

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

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

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

CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019

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

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

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

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

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

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

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

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Entity-wide Financial Analysis

The following table presents a summary of the statement of net position for the City as of March 31, 2019 and 2018.

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	\$ 7,642,801	\$ 6,914,704	\$ 11,776,074	\$ 21,794,018	\$ 19,418,875	\$ 28,708,722
Capital assets, net	43,334,491	46,635,853	60,399,742	49,425,165	103,734,233	96,061,018
TOTAL ASSETS	50,977,292	53,550,557	72,175,816	71,219,183	123,153,108	124,769,740
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Pension and OPEB	1,375,546	366,025	197,351	-	1,572,897	484,338
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	52,352,838	53,916,582	72,373,167	71,219,183	124,726,005	125,254,078

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
(cont'd)						
LIABILITIES						
Other liabilities	1,260,811	866,220	1,968,228	14,191,142	3,229,039	15,057,362
Long-term liabilities	21,075,343	21,787,064	43,923,189	31,060,179	64,998,532	52,847,243
TOTAL LIABILITIES	22,336,154	22,653,284	45,891,417	45,251,321	68,227,571	67,904,605
DEFERRED INFLOWS OF RESOURCES						
Deferred Pension and OPEB	743,784	186,003	118,139	-	861,923	186,003
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	23,079,938	20,675,033	45,891,417	44,745,012	69,089,494	65,420,045
NET POSITION						
Net investment in capital assets	26,484,861	29,208,656	15,864,982	18,094,380	42,349,843	47,303,036
Restricted	146,631	101,156	-	-	146,631	101,156
Unrestricted	2,641,408	1,863,365	10,498,629	7,895,913	13,140,037	9,759,278
TOTAL NET POSITION	\$ 29,272,900	\$ 31,173,177	\$ 26,393,611	\$ 25,990,293	\$ 55,636,511	\$ 57,163,470

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

**TABLE 2
CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues:						
Charges for services	\$ 8,972,913	\$ 8,248,802	\$ 5,572,266	\$ 6,440,752	\$ 14,545,179	\$ 14,689,554
Operating grants/contributions	380,738	688,193	-	93,643	380,738	781,836
Capital grants/contributions	-	927,119	100,000	-	100,000	927,119
General revenues:						
Taxes	5,578,213	4,908,765	-	-	5,578,213	4,908,765
Investment earnings	11,122	2,477	10,717	2,394	21,839	4,871
Franchise fees	169,693	175,840	-	-	169,693	175,840
Miscellaneous	113,858	181,389	-	-	113,858	181,389
TOTAL REVENUES	15,226,537	15,132,585	5,682,983	6,536,789	20,909,520	21,669,374

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

**TABLE 2
CHANGES IN NET POSITION**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
EXPENSES						
General government	4,134,390	2,937,720	-	-	4,134,390	2,937,720
Public safety	4,410,418	4,342,772	-	-	4,410,418	4,342,772
Public works	7,245,437	6,674,921	-	-	7,245,437	6,674,921
Recreation and culture	927,736	804,320	-	-	927,736	804,320
Interest on long-term debt	408,833	419,276	-	-	408,433	419,276
Water operations	-	-	1,930,979	1,888,681	1,930,979	1,888,681
Sewer operations	-	-	3,378,686	2,916,553	3,378,686	2,916,553
TOTAL EXPENSES	17,126,814	15,179,009	5,309,665	4,805,234	22,436,479	19,984,243
INCREASE (DECREASE) IN NET POSITION	(1,900,277)	(46,424)	373,318	1,731,555	(1,526,959)	1,685,131
NET POSITION, BEGINNING OF YEAR	31,173,177	31,219,601	25,990,293	24,258,738	57,163,470	55,478,339
NET POSITION, END OF YEAR	\$ 29,272,900	\$ 31,173,177	\$ 26,363,611	\$ 25,990,293	\$ 55,636,511	\$ 57,163,470

Governmental Activities

The cost of all governmental activities in 2019 was \$17.1 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$5.6 million, or 32.5 percent, a decrease from 35 percent in the prior year. Other costs were paid by those who directly benefited from the programs (\$9.0 million, or 52.4 percent), and government agencies and organizations that subsidized funding with intergovernmental aid (\$.4 million or 2.2 percent). In the prior year, costs paid by those who directly benefited from programs were \$8.2 million, representing 54.34 percent of the total expenses. Expenses financed by other governments and agencies were \$1.6 million, or 10.64 percent of total governmental expenses.

Capital grants and contributions decreased from the prior year by \$927 thousand due to a one-time grant for boardwalk construction received in the prior year. Tax revenue increased by \$669 thousand. This was a result of the additional property sales within the City. The value of assessed property increased from \$3.32 billion in fiscal year 2018 to \$3.36 billion in fiscal year 2018. The property tax rate per hundred dollars of assessed value remained unchanged from the prior year.

General government programs accounted for 24.1 percent of the City's governmental activities, an increase of \$1.2 million from the prior year. This was largely due to the increase in governmental capital outlays. The public safety expenses accounted for 28.5 percent of the City's governmental activities in the year ended March 31, 2019 and 28.6 percent in the prior year. This decline was largely related to the increase in expenses related to general government that resulted in the public safety departments

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

representing a smaller percentage of total expense. Also, there was a \$207 thousand decline in the capital outlays in the 911 Dispatch Center. In fiscal year 2018, the City incurred \$218 thousand in capital outlays in the 911 department for the software, computers, and office furniture. The police department and beach patrol operating and capital expenses were almost flat from the prior year.

Public works expenses accounted for 42.3 percent of the City's governmental activities, or \$7.2 million, an increase of \$570 thousand from 2018. Of this amount, \$310 thousand was due to an increase in depreciation expense from fiscal year 2018. The charges for services in Public Works increased by \$1.1 million in the current year, resulting in a \$442 thousand difference between Public Works expenses and the charges for services. This was a significant improvement from the difference of \$967 thousand in the prior year. Parking revenue is a component of the Public Works function and contributed to the improved relationship between Public Works expenses and charges for services.

Business-type Activities

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

Charges for services represent the principal revenue source for the City's business-type activities. Current sewer rates remained unchanged for FY 2019. Beginning with FY 2020, rates for water and wastewater were increased by approximately 30 percent and 60 percent, respectively. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges in the current year but will be eliminated in late FY 2020.

Water fund revenues declined by \$221 thousand in the current year. While metered water revenue declined by \$2 thousand, the largest revenue declines were in the categories of out-of-town water cap fees and meter installations, declining by \$132 thousand and \$85 thousand, respectively. Water cap fees and meter installations are largely dependent upon new housing construction. Operating expenses in the water department increased by \$50 thousand. Salaries and benefits increased by \$80 thousand, and contractual services decreased by \$29 thousand. Other expense categories were relatively flat.

Wastewater revenues declined from the prior year by \$633 thousand. In FY 2018, the City received \$560 thousand in revenue from Henlopen Acres and Dewey Beach as reimbursement for Outfall engineering costs. In FY 2019, the costs for Outfall engineering and construction were financed by borrowings from the State of Delaware Sewer Revolving Fund, eliminating the revenue that had been contributed by Dewey Beach and Henlopen Acres. Dewey Beach, Henlopen Acres, Sussex County, and North Shores will share the cost of debt service for the Outfall, reducing the City's cost for debt service. Per agreement, Sussex County will pay 42 percent of the City's SRF debt service. Until the Outfall is

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

accepted as complete, the City is only required to pay interest on the balance of the debt. Upon completion, interest and principal payments will commence.

In FY 2019, wastewater revenue from Dewey Beach, Henlopen Acres, and North Shores declined as their proportion of costs associated with the operations of the wastewater plant declined. The costs to operate the plant are shared based upon metered flows to the plant. There was a \$205 thousand revenue decline from the three entities sharing the cost of the plant. The operating and financing costs of the Wastewater Department increased by \$462 thousand. Depreciation expense increased by \$230 thousand, and debt service costs increased by \$457 thousand. Salary and benefit costs declined by \$35 thousand, largely a result of vacant positions in the department.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of March 31, 2019, the City's governmental funds reported combined ending fund balances of \$7.0 million, an increase of \$1.0 million as compared to the prior year. The amount of the fund balance restricted or assigned for special purposes is \$146 thousand. The \$9.8 million unassigned portion of fund balance in the City's General Fund is available to be used at the City's discretion. The City's \$3.1 million fund balance deficit in the capital projects fund will be eliminated when the fund is reimbursed for costs incurred on behalf of other funds of the City.

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

The City's departmental expenditures decreased by approximately \$7.5 million from the prior year. The decrease is primarily driven by a decrease of \$8.4 million in capital outlays as the City no longer was incurring costs for the City Hall construction. Additionally, debt service in the governmental funds increased to \$986 thousand from \$925 thousand in the prior year, as a full year of amortization for the City Hall loan began in FY 2019.

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

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

- Outlays for street paving were \$464 thousand.
- Outlays for technology upgrades including, servers, software, computers, and equipment were \$192 thousand.
- Outlays for the Grove Park Trail and pavilion were \$76 thousand. A \$13 thousand grant was received from the Delaware Department of Transportation for the project.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 47 - 48. A summary of significant variations between budget amounts and actual results are as follows:

- Before transfers to other funds, total revenue exceeded expenses by \$1.3 million. Taxes, licenses, and permits exceeded budget by \$805 thousand and \$290 thousand. Within the tax category, transfer tax exceeded budget by \$843 thousand, and rental tax was below budget by \$89 thousand. Charges for services were \$391 thousand below budget, with revenue from parking permits falling \$312 thousand below budget.
- Parking meter expenditures were \$61 thousand below budget. Expenditures in the Parking Department for spare parts/supplies and pay-by-phone processing fees exceeded budget by \$26 thousand and \$19 thousand, respectively.
- Total General Fund expenditures were \$1 million less than budget. Capital outlays were below budget by \$390 thousand, primarily because projects were not completed in the fiscal year. Expenditures for the Police Department were below budget by \$168 thousand, with salaries and medical insurance costs comprising \$82 thousand of the total. Vacant positions attributed to much of the lower than budgeted amounts.
- Streets and Refuse Department expenditures were above budget by \$206, as refuse disposal charges were under budgeted.
- Administrative expenditures were \$466 thousand less than budget. Budgeted funds for contingencies were \$146 thousand less than required. Expenditures for the Planning Commission and the Board of Adjustment, components of administration, were \$83 thousand less than budgeted.
- Building and license expenditures were \$107 thousand less than budget. Salary and medical insurance expenditures were \$42 thousand and \$37 thousand less than budget, respectively, the result of a vacant position and lower costs for medical insurance than budgeted.
- All other fluctuations in revenues from budget to actual are deemed reasonable, based upon the element of uncertainty when budgeting for such revenues.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities, as of March 31, 2019, amounted to \$103.7 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total current year depreciation was \$5.6 million government wide.

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

Debt Administration

As of March 31, 2019, the City had a principal balance of \$16,849,630 on the \$18 million USDA loan obtained for the construction of the new City Hall. The interest rate is fixed for the term of the loan at 2.375 percent. The loan will be repaid in December 2041.

As of March 31, 2019, the City had a principal balance of \$2,748,177 on the \$5 million loan obtained for the construction of the Lynch Well. The loan was obtained from the State of Delaware's Drinking Water State Fund. The interest rate is fixed for the term of the loan at a rate of 2.76 percent. The loan will be repaid in November 2027.

The City has obtained loans in the amount of \$52,481,095 from the Delaware Water Pollution Control Revolving Fund for the construction of the Ocean Outfall and related infrastructure. Because construction for wastewater plant improvements are not completed, the City has only drawn \$41,521,790 as of March 31, 2019. The City is paying interest at a rate of two percent, with Sussex County sharing 42 percent of the debt service cost. Upon the completion of construction, the City will begin making principal and interest payments. Final maturity on \$12 million of the original debt will be March 1, 2038 with the remaining portion, \$40,481,095, maturing on March 1, 2043.

In 2015, the City obtained a \$450,000 loan for the replacement of sewer lines in the Schoolvue section of Rehoboth Beach. The loan has a rate of three percent and will mature on November 1, 2023. The loan balance as of March 31, 2019 was \$264,793.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The 2019 - 2020 budget for all City operations is \$24.3 million. The capital portion of the budget is \$3.96 million, with \$580 for Water Fund capital outlays and \$502 million for Wastewater Fund Outlays. Outlays for Wastewater plant upgrades will continue and will be funded by draws from the remaining balance of the Delaware Water Pollution Control Fund.

**CITY OF REHOBOTH BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
MARCH 31, 2019**

- The City's newly approved three percent hotel occupancy tax will become effective on January 1, 2020 and is expected to generate over \$300 thousand of revenue for the final quarter of the City's fiscal year.
- The City Commissioners have approved new water and wastewater rates beginning with the usage period beginning October 1, 2019. The wastewater rates have been established at a level to cover the operating costs of the Wastewater Fund as well as the debt related to the Ocean Outfall Project. The City's water rates will also be increased to cover the operating costs of the Water Fund operations and capital requirements.

REQUESTS FOR INFORMATION

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

**CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION
MARCH 31, 2019
(With Summarized Comparative Data for March 31, 2018)**

	Governmental Activities	Business-type Activities	Totals	
			2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash and cash equivalents	\$ 10,657,032	\$ 7,013,344	\$ 17,670,376	\$ 14,477,902
Taxes receivable	26,884	-	26,884	18,578
Accounts receivable	804,010	294,019	1,098,029	926,578
Interest receivable	-	-	-	324
Loan proceeds receivable	-	13,300	13,300	12,551,322
Prepaid expenses	148,004	63,858	211,862	312,825
Inventory	27,522	370,902	398,424	421,193
Internal balances	(4,020,651)	4,020,651	-	-
Capital Assets:				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	19,411	-	19,411	34,330,613
Depreciable capital assets, net of depreciation	40,500,121	60,206,806	100,706,927	58,722,510
TOTAL ASSETS	<u>50,977,292</u>	<u>72,175,816</u>	<u>123,153,108</u>	<u>124,769,740</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows relating to pension	531,953	-	531,953	366,025
Deferred outflows relating to OPEB	843,593	197,351	1,040,944	118,313
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,375,546</u>	<u>197,351</u>	<u>1,572,897</u>	<u>484,338</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 52,352,838</u>	<u>\$ 72,373,167</u>	<u>\$ 124,726,005</u>	<u>\$ 125,254,078</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current Liabilities:				
Accounts payable	\$ 244,456	\$ 91,277	\$ 335,733	\$ 13,452,716
Accrued salaries and benefits	262,709	74,746	337,455	228,159
Accrued interest	12,305	105,435	117,740	50,878
Accrued expense	-	-	-	6,980
Deposits	120,928	-	120,928	112,654
Unearned revenues	15,000	-	15,000	-
Contingency reserve	-	-	-	14,364
Notes and bonds payable	605,413	1,696,770	2,302,183	2,230,962
Noncurrent Liabilities:				
Notes and bonds payable	16,244,217	42,837,990	59,082,207	46,527,020
Compensated absences	545,424	158,338	703,762	767,240
Net OPEB liability	3,961,939	926,861	4,888,800	4,374,602
Net pension liability	323,763	-	323,763	139,030
TOTAL LIABILITIES	<u>22,336,154</u>	<u>45,891,417</u>	<u>68,227,571</u>	<u>67,904,605</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows relating to pension	238,787	-	238,787	186,003
Deferred inflows relating to OPEB	504,997	118,139	623,136	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>743,784</u>	<u>118,139</u>	<u>861,923</u>	<u>186,003</u>
NET POSITION				
Net investment in capital assets	26,484,861	15,864,982	42,349,843	47,303,036
Restricted:				
Police expenses	42,948	-	42,948	18,828
Public works expenses	103,683	-	103,683	82,328
Unrestricted (deficit)	2,641,408	10,498,629	13,140,037	9,759,278
TOTAL NET POSITION	<u>29,272,900</u>	<u>26,363,611</u>	<u>55,636,511</u>	<u>57,163,470</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 52,352,838</u>	<u>\$ 72,373,167</u>	<u>\$ 124,726,005</u>	<u>\$ 125,254,078</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, 2019
(With Summarized Comparative Data for the Year Ended March 31, 2018)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Totals	
		2019	2018					
GOVERNMENTAL ACTIVITIES:								
General government	\$ 4,134,390	\$ 1,828,129	\$ 380,738	\$ -	\$ (1,925,523)	\$ -	\$ (1,925,523)	\$ (986,916)
Public safety	4,410,418	118,199	-	-	(4,292,219)	-	(4,292,219)	(3,294,108)
Public works	7,245,437	6,803,241	-	-	(442,196)	-	(442,196)	(40,265)
Recreation and culture	927,736	223,344	-	-	(704,392)	-	(704,392)	(574,330)
Interest on general long-term debt	408,833	-	-	-	(408,833)	-	(408,833)	(419,276)
TOTAL GOVERNMENTAL ACTIVITIES	17,126,814	8,972,913	380,738	-	(7,773,163)	-	(7,773,163)	(5,314,895)
BUSINESS-TYPE ACTIVITIES:								
Water	1,930,979	2,539,246	-	-	-	608,267	608,267	875,022
Sewer	3,378,686	3,033,020	-	100,000	-	(245,666)	(245,666)	854,139
TOTAL BUSINESS-TYPE ACTIVITIES	5,309,665	5,572,266	-	100,000	-	362,601	362,601	1,729,161
TOTAL PRIMARY GOVERNMENT	\$22,436,479	\$14,545,179	\$ 380,738	\$ 100,000	(7,773,163)	362,601	(7,410,562)	(3,585,734)
GENERAL REVENUES:								
Taxes					5,578,213	-	5,578,213	4,908,765
Investment earnings					11,122	10,717	21,839	4,871
Franchise fees					169,693	-	169,693	175,840
Miscellaneous revenues					113,858	-	113,858	181,389
TOTAL GENERAL REVENUES					5,872,886	10,717	5,883,603	5,270,865
CHANGE IN NET POSITION					(1,900,277)	373,318	(1,526,959)	1,685,131
NET POSITION, BEGINNING OF YEAR, RESTATED					31,173,177	25,990,293	57,163,470	55,478,339
NET POSITION, END OF YEAR					\$29,272,900	\$26,363,611	\$55,636,511	\$57,163,470

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

CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2019
(With Summarized Comparative Data for March 31, 2018)

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2019	2018
ASSETS					
Cash and cash equivalents	\$10,447,135	\$ 68,076	\$ 141,821	\$10,657,032	\$ 8,852,916
Taxes receivable	26,884	-	-	26,884	18,578
Accounts receivable	785,403	-	-	785,403	483,356
Lease receivable	17,400	-	-	17,400	-
Due from Alderman's Court	1,207	-	-	1,207	-
Prepaid expenditures	148,004	-	-	148,004	259,437
Inventory	27,522	-	-	27,522	58,877
Due from other funds	-	-	14,933	14,933	160,430
TOTAL ASSETS	\$11,453,555	\$ 68,076	\$ 156,754	\$11,678,385	\$ 9,833,594
LIABILITIES AND FUND BALANCES (DEFICIT)					
LIABILITIES:					
Accounts payable	\$ 229,887	\$ 5,000	\$ 9,569	\$ 244,456	\$ 665,199
Due to other funds	801,925	3,233,105	554	4,035,584	2,918,890
Accrued salaries and benefits	262,709	-	-	262,709	189,380
Deposits	120,928	-	-	120,928	112,654
Unearned revenue	15,000	-	-	15,000	-
TOTAL LIABILITIES	1,430,449	3,238,105	10,123	4,678,677	3,886,123
FUND BALANCES (DEFICIT):					
Nonspendable	175,526	-	-	175,526	318,314
Restricted:					
Police expenditures	-	-	42,948	42,948	18,828
Public works expenditures	-	-	103,683	103,683	82,328
Unassigned (deficit)	9,847,580	(3,170,029)	-	6,677,551	5,528,001
TOTAL FUND BALANCES (DEFICIT)	10,023,106	(3,170,029)	146,631	6,999,708	5,947,471
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$11,453,555	\$ 68,076	\$ 156,754	\$11,678,385	\$ 9,833,594

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, 2019**

TOTAL GOVERNMENTAL FUND BALANCES \$ 6,999,708

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. 43,334,491

The City's net pension liability is not a current financial obligation and, therefore, is not reported in the funds. (323,763)

The City's net OPEB liability is not a current financial obligation and, therefore, is not reported in the funds. (3,961,939)

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

Accrued interest	(12,305)
Notes and bonds payable	(16,849,630)
Compensated absences	(545,424)

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

Deferred outflows of resources:	
Deferred outflows relating to pension	531,953
Deferred outflows relating to OPEB	843,593
Deferred inflows of resources:	
Deferred inflows relating to pension	(238,787)
Deferred inflows relating to OPEB	(504,997)
	631,762

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 29,272,900

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, 2019
(With Summarized Comparative Data for the Year Ended March 31, 2018)

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals	
				2019	2018
REVENUES					
Taxes	\$ 5,578,213	\$ -	\$ -	\$ 5,578,213	\$ 4,908,765
Licenses and permits	1,521,883	-	-	1,521,883	1,322,236
Franchise fees	169,693	-	-	169,693	175,840
Intergovernmental revenues	380,738	-	178,350	559,088	1,610,312
Charges for services	5,780,830	-	-	5,780,830	5,683,776
Fines and forfeitures	962,258	-	-	962,258	924,206
Investment earnings	11,122	-	-	11,122	2,477
Rents and concessions	529,590	-	-	529,590	323,511
Contributions and donations	23,158	-	-	23,158	24,320
Miscellaneous revenues	87,321	-	-	87,321	133,209
TOTAL REVENUES	<u>15,044,806</u>	<u>-</u>	<u>178,350</u>	<u>15,223,156</u>	<u>15,108,652</u>
EXPENDITURES					
General government	3,413,569	-	-	3,413,569	3,046,951
Public safety	4,063,574	-	22,673	4,086,247	4,088,609
Public works	3,500,665	-	110,202	3,610,867	3,274,931
Recreation and culture	782,391	-	-	782,391	671,421
Debt service	986,400	-	-	986,400	925,089
Capital outlays	1,044,208	250,620	-	1,294,828	9,706,850
TOTAL EXPENDITURES	<u>13,790,807</u>	<u>250,620</u>	<u>132,875</u>	<u>14,174,302</u>	<u>21,713,851</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,253,999</u>	<u>(250,620)</u>	<u>45,475</u>	<u>1,048,854</u>	<u>(6,605,199)</u>
OTHER FINANCING SOURCES					
Proceeds from sale of assets	3,383	-	-	3,383	23,933
Proceeds from long-term debt	-	-	-	-	6,023,652
TOTAL OTHER FINANCING SOURCES	<u>3,383</u>	<u>-</u>	<u>-</u>	<u>3,383</u>	<u>6,047,585</u>
NET CHANGE IN FUND BALANCES	1,257,382	(250,620)	45,475	1,052,237	(557,614)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>8,765,724</u>	<u>(2,919,409)</u>	<u>101,156</u>	<u>5,947,471</u>	<u>6,505,085</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$10,023,106</u>	<u>\$ (3,170,029)</u>	<u>\$ 146,631</u>	<u>\$ 6,999,708</u>	<u>\$ 5,947,471</u>

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, 2019**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,052,237

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 (\$4,119,581) exceeded capital outlays (\$818,219) in the period. (3,301,362)

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. 577,567

In the statement of activities, compensated absences (vacation and sick leave) and other postemployment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences and other postemployment benefits are measured by the amount of financial resources used (essentially, the amounts actually paid). 16,868

In the statement of activities, proceeds from the disposal of capital assets are netted against the value of the asset net of depreciation. In the governmental funds, disposals of capital assets are recorded at the gross value of the consideration received. 3,383

Pension expense in the statement of activities differs from the amount reported in the governmental funds because pension expense is recognized on the statement of activities based on the City's actuarial determined contribution, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (71,590)

OPEB expense in the statement of activities differs from the amount reported in the governmental funds because OPEB expense is recognized on the statement of activities based on the City's actuarial determined contribution, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (177,380)

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (1,900,277)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2019
(With Summarized Comparative Data for March 31, 2018)

	Water Fund	Sewer Fund	Totals	
			2019	2018
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,775,043	\$ 4,238,301	\$ 7,013,344	\$ 5,624,986
Accounts receivable	172,542	121,477	294,019	443,222
Due from other funds	2,879,666	1,140,985	4,020,651	2,758,460
Interest receivable	-	-	-	324
Loan proceeds receivable	-	-	-	12,551,322
Contingency reserve	-	13,300	13,300	-
Prepaid expenses	9,775	54,083	63,858	53,388
Inventory	297,701	73,201	370,902	362,316
Noncurrent Assets:				
Capital assets, net of depreciation	8,250,072	52,149,670	60,399,742	49,425,165
TOTAL ASSETS	14,384,799	57,791,017	72,175,816	71,219,183
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to net OPEB liability	72,984	124,367	197,351	22,431
TOTAL DEFERRED OUTFLOWS OF RESOURCES	72,984	124,367	197,351	22,431
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$14,457,783	\$57,915,384	\$72,373,167	\$71,241,614
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 17,452	\$ 73,825	\$ 91,277	\$12,787,517
Accrued salaries and benefits	29,906	44,840	74,746	38,779
Accrued interest	31,605	73,830	105,435	38,573
Accrued expenses	-	-	-	6,980
Contingency reserve	-	-	-	14,364
Notes and bonds payable	280,544	1,416,226	1,696,770	1,304,929
Noncurrent Liabilities:				
Notes and bonds payable	2,467,633	40,370,357	42,837,990	30,025,856
Net OPEB liability	342,769	584,092	926,861	829,375
Compensated absences	68,304	90,034	158,338	204,948
TOTAL LIABILITIES	3,238,213	42,653,204	45,891,417	45,251,321
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net OPEB liability	43,690	74,449	118,139	-
TOTAL DEFERRED INFLOWS OF RESOURCES	43,690	74,449	118,139	-
NET POSITION				
Net investment in capital assets	5,501,895	10,363,087	15,864,982	18,094,380
Unrestricted	5,673,985	4,824,644	10,498,629	7,895,913
TOTAL NET POSITION	11,175,880	15,187,731	26,363,611	25,990,293
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$14,457,783	\$57,915,384	\$72,373,167	\$71,241,614

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, 2019
(With Summarized Comparative Data for the Year Ended March 31, 2018)

	Water Fund	Sewer Fund	Totals	
			2019	2018
OPERATING REVENUES				
Charges for services	\$ 2,341,345	\$ 2,967,651	\$ 5,308,996	\$ 5,448,487
Other operating revenues	156,401	4,921	161,322	770,911
Total Operating Revenues	<u>2,497,746</u>	<u>2,972,572</u>	<u>5,470,318</u>	<u>6,219,398</u>
OPERATING EXPENSES				
Salaries and benefits	574,204	943,296	1,517,500	1,472,960
Materials and supplies	84,585	293,151	377,736	379,445
Administration expenses	1,060	56,981	58,041	41,974
Contractual services	101,159	45,296	146,455	194,454
Land and equipment rental	239	39,419	39,658	38,250
Repairs and maintenance	444,872	236,711	681,583	851,771
Utilities	102,574	293,581	396,155	393,462
Insurance	62,618	40,631	103,249	124,872
Depreciation	481,361	962,445	1,443,806	1,212,609
Total Operating Expenses	<u>1,852,672</u>	<u>2,911,511</u>	<u>4,764,183</u>	<u>4,709,797</u>
OPERATING INCOME	<u>645,074</u>	<u>61,061</u>	<u>706,135</u>	<u>1,509,601</u>
NONOPERATING REVENUES (EXPENSES)				
Water capitalization fees	41,500	-	41,500	173,500
Sewer impact fees	-	60,448	60,448	47,853
Investment income	4,861	5,856	10,717	2,393
Interest expense	(78,307)	(467,175)	(545,482)	(95,437)
Intergovernmental grants	-	100,000	100,000	93,643
Total Nonoperating Revenues (Expenses)	<u>(31,946)</u>	<u>(300,871)</u>	<u>(332,817)</u>	<u>221,952</u>
CHANGE IN NET POSITION	613,128	(239,810)	373,318	1,731,553
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>10,562,752</u>	<u>15,427,541</u>	<u>25,990,293</u>	<u>24,258,740</u>
NET POSITION, END OF YEAR	<u>\$11,175,880</u>	<u>\$15,187,731</u>	<u>\$26,363,611</u>	<u>\$25,990,293</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, 2019
(With Summarized Comparative Data for the Year Ended March 31, 2018)

	Water Fund	Sewer Fund	Totals	
			2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,500,503	\$ 3,119,018	\$ 5,619,521	\$ 6,195,538
Cash paid for goods and services	(1,540,655)	(1,088,129)	(2,628,784)	(3,412,716)
Cash paid to employees	(543,232)	(944,205)	(1,487,437)	(1,427,056)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>416,616</u>	<u>1,086,684</u>	<u>1,503,300</u>	<u>1,355,766</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets purchased	(69,680)	(24,900,025)	(24,969,705)	(30,398,477)
Loans to other funds	-	9,108,429	9,108,429	-
Transfers from other funds	-	2,808,314	2,808,314	-
Proceeds received from capitalization and impact fees	41,500	60,448	101,948	221,353
Capital grants	-	100,000	100,000	93,643
Proceeds from bond payable	-	13,517,943	13,517,943	28,003,847
Principal paid on note payable	(265,578)	(48,390)	(313,968)	(305,368)
Interest paid on note payable	(81,360)	(467,175)	(548,535)	(96,024)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(375,118)</u>	<u>179,544</u>	<u>(195,574)</u>	<u>(2,481,026)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	4,861	75,771	80,632	2,393
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>4,861</u>	<u>75,771</u>	<u>80,632</u>	<u>2,393</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	46,359	1,341,999	1,388,358	(1,122,867)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,728,684</u>	<u>2,896,302</u>	<u>5,624,986</u>	<u>6,747,853</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,775,043</u>	<u>\$ 4,238,301</u>	<u>\$ 7,013,344</u>	<u>\$ 5,624,986</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 645,074	\$ 61,061	\$ 706,135	\$ 1,509,601
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	481,361	962,445	1,443,806	1,212,609
(Increase) Decrease in assets:				
Accounts receivable	2,757	146,446	149,203	(23,860)
Due from other funds	(704,183)	-	(704,183)	(1,200,430)
Inventory	2,632	(11,218)	(8,586)	(62,718)
Prepaid expenses	-	(10,470)	(10,470)	1,982
Deferred outflows of resources related to OPEB	(64,689)	(110,231)	(174,920)	1,982
Increase (Decrease) in liabilities:				
Accounts payable	(41,996)	(102,922)	(144,918)	97,772
Contingency reserve	-	(27,664)	(27,664)	(213,380)
Accrued salaries and benefits	17,898	18,069	35,967	38,779
Accrued expenses	-	69,915	69,915	(2,972)
Net OPEB liability	36,052	61,434	97,486	-
Compensated absences	(1,980)	(44,630)	(46,610)	(1,617)
Deferred inflows of resources related to OPEB	43,690	74,449	118,139	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 416,616</u>	<u>\$ 1,086,684</u>	<u>\$ 1,503,300</u>	<u>\$ 1,355,766</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets acquired through the incurrence of payables	\$ -	\$ -	\$ -	\$ 12,551,322

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Entity-wide and Fund Financial Statements

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

Governmental Funds

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

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

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

Proprietary Funds

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

The City reports the following major proprietary funds:

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

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

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

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

Comparative Data

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

Cash, Cash Equivalents, and Investments

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

Property Taxes Receivable

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on July 1 and are payable on or before August 31. Taxes paid after the payable date are assessed interest at 1½ percent per month after the due date. The City bills and collects its own property taxes. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2018 was \$.04 per \$100 of assessed value.

Compensated Absences

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Inventories

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

Prepaid Expenses/Expenditures

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

Capital Assets

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

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

The service lives by type of asset are as follows:

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

Allowance for Doubtful Accounts

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The City currently has two items that qualify for reporting in this category. Pension and OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability and net OPEB liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability and net OPEB liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with 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.

Implementation of GASB Statement

During the year ended March 31, 2019, the City implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other postemployment benefit liability, or, for multi-employer cost sharing plans, the entity's share of the net other postemployment benefit liability, in the entity's financial statements.

NOTE B STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

- 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.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

- The Commissioners adopt legal annual budgets for the general fund and proprietary funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.
- The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Commissioners. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- Unused appropriations for all of the above annually budgeted funds lapse at year end.
- For 2019, there were no revisions to any legally adopted budgets.

NOTE C CASH AND CASH EQUIVALENTS

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

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

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

Cash and cash equivalents in the water fund (\$2,775,043) and the sewer fund (\$4,238,301) 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, 2019, the carrying amount of the City's deposits was \$17,670,376, and the bank balance was \$17,998,582. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$17,498,582 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2019 is as follows:

Due to		Due from	
General Fund	\$ 801,925	Water Fund	\$2,879,666
Capital Projects Fund	3,233,105	Sewer Fund	1,140,985
Nonmajor Governmental Funds	554	Nonmajor Governmental Funds	14,933
	<u>\$4,035,584</u>		<u>\$4,035,584</u>

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

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

Capital asset activity for the year ended March 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	157,762	483,618	621,969	19,411
Total Capital Assets Not Being Depreciated	<u>2,972,721</u>	<u>483,618</u>	<u>621,969</u>	<u>2,834,370</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Infrastructure and land improvements	51,221,569	587,079	-	51,808,648
Buildings and improvements	27,598,218	111,746	-	27,709,964
Machinery and equipment	7,125,546	254,469	-	7,380,015
Vehicles	1,919,449	3,276	157,953	1,764,772
Total Capital Assets Being Depreciated	<u>87,864,782</u>	<u>956,570</u>	<u>157,953</u>	<u>88,663,399</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	33,660,443	2,589,982	-	36,250,425
Buildings and improvements	3,536,261	962,425	-	4,498,686
Machinery and equipment	5,378,043	459,705	-	5,837,748
Vehicles	1,626,903	107,469	157,953	1,576,419
Total accumulated depreciation	<u>44,201,650</u>	<u>4,119,581</u>	<u>157,953</u>	<u>48,163,278</u>
Total Capital Assets Being Depreciated, Net	<u>43,663,132</u>	<u>(3,163,011)</u>	<u>-</u>	<u>40,500,121</u>
Governmental Activities Assets, Net	<u>\$46,635,853</u>	<u>\$(2,679,393)</u>	<u>\$ 621,969</u>	<u>\$43,334,491</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 208,769
Public safety	139,544
Public works	3,625,923
Recreation and culture	145,345
Total Depreciation Expense - Governmental Activities	<u>\$ 4,119,581</u>

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

Capital asset activity for the year ended March 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	34,172,851	11,742,013	45,914,864	-
Total Capital Assets Not Being Depreciated	<u>34,365,787</u>	<u>11,742,013</u>	<u>45,914,864</u>	<u>192,936</u>
Capital assets being depreciated:				
Buildings, infrastructure, and improvements	44,255,325	46,257,202	-	90,457,520
Machinery and equipment	2,109,401	275,745	-	2,385,146
Vehicles	883,809	-	91,374	792,435
Total Capital Assets Being Depreciated	<u>47,248,535</u>	<u>46,591,234</u>	<u>91,374</u>	<u>93,748,395</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings, infrastructure, and improvements	29,524,173	1,271,449	-	30,795,622
Machinery and equipment	1,840,879	148,847	-	1,989,726
Vehicles	824,105	23,510	91,374	756,241
Total accumulated depreciation	<u>32,189,157</u>	<u>1,443,806</u>	<u>91,374</u>	<u>33,541,589</u>
Total Capital Assets Being Depreciated, Net	<u>15,059,378</u>	<u>45,147,428</u>	<u>-</u>	<u>60,206,826</u>
Business-type Activities Assets, Net	<u>\$49,425,165</u>	<u>\$56,889,441</u>	<u>\$45,914,864</u>	<u>\$60,399,742</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:

Water	\$ 481,361
Sewer	<u>962,445</u>

Total Depreciation Expense - Business-type Activities \$ 1,443,806

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2019 is composed of the following:

Governmental Activities

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

\$ 16,849,630

Total Governmental Activities \$ 16,849,630

Business-type Activities

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

\$ 2,748,177

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

General Obligation Bond of 2012, issued by the State of Delaware, to finance capital costs associated with an approved sanitary sewer line replacement. The loan matures on November 1, 2023 and bears interest at 3.0%, which includes a 1.5% administrative fee paid to the Delaware Water Pollution Control Revolving Fund; payable on May 1 and November 1. 264,793

General Obligation Bond of 2017A, issued by the Delaware Department of Natural Resources and Environmental Control, to finance capital improvements in connection with the Ocean Outfall Disposal Project. The loan matures on March 1, 2043 and bears interest at 1% with an additional 1% administrative fee; payable on March 1 and September 1. 38,839,150

General Obligation Bond of 2017B, issued by the Delaware Department of Natural Resources and Environmental Control, to finance capital improvements in connection with the Ocean Outfall Disposal Project. The loan matures on March 1, 2043 and bears interest at 1% with an additional 1% administrative fee; payable on March 1 and September 1. 2,682,640

Total Business-type Activities \$ 44,534,760

Annual requirements to retire long-term debt of all funds at March 31, 2019, excluding \$10,959,296 in funds not yet drawn as of March 31, 2019 on the GOB Series 2017A and B, are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 605,413	\$ 396,245	\$ 1,696,770	\$ 911,988
2021	619,920	380,987	1,733,417	875,598
2022	634,775	366,480	1,770,872	838,406
2023	649,031	351,625	1,810,619	800,393
2024	665,538	337,369	1,838,820	761,542
2025 - 2029	3,568,724	1,441,759	9,107,383	3,216,786
2030 - 2034	4,023,277	1,002,874	8,658,300	2,318,213
2035 - 2039	4,529,070	510,793	9,559,463	1,417,051
2040 - 2043	1,553,882	51,555	8,359,116	422,093
Total	<u>\$ 16,849,630</u>	<u>\$ 4,839,687</u>	<u>\$ 44,534,760</u>	<u>\$ 11,562,070</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE H CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term liability activity and balances for the City for the year ended March 31, 2019:

	Balance April 1, 2018	Increase	Decreases	Balance March 31, 2019	Due Within One Year
Governmental Activities:					
Notes and bonds payable	\$ 17,427,197	\$ -	\$ 577,567	\$ 16,849,630	\$ 605,413
Net pension liability	139,030	184,733		323,763	-
Net OPEB liability	3,554,217	407,722	-	3,961,939	-
Compensated absences	562,292	-	16,868	545,424	-
Total	\$ 21,682,736	\$ 592,455	\$ 594,435	\$ 21,680,756	\$ 605,413
Business-type Activities:					
Notes and bonds payable	\$ 31,330,785	\$13,517,943	\$ 313,968	\$ 44,534,760	\$ 1,696,770
Net OPEB liability	829,375	97,486	-	926,861	-
Compensated absences	204,948	-	46,610	158,338	-
Total	\$ 32,365,108	\$13,615,429	\$ 360,578	\$ 45,619,959	\$ 1,696,770

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

NOTE I RETIREMENT PLANS

Thrift Plan

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

Employee contributions are matched at a rate of 50 percent by the City, not to exceed three percent. All employee contributions are 100 percent vested at the time of contribution; and employer contributions vest at the rate of 20 percent per year starting after two years of service and become fully vested after six years of service. For the years ended March 31, 2019, 2018, and 2017, the City's employer contributions totaled \$72,203, \$75,294, and \$65,642, respectively.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Delaware County and Municipal Police/Firefighter Pension Plan

Plan Description

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

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

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

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

The following are brief descriptions of the Plan in effect as of June 30, 2018. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

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

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

Vesting: Five years of credited service.

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

Disability Benefits:

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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

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

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

Employer Contributions

The City's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended March 31, 2019, the rate of the employer contributions was 11.79 percent of covered payroll. The District's contribution to the plan for the year ended March 31, 2019 was \$125,220.

Actuarial Assumptions

The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions:

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

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30.7%	5.7%
International equity	13.9%	5.7%
Fixed income	23.3%	2.0%
Alternative investments	24.4%	7.8%
Cash equivalents	7.7%	-
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board, as actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

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

The following presents the net pension liability (asset), calculated using the discount rate of 7.0 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
City's proportionate share of the net pension liability (asset)	\$ 1,186,833	\$ 323,763	\$ (374,843)

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

For the year ended March 31, 2019, the City recognized pension expense of \$196,810. At March 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 56,419
Changes in proportions	4,102	5,308
Changes in assumptions	106,357	45,694
Difference between employer contributions and proportionate share of total contributions	17,480	55,010
Differences between expected and actual experience	278,794	76,356
Contributions subsequent to the date of measurement	125,220	-
	\$ 531,953	\$ 238,787

An amount of \$125,220 is reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended March 31, 2020. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Year Ended March 31,	
2020	\$ 11,182
2021	11,182
2022	11,182
2023	11,182
2024	25,287
2025 - 2029	97,938
	\$ 167,946

NOTE J OPERATING LEASES

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

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

Future minimum receipts under the agreement are as follows:

For the Year Ended March 31,	Amount
2020	\$ 69,600
2021	70,800
Total	\$ 140,400

Rental income under these leases for the year ended March 31, 2019 was \$109,978.

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, 2019.

Construction Commitments

At March 31, 2019, the City reported \$19,411 in construction-in-progress costs for projects without ongoing construction commitments.

NOTE L RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for worker's compensation, for which the City participates in the Delaware Founders Insurance Trust pool.

For insured programs, there were no significant changes in insurance coverages during the year. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years.

NOTE M OTHER POSTEMPLOYMENT BENEFITS

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Description of Plan

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

The City provides postretirement benefits to all employees who retire on or after attaining age 60 and who have been employed by the City for a minimum of 25 continuous years prior to the date of retirement. Coverage is based on a formula that is based on years of completed service. The City also provides health insurance benefits for up to two years for those employees who are on disability.

Duration of Medical Benefits

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

Funding Policy

The contribution requirements of the plans' members are established and may be amended by the City Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the City Commissioners. Member contributions are not required under the plans.

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of April 1, 2018, the same date as the latest actuarial valuation. Participant data is based on census data as of April 1, 2018. The actuarial cost method uses entry age normal.

Participants

As of April 1, 2018, the plan had ninety-five participants, consisting of 86 active participants, zero vested former participants, and nine retired participants.

Discount Rate

The discount rate used to measure the total OPEB liability was three percent based on the 20-Year High Municipal Rate Index at April 1, 2018.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Salary

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

Withdrawal

The table below shows rates of withdrawal at selected ages.

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

Mortality

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

Retirement

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

Percent of Eligible Retirees Electing Coverage in Plan

One hundred percent of employees are assumed to elect medical coverage until age 65.

Per Capita Claims Cost

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

<u>Age</u>	<u>Males</u>	<u>Females</u>
0-49	\$ 9,235	\$ 9,235
50	\$ 11,082	\$ 13,760
55	\$ 14,499	\$ 15,977
60	\$ 18,655	\$ 18,655

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Age	Males	Females
64	\$ 22,811	\$ 21,887
65+	\$ 5,513	\$ 5,513

Retiree Contributions

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

Healthcare Cost Trend Rate

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

Sensitivity Analysis

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

	1% Decrease 2.00%	Current Rate Discount Rate 3.00%	1% Increase 4.00%
Total OPEB liability	\$ 5,734,409	\$ 4,888,800	\$ 4,213,879
Fiduciary net position	-	-	-
Net OPEB liability	\$ 5,734,409	\$ 4,888,800	\$ 4,213,879

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

	1% Decrease	Current Rate Healthcare Trend Rate	1% Increase
Total OPEB liability	\$ 3,969,727	\$ 4,888,800	\$ 6,065,014
Fiduciary net position	-	-	-
Net OPEB liability	\$ 3,969,727	\$ 4,888,800	\$ 6,065,014

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Changes in Total OPEB Liability

Total OPEB liability as of April 1, 2017	\$ 4,374,602
Service cost	106,656
Interest on OPEB obligation	176,884
Differences between expected and actual experience	(698,032)
Change in assumptions	1,047,003
Benefit payments	<u>(118,313)</u>
Total OPEB liability as of April 1, 2018	<u>\$ 4,888,800</u>

The amount of OPEB expense recognized by the City was \$362,995 for the year ended March 31, 2019. An amount of \$106,281 is reported as deferred outflows of resources resulting from the City's benefit payments subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended March 31, 2020. At March 31, 2019, the City reported deferred outflows and inflows of resources relating to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 623,136
Changes of assumptions	934,663	-
Contributions subsequent to the measurement date	<u>106,281</u>	<u>-</u>
Total	<u>\$1,040,944</u>	<u>\$ 623,136</u>

Deferred inflows of resources due to the change in assumptions will be recognized in OPEB expense as follows:

Year Ending March 31,

2020	\$ 37,443
2021	37,443
2022	37,443
2023	37,443
2024	37,443
Thereafter	<u>124,312</u>
	<u>\$ 311,527</u>

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE N FUND BALANCES

As of March 31, 2019, fund balances of the governmental funds are classified, if applicable, as follows:

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

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

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

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

Unassigned – all other spendable amounts.

As of March 31, 2019, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 175,526	\$ -	\$ -	\$ 175,526
Restricted:				
Police expenditures	-	-	42,948	42,948
Public works expenditures	-	-	103,683	103,683
Unassigned (deficit)	<u>9,847,580</u>	<u>(3,170,029)</u>	<u>-</u>	<u>6,677,551</u>
Total Fund Balances (Deficit)	<u>\$10,023,106</u>	<u>\$(3,170,029)</u>	<u>\$ 146,631</u>	<u>\$ 6,999,708</u>

Deficit Fund Balance

At March 31, 2019, the capital projects fund had an unassigned deficit fund balance in the amount of \$3,170,029. The deficit occurred as a result of a balance of \$3,233,105 due to the fund from other funds at March 31, 2019, which will be repaid in future years.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE O EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended March 31, 2019:

Public works \$ 145,408

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

NOTE P SUPPORT DONATED TO OTHER ENTITIES

The City provided the following financial support to local non-profit organizations, including the Rehoboth Beach Volunteer Fire Company, the Rehoboth Beach Public Library, Rehoboth Beach Main Street, and the Rehoboth Beach Historical Society during the year ended March 31, 2019.

Organization	Donation	Expenses Paid on Behalf of	Total
Rehoboth Beach Volunteer Fire Company	\$ 58,280	\$ 5,784	\$ 64,064
Rehoboth Beach Main Street	50,000	3,527	53,527
Rehoboth Beach Historical Society	10,000	14,065	24,065
Rehoboth Beach Public Library	15,000	-	15,000
Total	\$ 133,280	\$ 23,376	\$ 156,656

NOTE Q PRIOR PERIOD ADJUSTMENTS

The City has decreased its April 1, 2018 net position in the governmental activities by \$2,068,372 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The City recorded a beginning deferred outflow for OPEB contributions of \$95,882 and a beginning net OPEB liability of \$3,545,227. The previously reported \$1,380,973 OPEB obligation liability as of March 31, 2018 is no longer recognized due to the change in accounting principle.

The City has decreased its April 1, 2018 net position by \$483,878 in the business-type activities due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The City recorded a beginning deferred outflow for OPEB contributions of \$22,431 and a beginning net OPEB liability of \$829,375. The previously reported \$323,066 OPEB obligation liability as of March 31, 2018 is no longer recognized due to the change in accounting principle.

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE Q PRIOR PERIOD ADJUSTMENTS (cont'd)

The City has decreased its April 1, 2018 net position by \$178,947 in the water fund due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The City recorded a beginning deferred outflow for OPEB contributions of \$8,295 and a beginning net OPEB liability of \$306,717. The previously reported \$119,475 OPEB obligation liability as of March 31, 2018 is no longer recognized due to the change in accounting principle.

The City has decreased its April 1, 2018 net position by \$304,931 in the business-type activities and sewer fund due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The City recorded a beginning deferred outflow for OPEB contributions of \$14,136 and a beginning net OPEB liability of \$522,658. The previously reported \$203,591 OPEB obligation liability as of March 31, 2018 is no longer recognized due to the change in accounting principle.

NOTE R SUBSEQUENT EVENTS

The City has evaluated all subsequent events through October 28, 2019, 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, 2019**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property tax	\$ 1,335,000	\$ 1,336,124	\$ 1,124
Rental tax	2,000,000	1,910,805	(89,195)
Transfer tax	1,400,000	2,243,054	843,054
Construction tax	35,000	82,852	47,852
Penalties and interest	2,800	5,378	2,578
Total Taxes	<u>4,772,800</u>	<u>5,578,213</u>	<u>805,413</u>
Licenses and permits:			
Mercantile licenses	518,000	540,249	22,249
Building permits	650,000	923,763	273,763
Other	63,300	57,871	(5,429)
Total Licenses and Permits	<u>1,231,300</u>	<u>1,521,883</u>	<u>290,583</u>
Franchise fees	<u>180,000</u>	<u>169,693</u>	<u>(10,307)</u>
Intergovernmental revenues:			
General government	25,000	103,112	78,112
Public works	-	116,800	116,800
Public safety	141,000	160,826	19,826
Total Intergovernmental Revenues	<u>166,000</u>	<u>380,738</u>	<u>214,738</u>
Charges for services:			
Parking meters	4,150,000	4,076,247	(73,753)
Parking permits	1,242,660	930,207	(312,453)
Waste collection	779,500	774,376	(5,124)
Total Charges for Services	<u>6,172,160</u>	<u>5,780,830</u>	<u>(391,330)</u>
Fines and forfeitures:			
Parking	585,000	752,773	167,773
Court	70,000	138,078	68,078
Police	96,000	71,407	(24,593)
Total Fines and Forfeitures	<u>751,000</u>	<u>962,258</u>	<u>211,258</u>
Investment earnings	<u>2,008</u>	<u>11,122</u>	<u>9,114</u>
Rents and concessions	<u>402,790</u>	<u>529,590</u>	<u>126,800</u>
Contributions and donations	<u>22,000</u>	<u>23,158</u>	<u>1,158</u>
Miscellaneous revenues	<u>58,900</u>	<u>87,321</u>	<u>28,421</u>
TOTAL REVENUES	<u>13,758,958</u>	<u>15,044,806</u>	<u>1,285,848</u>
EXPENDITURES			
General government:			
Mayor and Council	263,772	241,609	22,163
Assessors	3,038	2,799	239
Administrative	2,114,409	1,667,855	446,554
Alderman Court	74,131	66,664	7,467
Buildings and licensing	571,372	464,369	107,003
Information technology	518,939	547,758	(28,819)
Communications	104,693	72,213	32,480
Buildings and grounds	350,943	350,302	641
Total General Government	<u>4,001,297</u>	<u>3,413,569</u>	<u>587,728</u>

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2019**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
EXPENDITURES (cont'd)			
Public safety:			
Police	2,895,665	2,727,580	168,085
Dispatch	617,097	680,906	(63,809)
Volunteer fire	63,500	64,064	(564)
Beach patrol	654,889	591,024	63,865
Total Public Safety	<u>4,231,151</u>	<u>4,063,574</u>	<u>167,577</u>
Public works:			
Streets and refuse	2,096,444	2,303,154	(206,710)
Parking	1,258,813	1,197,511	61,302
Total Public Works	<u>3,355,257</u>	<u>3,500,665</u>	<u>(145,408)</u>
Recreation and culture:			
Comfort stations	221,500	197,209	24,291
Parks	265,778	317,405	(51,627)
Library	15,000	15,000	-
Main Street	50,000	53,527	(3,527)
Bandstand	7,454	7,448	6
Museum	25,000	24,065	935
Recreation	212,183	167,737	44,446
Total Recreation and Culture	<u>796,915</u>	<u>782,391</u>	<u>14,524</u>
Debt service:			
Interest and principal	986,400	986,400	-
Capital outlays	1,434,226	1,044,208	390,018
TOTAL EXPENDITURES	<u>14,805,246</u>	<u>13,790,807</u>	<u>1,014,439</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,046,288)</u>	<u>1,253,999</u>	<u>2,300,287</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	3,383	3,383
Transfers in (out)	1,046,288	-	(1,046,288)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,046,288</u>	<u>3,383</u>	<u>(1,042,905)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	1,257,382	<u>\$ 1,257,382</u>
FUND BALANCE, BEGINNING OF YEAR		<u>8,765,724</u>	
FUND BALANCE, END OF YEAR		<u>\$10,023,106</u>	

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

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

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

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

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

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

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

	MEASUREMENT DATE
	<u>April 1, 2018</u>
TOTAL OPEB LIABILITY	
Service cost	\$ 106,656
Interest on total OPEB liability	176,884
Difference between expected and actual experience	(698,032)
Effect of change in assumptions	1,047,003
Benefit payments	<u>(118,313)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	514,198
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	<u>4,374,602</u>
TOTAL OPEB LIABILITY, END OF YEAR	<u>\$ 4,888,800</u>
<u>PLAN FIDUCIARY NET POSITION</u>	
Contributions - employer	\$ -
Net investment income	-
Benefit payments	-
Administrative expenses	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	-
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>-</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ -</u>
TOWNSHIP'S NET OPEB LIABILITY	<u>\$ 4,888,800</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%
Covered employee payroll	\$ 4,485,972
Township's net OPEB liability as a percentage of covered payroll	108.98%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF REHOBOTH BEACH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OPEB CONTRIBUTIONS**

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

Notes to Schedule:

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

Valuation Date: April 1, 2018

Methods and Assumptions Used:

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

COMBINING FUND STATEMENTS

**CITY OF REHOBOTH BEACH
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
MARCH 31, 2019**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 113,806	\$ 28,015	\$ 141,821
Due from other funds	-	14,933	14,933
TOTAL ASSETS	<u>\$ 113,806</u>	<u>\$ 42,948</u>	<u>\$ 156,754</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,569	\$ -	\$ 9,569
Due to other funds	554	-	554
TOTAL LIABILITIES	<u>10,123</u>	<u>-</u>	<u>10,123</u>
FUND BALANCES			
Restricted:			
Police expenditures	-	42,948	42,948
Public works expenditures	103,683	-	103,683
TOTAL FUND BALANCES	<u>103,683</u>	<u>42,948</u>	<u>146,631</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 113,806</u>	<u>\$ 42,948</u>	<u>\$ 156,754</u>

**CITY OF REHOBOTH BEACH
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2019**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 131,558	\$ 46,792	\$ 178,350
TOTAL REVENUES	<u>131,558</u>	<u>46,792</u>	<u>178,350</u>
EXPENDITURES			
Public safety	-	22,673	22,673
Public works	110,202	-	110,202
TOTAL EXPENDITURES	<u>110,202</u>	<u>22,673</u>	<u>132,875</u>
CHANGE IN FUND BALANCES	21,356	24,119	45,475
FUND BALANCES, BEGINNING OF YEAR	<u>82,327</u>	<u>18,829</u>	<u>101,156</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 103,683</u></u>	<u><u>\$ 42,948</u></u>	<u><u>\$ 146,631</u></u>

CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF NET POSITION - SEWER FUNDS
MARCH 31, 2019

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,238,301	\$ -	\$ 4,238,301
Accounts receivable	121,477	-	121,477
Due from other funds	471,633	669,352	1,140,985
Contingency reserve shortfall	13,300	-	13,300
Prepaid expenses	54,083	-	54,083
Inventory	73,201	-	73,201
Noncurrent Assets:			
Capital assets, net of depreciation	<u>51,979,492</u>	<u>170,178</u>	<u>52,149,670</u>
TOTAL ASSETS	<u>56,951,487</u>	<u>839,530</u>	<u>57,791,017</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows relating to OPEB	<u>124,367</u>	-	<u>124,367</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>124,367</u>	<u>-</u>	<u>124,367</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 57,075,854</u></u>	<u><u>\$ 839,530</u></u>	<u><u>\$ 57,915,384</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 70,599	\$ 3,226	\$ 73,825
Accrued salaries and benefits	44,840	-	44,840
Accrued interest	73,830	-	73,830
Note payable	1,416,226	-	1,416,226
Noncurrent Liabilities:			
Notes and bonds payable	40,370,357	-	40,370,357
Other postemployment liability	584,092	-	584,092
Compensated absences	90,034	-	90,034
TOTAL LIABILITIES	<u>42,649,978</u>	<u>3,226</u>	<u>42,653,204</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows relating to OPEB	<u>74,449</u>	-	<u>74,449</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>74,449</u>	<u>-</u>	<u>74,449</u>
NET POSITION			
Net investment in capital assets	10,192,909	170,178	10,363,087
Unrestricted	<u>4,158,518</u>	<u>666,126</u>	<u>4,824,644</u>
TOTAL NET POSITION	<u>14,351,427</u>	<u>836,304</u>	<u>15,187,731</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 57,075,854</u></u>	<u><u>\$ 839,530</u></u>	<u><u>\$ 57,915,384</u></u>

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>Sewer Fund</u>	<u>Sewer Capital Projects Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 2,967,651	\$ -	\$ 2,967,651
Other operating revenues	4,921	-	4,921
Total Operating Revenues	<u>2,972,572</u>	<u>-</u>	<u>2,972,572</u>
OPERATING EXPENSES			
Salaries and benefits	943,296	-	943,296
Materials and supplies	293,151	-	293,151
Administration expenses	56,981	-	56,981
Contractual services	45,112	184	45,296
Land and equipment rental	39,419	-	39,419
Repairs and maintenance	236,711	-	236,711
Utilities	293,581	-	293,581
Insurance	40,631	-	40,631
Depreciation	962,445	-	962,445
Total Operating Expenses	<u>2,911,327</u>	<u>184</u>	<u>2,911,511</u>
OPERATING INCOME (LOSS)	<u>61,245</u>	<u>(184)</u>	<u>61,061</u>
NONOPERATING REVENUES (EXPENSES)			
Sewer impact fees	60,448	-	60,448
Investment income	5,856	-	5,856
Interest expense	(467,175)	-	(467,175)
Intergovernmental grants	100,000	-	100,000
Total Nonoperating Expenses	<u>(300,871)</u>	<u>-</u>	<u>(300,871)</u>
LOSS BEFORE TRANSFERS	(239,626)	(184)	(239,810)
Transfers (out) in	<u>(947,352)</u>	<u>947,352</u>	<u>-</u>
CHANGE IN NET POSITION	(1,186,978)	947,168	(239,810)
NET POSITION (DEFICIT), BEGINNING OF YEAR, RESTATED	<u>15,538,405</u>	<u>(110,864)</u>	<u>15,427,541</u>
NET POSITION, END OF YEAR	<u><u>\$ 14,351,427</u></u>	<u><u>\$ 836,304</u></u>	<u><u>\$ 15,187,731</u></u>

**CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF CASH FLOWS - SEWER FUNDS
FOR THE YEAR ENDED MARCH 31, 2019**

	Sewer Fund	Sewer Capital Projects Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 3,119,018	\$ -	\$ 3,119,018
Cash paid for goods and services	(991,626)	(96,503)	(1,088,129)
Cash paid to employees	(944,205)	-	(944,205)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,183,187</u>	<u>(96,503)</u>	<u>1,086,684</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital assets purchased	(10,253,636)	(14,646,389)	(24,900,025)
Loans to (from) other funds	(4,687,111)	13,795,540	9,108,429
Transfers from other funds	1,860,962	947,352	2,808,314
Proceeds received from capitalization and impact fees	60,448	-	60,448
Capital grants	100,000	-	100,000
Proceeds from issuance of bonds	13,517,943	-	13,517,943
Principal paid on note payable	(48,390)	-	(48,390)
Interest paid on long term debt	(467,175)	-	(467,175)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>83,041</u>	<u>96,503</u>	<u>179,544</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	75,771	-	75,771
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>75,771</u>	<u>-</u>	<u>75,771</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,341,999	-	1,341,999
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,896,302</u>	<u>-</u>	<u>2,896,302</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,238,301</u>	<u>\$ -</u>	<u>\$ 4,238,301</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 61,245	\$ (184)	\$ 61,061
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	962,445	-	962,445
(Increase) Decrease in assets:			
Accounts receivable	146,446	-	146,446
Inventory	(11,218)	-	(11,218)
Prepaid expenses	(10,470)	-	(10,470)
Deferred outflows of resources related to OPEB	(110,231)	-	(110,231)
Increase (Decrease) in liabilities:			
Accounts payable	(6,603)	(96,319)	(102,922)
Contingency reserve	(27,664)	-	(27,664)
Accrued salaries and benefits	18,069	-	18,069
Accrued expenses	69,915	-	69,915
Net OPEB liability	61,434	-	61,434
Compensated absences	(44,630)	-	(44,630)
Deferred inflows of resources related to OPEB	74,449	-	74,449
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,183,187</u>	<u>\$ (96,503)</u>	<u>\$ 1,086,684</u>

SINGLE AUDIT SUPPLEMENT



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

October 28, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach ("the City"), Rehoboth Beach, Delaware, as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

Compliance and Other Matters

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

Purpose of This Report

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


BARBACANE, THORNTON & COMPANY LLP



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

October 28, 2019

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

Report on Compliance for Each Major Federal Program

We have audited the City of Rehoboth Beach's ("the City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended March 31, 2019. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

Opinion on Major Federal Program

In our opinion, the City of Rehoboth Beach, Rehoboth Beach, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and recommendations as item #2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying management's response to findings and recommendations. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

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

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

CITY OF REHOBOTH BEACH
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major program:

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

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

Unmodified

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

 X Yes No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

66.458

Capitalization Grants for Clean Water State Revolving Funds

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

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

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

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding #2019-001

FILING OF DATA COLLECTION FORM (CFDA #66.458)

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

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

Cause: Unavailability of information needed to make determination.

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

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

**CITY OF REHOBOTH BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2019**

GRANTOR	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES MARCH 31, 2019	PASSED THROUGH TO SUBRECIPIENTS	OUTSTANDING LOAN BALANCE
<u>U.S. Environmental Protection Agency</u>						
<u>Passed through Delaware Department of Natural Resources and Environmental Conservation</u>						
Capitalization Grants for Clean Water State Revolving Funds	I	66.458	N/A	\$ 26,069,264	\$ -	\$ 41,521,790
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				<u>26,069,264</u>	<u>-</u>	<u>41,521,790</u>
<u>U.S. Department of Transportation</u>						
<u>Passed through Delaware Department of Transportation</u>						
State and Community Highway Safety	I	20.600	N/A	14,236	-	-
Minimum Penalties for Repeat Offenders For Driving While Intoxicated	I	20.608	N/A	6,000	-	-
National Priority Safety Programs	I	20.616	N/A	<u>14,320</u>	<u>-</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>34,556</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 26,103,820</u>	<u>\$ -</u>	<u>\$ 41,521,790</u>
TOTAL HIGHWAY SAFETY CLUSTER (CFDA #s 20.600 and 20.616)				<u>\$ 28,556</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CLEAN WATER STATE REVOLVING FUND CLUSTER (CFDA # 66.458)				<u>\$ 26,069,264</u>	<u>\$ -</u>	<u>\$ 41,521,790</u>

Source Codes:

D = Direct Funding
I = Indirect Funding

CITY OF REHOBOTH BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A REPORTING ENTITY

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended March 31, 2019, there were no indirect costs included in the schedule of expenditures of federal awards.

NOTE D LOAN BALANCES INVOLVING FEDERAL FUNDS

During the year ended March 31, 2018, the City was awarded a \$52,481,085 loan from the Delaware Natural Resources and Environmental Control, which is funded by passed through federal funds. The loan balance originating from federal funds at March 31, 2019 was \$41,521,790.

City of Rehoboth Beach
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MANAGEMENT'S RESPONSE TO FINDING AND RECOMMENDATION

Finding #2019-001

FILING OF DATA COLLECTION FORM (CFDA #66.458)

Management is in agreement with this finding. Upon being informed by the grantor agency that the funds were federal pass-through funds, management undertook the necessary steps to obtain an updated single audit. Management will also request an affirmative statement for each future loan as to whether the loan funds have originated with the federal government. This plan will be implemented by March 31, 2020.