



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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

MARCH 31, 2013

CITY OF REHOBOTH BEACH

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CITY OF REHOBOTH BEACH

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INDEPENDENT AUDITOR'S REPORT

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November 7, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rehoboth Beach, Rehoboth Beach, Delaware, as of March 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Rehoboth Beach's 2012 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated November 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2012 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 - 11 and the budgetary comparison schedule - general fund on pages 37 - 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rehoboth Beach's basic financial statements. The combining nonmajor fund financial statements on pages 39 - 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013, on our consideration of the City of Rehoboth Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rehoboth Beach's internal control over financial reporting and compliance.

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

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited
MARCH 31, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at March 31, 2013 by \$58.9 million (net position). Of this amount, \$8.4 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's net position decreased by \$253 thousand.

As of March 31, 2013, the City's governmental funds reported combined ending fund balances of \$4.1 million, an increase of \$1.3 million as compared to the prior year. The current year increase in fund balance can be attributed to higher than budgeted revenues and transfers from the Water Fund and Sewer Fund.

As of March 31, 2013, the City's proprietary funds reported combined net position of \$22.6 million, an increase of \$191 thousand compared to the prior year. The increase can be attributed to the following: a) \$357 thousand increase in operating revenues that was offset and a \$102 thousand increase in operating expenses; b) \$348 thousand decrease in non-operating revenues/expenses/capital contributions and; c) \$849.5 of transfers to the General Fund. Included in the non-operating revenue was a \$393 thousand decrease in the capital contributions from Dewey Beach and Henlopen Acres.

Overview of the Financial Statements

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

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

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

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

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

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

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

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

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

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

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

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.

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Entity-wide Financial Analysis

The following table presents a summary of the statement of net position for the City as of March 31, 2012 and 2013.

Table 1 – Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	\$ 4,563,624	\$ 3,278,198	\$ 6,235,866	\$ 5,394,986	\$ 10,799,490	\$ 8,673,184
Capital assets, net	36,346,994	38,490,918	21,448,550	22,509,947	57,795,544	61,000,865
TOTAL ASSETS	40,910,618	41,769,116	27,684,416	27,904,933	68,595,034	69,674,049
LIABILITIES						
Other liabilities	1,010,145	1,936,084	706,481	940,576	1,716,626	1,871,774
Long-term debt	3,561,799	3,050,164	4,388,543	4,566,255	7,950,342	8,621,305
TOTAL LIABILITIES	4,571,944	4,986,248	5,095,024	5,506,831	9,666,968	10,493,079
NET POSITION						
Net investment in capital assets	33,296,902	34,824,731	17,210,813	17,709,845	50,507,715	52,534,576
Restricted	65,258	78,111	-	-	65,258	78,111
Unrestricted	2,976,514	1,880,026	5,378,579	4,688,257	8,355,093	6,568,283
TOTAL NET POSITION	\$ 36,338,674	\$ 36,782,868	\$ 22,589,392	\$ 22,398,102	\$ 58,928,066	\$ 59,180,970

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 are still outstanding. Capital assets are used to provide services to residents and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

Table 2 – Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 6,362,284	\$ 6,186,773	\$ 5,126,999	\$ 4,733,494	\$11,489,283	\$10,920,267
Operating grants/contributions	373,294	384,590	-	45,000	373,294	429,590
Capital grants/contributions	303,324	615,337	257,294	609,180	560,618	1,224,517
General revenues:						
Taxes	3,689,704	3,124,278	-	-	3,689,704	3,124,278
Investment earnings	10,423	12,799	11,250	14,954	21,673	27,753
Franchise fees	79,422	72,634	-	-	79,422	72,634
Gain on sale of capital assets	-	-	-	-	-	-
Miscellaneous	184,623	80,788	-	-	184,623	80,788
Transfers	849,481	794,613	-	-	849,481	794,613
TOTAL REVENUES	11,852,555	11,271,812	5,395,543	5,402,628	17,248,098	16,674,440
EXPENSES						
General government	\$2,353,970	2,378,004	-	-	2,353,970	2,378,004
Public safety	2,805,281	2,534,353	-	-	2,805,281	2,534,353
Public works	5,755,252	5,497,358	-	-	5,755,252	5,497,358
Recreation and culture	1,265,294	1,230,865	-	-	1,265,294	1,230,865
Interest on long-term debt	116,952	121,512	-	-	116,952	121,512
Water operations	-	-	1,802,086	1,762,631	1,802,086	1,762,631
Sewer operations	-	-	2,552,686	2,506,062	2,552,686	2,506,062
Transfers	-	-	849,481	794,613	849,481	794,613
TOTAL EXPENSES	12,296,749	11,762,092	5,204,253	5,063,306	17,501,002	16,825,398
INCREASE (DECREASE) IN NET POSITION	(444,194)	(490,280)	191,290	339,322	(252,904)	(150,958)
NET POSITION, BEGINNING OF YEAR	36,782,868	37,273,148	22,398,102	22,058,780	59,180,970	59,331,928
NET POSITION, END OF YEAR	\$ 36,338,674	\$36,782,868	\$22,589,392	\$22,398,102	\$58,928,066	\$59,180,970

Governmental Activities

The cost of all governmental activities in 2013 was \$12.3 million. The amount that taxpayers ultimately financed for these activities through City taxes was \$3.7 million, or 30 percent. Other costs were paid by those who directly benefited from the programs (\$6.4 million, or 52.0 percent), government agencies and organizations that subsidized funding with intergovernmental aid (\$.7 million or 5.7 percent), and transfers from Water and Sewer funds (\$.85 million, or 6.9 percent).

Capital grants and contributions decreased from the prior year by \$.3 million. The decline was a result of the completion of Energy Competitive Building Projects in the prior year and the reduction in the related capital grant funds. Property tax revenue increased by \$13 thousand as the rate of \$1.78 per hundred of assessed value remained unchanged. Property transfer tax revenue increased by \$480 thousand or 50 percent as a result of increased real estate sales. Charges for services directly associated with program functions increased by \$175 thousand from the prior year.

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

As indicated by the governmental program expenses, general government programs accounted for 19.1 percent of the City's governmental activities. Increases for governmental activities are due to cost-of-living increases for wages, medical insurance inflation, legal and other professional services. Public safety expenses accounted for 22.8 percent of the City's governmental activities in the year ended March 31, 2013 and 21.5 percent in the prior year. The increased costs were due to cost-of-living increases for wages and inflation for benefit costs. Public works expenses accounted for 46.8 percent of the City's governmental activities and experienced an increase in depreciation expense of approximately \$98.7 thousand due to the placement of projects and equipment into service. Public works also experienced increases due to cost-of-living increases for wages and medical insurance inflation. Culture and recreation expenses accounted for 10.3 percent of the City's governmental activities and represented an increase of three percent from the prior year.

Business-type Activities

In addition to providing the residents of Rehoboth Beach with water and sewer services, the City has entered into operating agreements with Dewey Beach, Henlopen Acres and North Shores for wastewater treatment services and water distribution to Dewey Beach.

Charges for services represent the principal revenue source for the City's business-type activities. Current water rates were not increased during the fiscal year. The sewer surcharge imposed to pay for future projects remained at 50 percent of sewer charges. The overall operating expense of business-type activities increased by \$102 thousand or 2.5 percent. The increases were primarily due to increases in repairs and maintenance (\$98 thousand), salaries & benefits (\$31 thousand) and contractual services (\$49 thousand). Materials and supplies decreased by \$100 thousand from the prior year.

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 unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of March 31, 2013, the City's governmental funds reported combined ending fund balances of \$4.06 million, an increase of \$1.27 million as compared to the prior year. Less than 10 percent, or \$374 thousand, constitutes fund balance assigned, committed or in nonspendable form, leaving \$3.68 million available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. As of March 31, 2013, the total fund balance of the General Fund was \$3.99 million, of which \$3.68 million is unassigned. The fund balance increased by \$1.29 million during the year ended March 31, 2013.

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

Significant changes in revenue for the governmental funds are consistent with the prior analysis of the governmental activities revenues. Intergovernmental revenues consisted of proceeds from a capital grant used to pay for the energy efficiency projects at the municipal building and the public works buildings.

The City's general fund departmental expenditures increased by approximately \$478 thousand from the prior year. Major fluctuations in departmental expenditures compared to the prior year are as follows:

- The City implemented an average 3.0 percent wage increase for all City employees, effective April 1, 2012. In accordance with their collective bargaining agreement, police officers also received a three percent increase, effective April 1, 2012. There was a \$185 thousand increase in wage expense in the governmental funds. Medical and dental insurance costs increased from \$543,206 to \$543,573, a \$367 increase.
- The City experienced a decrease in electric costs of approximately \$19 thousand.
- During 2013, the City's outlay for capital expenditures decreased by \$212,763 to \$1,115,066.

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

- \$203.2 thousand for the Delaware Avenue storm water outfall pipes.
- \$151.9 thousand to complete a phase of the sidewalk improvement project.
- \$125.3 thousand to complete the Delaware Avenue Restroom, a \$241.4 thousand project.
- \$ 98.6 thousand for the T-2 parking enforcement software application.
- \$ 71.7 thousand for the City Hall Feasibility Study.
- \$ 69.7 thousand for improvements to the sidewalk ramps.
- \$ 56.8 thousand for two police vehicles.
- \$ 49.7 thousand for beach cleaning equipment.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the City's budget and actual results can be found on pages 37 - 38. A summary of significant variations between budget amounts and actual results are as follows:

- Total revenues received exceeded budget by approximately \$892.8 thousand. Taxes, licenses and permits, rental tax and intergovernmental revenues exceeded budget by \$612 thousand, \$8 thousand, \$70 thousand and \$189 thousand, respectively. Charges for services (parking meter/lot revenue and waste collection) were \$36 below budget.
- Parking meter/lot revenue was \$28 thousand below budget. Parking fines were \$124 thousand below budget.

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

- Total General Fund expenditures were \$184 thousand less than budget.
- Street Department expenditures, including charges for engineering services, sidewalk maintenance and supplies exceeded budget by \$105 thousand.
- Parking Department expenditures were \$153 below budget.
- Police Department expenditures were \$97 thousand greater than budget. Legal expenses and Workmen's compensation were \$84 thousand and \$44 thousand greater than budget, respectively.
- Administrative expenditures were \$169 thousand below budget, primarily as a result of lower than budgeted amounts for contractual services.
- All other fluctuations in revenues from budget to actual are deemed reasonable, based on the element of uncertainty when budgeting for such revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of March 31, 2013, amounted to \$57.8 million (net of accumulated depreciation). Capital assets include land, building and improvements, improvements other than buildings, machinery and equipment, vehicles and infrastructure. The total net decrease in the City's capital assets for the current fiscal year was approximately \$3.21 million. Current year depreciation of \$4.6 million exceeded capital asset additions by \$3.2 million. Construction-in-progress of \$1.45 million consisted primarily of Ocean Outfall engineering costs (\$1.24 million).

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

Debt Administration

During the year ended March 31, 2013, the City did not incur any additional debt. In addition, the City made debt service principal payments in the amount of \$1.18 million on its General Fund projects loan, and Water Department loans. All general obligation notes are backed by the full faith and credit of the City. In fiscal year 2013 - 2014, the City expects to issue \$450,000 of bonds payable to the Delaware Water Pollution Control Revolving Fund for the Schoolvue sanitary sewer line replacement project. The bonds will mature on May 1, 2023 and bear interest at three percent.

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

CITY OF REHOBOTH BEACH
Management's Discussion and Analysis (MD&A) - Unaudited (cont'd)
March 31, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- As a result of the general improvement in real estate sales throughout our region, transfer taxes increased by \$480 thousand as compared to the prior year.
- The 2013 - 2014 combined budgets for the governmental and proprietary funds reflect total appropriations in the amount of \$15,963,640, a \$277,393 increase from the prior year. The budget for capital outlays is \$82,955 below the prior year.
- The 2012-2013 property tax rate was unchanged at \$1.78 per hundred of assessed property value.
- The wastewater surcharge will remain at 50 percent of sewer bills.
- The 2013 - 2014 budget, calls for three percent wage increase for all City employees.
- The City has allocated \$1.27 million to the 2013 - 2014 capital improvement program budget. The largest components of the capital improvement program budget are expenditures for a new refuse vehicle (\$146 thousand) and design work for the City Hall upgrades (\$100 thousand).

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 Mr. Greg Ferrese, 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, 2013
(With Summarized Comparative Data for March 31, 2012)

	Governmental Activities	Business-type Activities	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$ 4,087,946	\$ 5,381,283	\$ 9,469,229	\$ 7,378,568
Taxes receivable	6,657	-	6,657	4,665
Accounts receivable	126,087	518,326	644,413	566,841
Interest receivable	-	2,256	2,256	324
Due from other governments	3,979	-	3,979	63,713
Prepaid expenses	164,108	41,578	205,686	172,454
Inventory	31,097	292,423	323,520	317,869
Loan receivable	143,750	-	143,750	168,750
CAPITAL ASSETS				
Land	2,814,959	192,936	3,007,895	3,007,895
Construction-in-progress	148,578	1,296,150	1,444,728	1,502,062
Depreciable capital assets, net of depreciation	<u>33,383,457</u>	<u>19,959,464</u>	<u>53,342,921</u>	<u>56,490,908</u>
TOTAL ASSETS	<u>\$40,910,618</u>	<u>\$27,684,416</u>	<u>\$68,595,034</u>	<u>\$69,674,049</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 243,062	\$ 116,689	\$ 359,751	\$ 294,418
Accrued salaries and benefits	80,168	17,763	97,931	69,991
Accrued interest	9,145	48,734	57,879	65,733
Deposits	39,171	-	39,171	38,851
Deferred revenue	1,000	-	1,000	1,000
Contingency reserve	-	291,732	291,732	244,587
Note payable	637,599	231,563	869,162	1,178,388
Noncurrent Liabilities:				
Note payable	2,412,493	4,006,174	6,418,667	7,287,901
Liability for other post-employment benefits	665,658	179,394	845,052	693,733
Compensated absences	<u>483,648</u>	<u>202,975</u>	<u>686,623</u>	<u>618,477</u>
TOTAL LIABILITIES	<u>4,571,944</u>	<u>5,095,024</u>	<u>9,666,968</u>	<u>10,493,079</u>
NET POSITION				
Net investment in capital assets	33,296,902	17,210,813	50,507,715	52,534,576
Restricted:				
Police expenditures	10,594	-	10,594	10,767
Public works expenditures	54,664	-	54,664	67,344
Unrestricted	<u>2,976,514</u>	<u>5,378,579</u>	<u>8,355,093</u>	<u>6,568,283</u>
TOTAL NET POSITION	<u>36,338,674</u>	<u>22,589,392</u>	<u>58,928,066</u>	<u>59,180,970</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$40,910,618</u>	<u>\$27,684,416</u>	<u>\$68,595,034</u>	<u>\$69,674,049</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, 2013
(With Summarized Comparative Data for the Year Ended March 31, 2012)**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Totals	
							2013	2012
GOVERNMENTAL ACTIVITIES:								
General government	\$ 2,353,970	\$ 1,441,466	\$ 16,431	\$ 249,789	\$ (646,284)	\$ -	\$ (646,284)	\$ (565,828)
Public safety	2,805,281	126,263	211,116	-	(2,467,902)	-	(2,467,902)	(2,258,751)
Public works	5,755,252	4,756,081	140,458	53,535	(805,178)	-	(805,178)	(463,695)
Recreation and culture	1,265,294	38,474	5,289	-	(1,221,531)	-	(1,221,531)	(1,165,606)
Interest on general long-term debt	116,952	-	-	-	(116,952)	-	(116,952)	(121,512)
TOTAL GOVERNMENTAL ACTIVITIES	12,296,749	6,362,284	373,294	303,324	(5,257,847)	-	(5,257,847)	(4,575,392)
BUSINESS-TYPE ACTIVITIES:								
Water	1,802,086	2,234,067	-	206,000	-	637,981	637,981	532,088
Sewer	2,552,686	2,892,932	-	51,294	-	391,540	391,540	586,893
TOTAL BUSINESS-TYPE ACTIVITIES	4,354,772	5,126,999	-	257,294	-	1,029,521	1,029,521	1,118,981
TOTAL PRIMARY GOVERNMENT	\$16,651,521	\$11,489,283	\$ 373,294	\$ 560,618	(5,257,847)	1,029,521	(4,228,326)	(3,456,411)
GENERAL REVENUES AND TRANSFERS:								
Taxes					3,689,704	-	3,689,704	3,124,278
Investment earnings					10,423	11,250	21,673	27,753
Franchise fees					79,422	-	79,422	72,634
Miscellaneous revenues					184,623	-	184,623	80,788
TRANSFERS					849,481	(849,481)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					4,813,653	(838,231)	3,975,422	3,305,453
CHANGE IN NET POSITION					(444,194)	191,290	(252,904)	(150,958)
NET POSITION, BEGINNING OF YEAR					36,782,868	22,398,102	59,180,970	59,331,928
NET POSITION, END OF YEAR					\$36,338,674	\$22,589,392	\$58,928,066	\$59,180,970

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

CITY OF REHOBOTH BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2013
(With Summarized Comparative Data for March 31, 2012)

	General Fund	Nonmajor Governmental Funds	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$4,012,658	\$ 75,288	\$4,087,946	\$2,862,141
Taxes receivable	6,657	-	6,657	4,665
Accounts receivable	126,087	-	126,087	162,945
Grants receivable	3,979	-	3,979	63,713
Prepaid expenses	164,108	-	164,108	163,914
Inventory	31,097	-	31,097	25,539
Loan receivable	143,750	-	143,750	168,750
TOTAL ASSETS	\$4,488,336	\$ 75,288	\$4,563,624	\$3,451,667
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 233,032	\$ 10,030	\$ 243,062	\$ 228,779
Due to other funds	-	-	-	173,469
Accrued salaries and benefits	80,168	-	80,168	56,736
Deposits	39,171	-	39,171	38,851
Deferred revenue	144,750	-	144,750	169,750
TOTAL LIABILITIES	497,121	10,030	507,151	667,585
FUND BALANCES:				
Nonspendable	195,205	-	195,205	189,453
Restricted:				
Police expenditures	-	10,594	10,594	10,767
Public works expenditures	-	54,664	54,664	67,344
Assigned:				
Municipal building project	113,191	-	113,191	56,335
Unassigned	3,682,819	-	3,682,819	2,460,183
TOTAL FUND BALANCES	3,991,215	65,258	4,056,473	2,784,082
TOTAL LIABILITIES AND FUND BALANCES	\$4,488,336	\$ 75,288	\$4,563,624	\$3,451,667

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, 2013**

TOTAL GOVERNMENTAL FUND BALANCES \$ 4,056,473

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. 36,346,994

Some of the City's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 143,750

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	(9,145)
Note payable	(3,050,092)
Other post-employment benefits	(665,658)
Compensated absences	<u>(483,648)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 36,338,674

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, 2013
(With Summarized Comparative Data for the Year Ended March 31, 2012)

	General Fund	Nonmajor Governmental Funds	Totals	
			2013	2012
REVENUES				
Taxes	\$ 3,689,704	\$ -	\$ 3,689,704	\$ 3,124,278
Licenses and permits	1,092,435	-	1,092,435	877,546
Franchise fees	79,422	-	79,422	72,634
Intergovernmental revenues	556,278	145,342	701,620	999,928
Charges for services	4,087,417	-	4,087,417	3,970,147
Fines and forfeitures	794,927	-	794,927	944,833
Investment earnings	10,423	-	10,423	12,799
Rents and concessions	387,505	-	387,505	408,437
Contributions and donations	15,470	-	15,470	10,810
Miscellaneous revenues	169,152	-	169,152	80,787
TOTAL REVENUES	<u>10,882,733</u>	<u>145,342</u>	<u>11,028,075</u>	<u>10,502,199</u>
EXPENDITURES				
General government	2,118,114	-	2,118,114	2,073,102
Public safety	2,588,465	59,872	2,648,337	2,355,531
Public works	2,622,430	133,441	2,755,871	2,599,276
Recreation and culture	1,085,761	-	1,085,761	1,130,486
Debt service	734,906	-	734,906	734,906
Capital outlays	1,262,176	-	1,262,176	1,670,734
TOTAL EXPENDITURES	<u>10,411,852</u>	<u>193,313</u>	<u>10,605,165</u>	<u>10,564,035</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>470,881</u>	<u>(47,971)</u>	<u>422,910</u>	<u>(61,836)</u>
OTHER FINANCING SOURCES				
Transfers	814,363	35,118	849,481	794,613
TOTAL OTHER FINANCING SOURCES	<u>814,363</u>	<u>35,118</u>	<u>849,481</u>	<u>794,613</u>
NET CHANGE IN FUND BALANCES	1,285,244	(12,853)	1,272,391	732,777
FUND BALANCES, BEGINNING OF YEAR	<u>2,705,971</u>	<u>78,111</u>	<u>2,784,082</u>	<u>2,051,305</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,991,215</u>	<u>\$ 65,258</u>	<u>\$ 4,056,473</u>	<u>\$ 2,784,082</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, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,272,391

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$3,252,875) exceeded capital outlays (\$1,115,066) in the period. (2,137,809)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (25,000)

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. 616,095

In the statement of activities, compensated absences (vacation and sick leave) and other post-employment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences and other post-employment benefits are measured by the amount of financial resources used (essentially, the amounts actually paid). (165,615)

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. (6,115)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,859

CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES \$ (444,194)

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

CITY OF REHOBOTH BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2013
(With Summarized Comparative Data for March 31, 2012)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>	
			<u>2013</u>	<u>2012</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,707,781	\$ 3,673,502	\$ 5,381,283	\$ 4,516,427
Accounts receivable	184,131	334,195	518,326	403,896
Due from other funds	-	-	-	173,469
Accrued interest	607	1,649	2,256	324
Prepaid expenses	8,395	33,183	41,578	8,540
Inventory	245,860	46,563	292,423	292,330
Noncurrent Assets:				
Capital assets, net of depreciation	<u>10,765,427</u>	<u>10,683,123</u>	<u>21,448,550</u>	<u>22,509,947</u>
TOTAL ASSETS	<u>\$12,912,201</u>	<u>\$14,772,215</u>	<u>\$27,684,416</u>	<u>\$27,904,933</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 43,790	\$ 72,899 ✓	\$ 116,689	\$ 65,639
Accrued salaries and benefits	6,458	11,305 ✓	17,763	13,255
Accrued interest	48,734	-	48,734	54,729
Contingency reserve	-	291,732 ✓	291,732	244,587
Note payable	231,563	-	231,563	562,365
Noncurrent Liabilities:				
Note payable	4,006,174	-	4,006,174	4,237,737
Other post-employment liability	66,117	113,277 ✓	179,394	145,289
Compensated absences	<u>84,096</u>	<u>118,879</u> ✓	<u>202,975</u>	<u>183,230</u>
TOTAL LIABILITIES	<u>4,486,932</u>	<u>608,092</u>	<u>5,095,024</u>	<u>5,506,831</u>
NET POSITION				
Net investment in capital assets	6,527,690	10,683,123	17,210,813	17,709,845
Unrestricted	<u>1,897,579</u>	<u>3,481,000</u>	<u>5,378,579</u>	<u>4,688,257</u>
TOTAL NET POSITION	<u>8,425,269</u>	<u>14,164,123</u>	<u>22,589,392</u>	<u>22,398,102</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$12,912,201</u>	<u>\$14,772,215</u>	<u>\$27,684,416</u>	<u>\$27,904,933</u>

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

CITY OF REHOBOTH BEACH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2013
(With Summarized Comparative Data for the Year Ended March 31, 2012)

	Water Fund	Sewer Fund	Totals	
			2013	2012
OPERATING REVENUES				
Charges for services	\$ 2,002,185	\$ 2,836,285	\$ 4,838,470	\$ 4,549,939
Other operating revenues	231,882	4,199	236,081	167,487
Total Operating Revenues	<u>2,234,067</u>	<u>2,840,484</u>	<u>5,074,551</u>	<u>4,717,426</u>
OPERATING EXPENSES				
Salaries and benefits	403,630	771,606	1,175,236	1,143,993
Materials and supplies	100,234	266,668	366,902	467,011
Administration expenses	9,506	3,022	12,528	9,660
Contractual services	68,016	8,780	76,796	27,856
Land and equipment rental	1,230	37,379	38,609	36,225
Repairs and maintenance	403,205	286,378	689,583	591,511
Utilities	96,721	294,920	391,641	399,428
Insurance	54,352	69,534	123,886	107,093
Depreciation	539,395	814,399	1,353,794	1,343,912
Total Operating Expenses	<u>1,676,289</u>	<u>2,552,686</u>	<u>4,228,975</u>	<u>4,126,689</u>
OPERATING INCOME	<u>557,778</u>	<u>287,798</u>	<u>845,576</u>	<u>590,737</u>
NONOPERATING REVENUES (EXPENSES)				
Water capitalization fees	206,000	-	206,000	164,853
Sewer impact fees	-	52,448	52,448	16,068
Investment income	2,484	8,766	11,250	14,954
Interest expense	(125,797)	-	(125,797)	(142,004)
Intergovernmental grants	-	-	-	45,000
Total Nonoperating Revenues	<u>82,687</u>	<u>61,214</u>	<u>143,901</u>	<u>98,871</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	640,465	349,012	989,477	689,608
Capital contributions	-	51,294	51,294	444,327
Transfers out	(383,066)	(466,415)	(849,481)	(794,613)
CHANGE IN NET POSITION	257,399	(66,109)	191,290	339,322
NET POSITION, BEGINNING OF YEAR	<u>8,167,870</u>	<u>14,230,232</u>	<u>22,398,102</u>	<u>22,058,780</u>
NET POSITION, END OF YEAR	<u>\$ 8,425,269</u>	<u>\$ 14,164,123</u>	<u>\$ 22,589,392</u>	<u>\$ 22,398,102</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, 2013
(With Summarized Comparative Data for the Year Ended March 31, 2012)

	Water Fund	Sewer Fund	Totals	
			2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,214,394	\$ 2,745,727	\$ 4,960,121	\$ 4,677,285
Cash paid for goods and services	(538,691)	(922,721)	(1,461,412)	(2,124,529)
Cash paid to employees	(385,834)	(731,044)	(1,116,878)	(1,093,675)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,289,869</u>	<u>1,091,962</u>	<u>2,381,831</u>	<u>1,459,081</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out	(383,066)	(466,415)	(849,481)	(794,613)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(383,066)</u>	<u>(466,415)</u>	<u>(849,481)</u>	<u>(794,613)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets purchased	(23,178)	(269,219)	(292,397)	(1,099,626)
Capital asset disposals	-	-	-	2,028
Proceeds received from capitalization and impact fees	206,000	52,448	258,448	180,921
Capital grants	-	-	-	45,000
Capital contributions	-	51,294	51,294	444,327
Principal paid on note payable	(562,365)	-	(562,365)	(556,273)
Interest paid on note payable	(131,792)	-	(131,792)	(143,855)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(511,335)</u>	<u>(165,477)</u>	<u>(676,812)</u>	<u>(1,127,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	1,877	7,441	9,318	15,402
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,877</u>	<u>7,441</u>	<u>9,318</u>	<u>15,402</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>397,345</u>	<u>467,511</u>	<u>864,856</u>	<u>(447,608)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,310,436</u>	<u>3,205,991</u>	<u>4,516,427</u>	<u>4,964,035</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,707,781</u>	<u>\$ 3,673,502</u>	<u>\$ 5,381,283</u>	<u>\$ 4,516,427</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 557,778	\$ 287,798	\$ 845,576	\$ 590,737
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	539,395	814,399	1,353,794	1,343,912
(Increase) Decrease in assets:				
Accounts receivable	(19,673)	(94,757)	(114,430)	(40,141)
Due from other funds	173,469	-	173,469	(173,469)
Inventory	(8,594)	8,501	(93)	(61,282)
Prepaid expenses	-	(33,038)	(33,038)	39,585
Increase (Decrease) in liabilities:				
Accounts payable	29,698	21,352	51,050	(224,784)
Contingency reserve	-	47,145	47,145	(65,795)
Accrued salaries and benefits	2,566	1,942	4,508	2,585
Other post-employment benefits	12,392	21,713	34,105	48,944
Compensated absences	2,838	16,907	19,745	(1,211)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,289,869</u>	<u>\$ 1,091,962</u>	<u>\$ 2,381,831</u>	<u>\$ 1,459,081</u>

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Entity-wide and Fund Financial Statements

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

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

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

Governmental Funds

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

The City reports the following major governmental fund:

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

Proprietary Funds – Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and payments relating to the government's business activities are accounted for through

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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 deferred. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred.

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

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

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

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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, 2012, 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 1-1/2 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 2013 was \$1.78 per \$100 of assessed value.

Compensated Absences

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

Inventories

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

Prepaid Expenses

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

Capital Assets

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

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

The service lives by type of asset are as follows:

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

Allowance for Doubtful Accounts

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

Implementation of GASB Statements

During the current year, the City elected to implement GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the City's current year financial statements.

During the current year, the City implemented GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This new guidance codifies pre-1989 standards set by the Financial Accounting Standards Board ("FASB") and the American Institute of Certified Public Accountants ("AICPA"), which are followed for proprietary fund and entity-wide reporting. The City's notes to the financial statements have been revised to reflect the level of disclosure required by the new Statement.

During the current year, the City implemented GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This new guidance creates two sections to the balance sheet (deferred outflows and deferred inflows) and revises other proprietary fund and entity-wide terminology as a result of this change. The City's proprietary fund and entity-wide balance sheets have been revised to reflect the new terminology.

Use of Estimates in the Preparation of Financial Statements

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Commissioners adopt legal annual budgets for the General Fund and Proprietary Funds. The Commissioners also adopt legal project-length budgets for the nonmajor governmental funds. Since project lengths may differ from the City's fiscal year, a comparison of budgetary information for the nonmajor governmental funds would not be meaningful and has not been presented in the financial statements.
- c. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Commissioners. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2013, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended March 31, 2013, expenditures exceeded appropriations in the City's programs as follows:

Public safety	\$	89,759
Recreation and culture	\$	16,850
Capital outlays	\$	249,376

NOTE C CASH AND CASH EQUIVALENTS

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

- Obligations of or guaranteed by the United States of America, or
- 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.

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

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

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

Cash and cash equivalents in the Water Fund (\$1,707,781) and the Sewer Fund (\$3,673,502) 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, 2013, the carrying amount of the City's deposits was \$9,468,579 and the bank balance was \$9,838,205. Of the bank balance, \$250,000 was covered by federal depository insurance and \$9,588,205 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE D INTERFUND TRANSFERS

Interfund transfers for the year ended March 31, 2013 consisted of the following:

<u>Transfers In</u>		<u>Transfers Out</u>	
General Fund	\$ 383,066	Water Fund	\$ 383,066
General Fund	466,415	Sewer Fund	466,415
Nonmajor Governmental Funds	<u>35,118</u>	General Fund	<u>35,118</u>
Total	<u>\$ 884,599</u>	Total	<u>\$ 884,599</u>

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

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

Capital asset activity for the year ended March 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 2,814,959	\$ -	\$ -	\$ 2,814,959
Construction-in-progress	<u>205,754</u>	-	<u>57,176</u>	<u>148,578</u>
Total Capital Assets Not Being Depreciated	<u>3,020,713</u>	-	<u>57,176</u>	<u>2,963,537</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	46,922,577	439,816	-	47,362,393
Buildings and improvements	8,400,710	282,953	-	8,683,663
Machinery and equipment	4,513,218	317,936	38,236	4,792,918
Vehicles	1,556,361	131,537	103,708	1,584,190
Total Capital Assets Being Depreciated	<u>61,392,866</u>	<u>1,172,242</u>	<u>141,944</u>	<u>62,423,164</u>
Less accumulated depreciation for:				
Infrastructure and land improvements	17,340,650	2,635,708	-	19,976,358
Buildings and improvements	3,384,613	240,339	-	3,624,952
Machinery and equipment	3,950,189	262,818	38,236	4,174,771
Vehicles	1,247,209	114,010	97,593	1,263,626
Total accumulated depreciation	<u>25,922,661</u>	<u>3,252,875</u>	<u>135,829</u>	<u>29,039,707</u>
Total Capital Assets Being Depreciated, Net	<u>35,470,205</u>	<u>(2,080,633)</u>	<u>6,115</u>	<u>33,383,457</u>
Governmental Activities Assets, Net	<u>\$38,490,918</u>	<u>\$(2,080,633)</u>	<u>\$ 63,291</u>	<u>\$36,346,994</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 146,706
Public Safety	130,944
Public Works	2,912,264
Recreation and Culture	<u>62,961</u>
Total Depreciation Expense - Governmental Activities	<u>\$3,252,875</u>

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

Capital asset activity for the year ended March 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 192,936	\$ -	\$ -	\$ 192,936
Construction-in-progress	<u>1,296,308</u>	<u>199,144</u>	<u>199,302</u>	<u>1,296,150</u>
Total Capital Assets Not Being Depreciated	<u>1,489,244</u>	<u>199,144</u>	<u>199,302</u>	<u>1,489,086</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>
Capital assets being depreciated:				
Buildings, infrastructure and improvements	42,871,977	199,302	-	43,071,279
Machinery and equipment	1,572,707	65,669	-	1,638,376
Vehicles	760,708	27,584	22,789	765,503
Total Capital Assets Being Depreciated	<u>45,205,392</u>	<u>292,555</u>	<u>22,789</u>	<u>45,475,158</u>
Less accumulated depreciation for:				
Buildings, infrastructure and improvements	22,569,556	1,166,222	-	23,735,778
Machinery and equipment	930,481	155,121	-	1,085,602
Vehicles	684,652	32,451	22,789	694,314
Total accumulated depreciation	<u>24,184,689</u>	<u>1,353,794</u>	<u>22,789</u>	<u>25,515,694</u>
Total Capital Assets Being Depreciated, Net	<u>21,020,703</u>	<u>(1,061,239)</u>	<u>-</u>	<u>19,959,464</u>
Business-type Activities Assets, Net	<u>\$22,509,947</u>	<u>\$ (862,095)</u>	<u>\$ 199,302</u>	<u>\$21,448,550</u>

Depreciation expense was charged to the functions as follows:

Business-type Activities:	
Water	\$ 539,395
Sewer	<u>814,399</u>
Total Depreciation Expense - Business-type Activities	<u>\$1,353,794</u>

NOTE G LONG-TERM DEBT

Debt outstanding as of March 31, 2013 is composed of the following:

Governmental Activities

Commercial term loan, issued by Wilmington Savings Fund Society, FSB, to refinance existing debt. The loan matures on September 1, 2017 and bears interest at 3.41%; payable on March 1, June 1, September 1 and December 1 of each year. \$ 3,050,092

Business-type Activities

General Obligation Note of 2007, issued by the State of Delaware, to finance capital improvements in connection with the Lynch Well Improvement Project. The loan matures on November 1, 2027 and bears interest at 2.76%; payable on May 1 and November 1. \$ 4,237,737

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE G LONG-TERM DEBT (cont'd)

Annual requirements to retire long-term debt of all funds at March 31, 2013 are as follows:

March 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 637,599	\$ 97,307	\$ 231,563	\$ 115,375
2015	659,931	74,976	237,998	108,939
2016	682,927	51,980	244,612	102,325
2017	706,964	27,943	251,410	95,527
2018	362,671	4,748	258,397	88,541
2019-2023	-	-	1,403,776	330,914
2024-2028	-	-	1,609,981	124,710
Total	<u>\$ 3,050,092</u>	<u>\$ 256,954</u>	<u>\$ 4,237,737</u>	<u>\$ 966,331</u>

NOTE H CHANGES IN DEBT

The following is a summary of long-term debt activity and balances for the City for the year ended March 31, 2013:

	Balance April 1, 2012	Increase	Decreases	Balance March 31, 2013
Governmental Activities:				
Note payable	\$ 3,666,187	\$ -	\$ 616,095	\$ 3,050,092
OPEB	548,444	117,214	-	665,658
Compensated absences	435,247	48,401	-	483,648
Total	<u>\$ 4,649,878</u>	<u>\$ 165,615</u>	<u>\$ 616,095</u>	<u>\$ 4,199,398</u>
Business-type Activities:				
Note payable	\$ 4,800,102	\$ -	\$ 562,365	\$ 4,237,737
OPEB	145,289	34,105	-	179,394
Compensated absences	183,230	19,745	-	202,975
Total	<u>\$ 5,128,621</u>	<u>\$ 53,850</u>	<u>\$ 562,365</u>	<u>\$ 4,620,106</u>

NOTE I RETIREMENT PLANS

Thrift Plan

The City offers its employees a Thrift Plan adopted and created to meet all requirements for profit-sharing calculation under the Internal Revenue Code. The Plan is administered by ITT Hartford Insurance Group. Participation in the Plan is voluntary and is available to all full-time 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.

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE I RETIREMENT PLANS (cont'd)

Employee contributions are matched at a rate of 50 percent by the City, not to exceed three percent. All employee contributions are 100 percent vested at the time of contribution; and employer contributions vest at the rate of 10 percent per year and become fully vested after six years of service. For the years ended March 31, 2013, 2012 and 2011, the City's employer contributions totaled \$69,824, \$65,624 and \$67,560, respectively.

Delaware County and Municipal Police/Firefighter Pension Plan

The City contributes to the Delaware County and Municipal Police/Firefighter Pension Plan, which is a cost-sharing multiple-employer defined-benefit plan administered by the Delaware Public Employees' Retirement System ("DPERS"). The Plan covers City police employees hired on or after February 1, 1993. Benefit provisions of the Plan are established under the provisions of State law and may be amended by an act of the State legislature. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute seven percent of base compensation. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The City's contributions to the Plan for the years ended March 31, 2013, 2012 and 2011 were \$126,784, \$124,126 and \$109,017, respectively. DPERS issues a separate plan financial report that includes financial statements for the Plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE J OPERATING LEASES

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

Lessee

The City leases a tract of land containing 85 acres located on or near Route 215 in Sussex County, Delaware. The lease was renewed in 2009 for an additional five years. The lease requires annual lease payments of \$34,000 payable on the first day of each lease year. Rental expense under this lease for the year ended March 31, 2013 was \$34,000.

Lessor

The City leases certain property designated as Lot 22, Rehoboth Avenue, Rehoboth Beach, Delaware. The lease expires on December 31, 2015. The lease calls for rental income to be adjusted each January based on the consumer price index and is paid in three installments due July 1, August 1 and September 1 of each year. Rental income for the year ended March 31, 2013 was \$72,789.

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

NOTE K CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

Regulatory Matter

The City is currently receiving legal counsel regarding implementation of a consent order it has entered into with the Delaware Department of Natural Resources and Environmental Control ("DNREC"). This agreement is the result of the City's challenge to a regulation promulgated by DNREC which imposes a total daily maximum load on wastewater effluent discharges from the City's sewage treatment plant. Both the City and DNREC have agreed to cooperatively and voluntarily resolve and settle all issues regarding the implementation of a National Pollutant Discharge Elimination System ("NPDES") designed to protect the surrounding waters from wastewater discharge from the City's sewage treatment plant. The City is required to consider the feasibility of two different options for implementing NPDES. Such feasibility studies are in their preliminary expected completion date and total cost estimation of any NPDES project is not known as of March 31, 2013.

Construction Commitments

At March 31, 2013, the City had approved contracts for various capital projects totaling \$79,585 and payments for progress on contracts of \$31,218, resulting in outstanding commitments of \$48,367. In addition, the City's governmental activities report another \$117,360 in construction in progress costs for projects without ongoing construction commitments and the proprietary funds report \$1,296,150 in engineering and related fees associated with a planned outfall project.

NOTE L RISK MANAGEMENT

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

CITY OF REHOBOTH BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

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

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

The City provides post-retirement benefits to all employees who retire on or after attaining age 60 and who have been employed by the City for a minimum of 25 continuous years prior to the date of retirement. Coverage is based on a formula that is based on years of completed service. The City also provides health insurance benefits for up to two years for those employees who are on disability. As of March 31, 2013, three individuals were receiving post-employment benefits.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of Commissioners. For fiscal year 2013, the City contributed \$24,583 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

Annual required contribution	\$ 247,669
Interest on net OPEB obligation	27,749
Adjustment to annual required contribution	<u>(38,575)</u>
Annual OPEB cost (expense)	236,843
Contributions made	<u>(85,524)</u> 96,601
Increase in net OPEB obligation	151,319
Net OPEB obligation - beginning of year	<u>693,733</u>
Net OPEB obligation - end of year	<u>\$ 845,052</u>

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

CITY OF REHOBOTH BEACH

NOTES TO FINANCIAL STATEMENTS

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

In the April 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return and an annual healthcare cost trend rate of 10 percent in 2010, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at March 31, 2013 was 26 years.

NOTE N FUND BALANCES

As of March 31, 2013, 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 of Rehoboth Beach. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Commissioners.

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

Unassigned – all other spendable amounts.

As of March 31, 2013, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 195,205	\$ -	\$ 195,205
Restricted:			
Police expenditures	-	10,594	10,594
Public works expenditures	-	54,664	54,664
Assigned:			
Municipal building project	113,191	-	113,191
Unassigned	<u>3,682,819</u>	<u>-</u>	<u>3,682,819</u>
Total Fund Balances	<u>\$ 3,991,215</u>	<u>\$ 65,258</u>	<u>\$ 4,056,473</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2013**

	Original and Final Appropriated Budget	Actual (GAAP Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property tax	\$ 1,313,541	\$ 1,319,938	\$ 6,397
Rental tax	818,000	887,696	69,696
Transfer tax	925,000	1,436,495	511,495
Construction tax	19,000	43,445	24,445
Penalties and interest	2,500	2,130	(370)
Total Taxes	<u>3,078,041</u>	<u>3,689,704</u>	<u>611,663</u>
Licenses and permits:			
Mercantile licenses	404,000	415,583	11,583
Building permits	385,000	613,266	228,266
Other	46,600	63,586	16,986
Total Licenses and Permits	<u>835,600</u>	<u>1,092,435</u>	<u>256,835</u>
Franchise fees			
	<u>71,000</u>	<u>79,422</u>	<u>8,422</u>
Intergovernmental revenues:			
General government	102,500	283,148	180,648
Public works	160,000	87,810	(72,190)
Public safety	105,000	180,031	75,031
Recreation and culture	-	5,289	5,289
Total Intergovernmental Revenues	<u>367,500</u>	<u>556,278</u>	<u>188,778</u>
Charges for services:			
Parking meters	2,750,000	2,721,209	(28,791)
Parking permits	566,200	579,628	13,428
Waste collection	807,000	786,580	(20,420)
Total Charges for Services	<u>4,123,200</u>	<u>4,087,417</u>	<u>(35,783)</u>
Fines and forfeitures:			
Parking	793,000	668,664	(124,336)
Court	92,000	73,143	(18,857)
Police	85,000	53,120	(31,880)
Total Fines and Forfeitures	<u>970,000</u>	<u>794,927</u>	<u>(175,073)</u>
Investment earnings			
	<u>4,000</u>	<u>10,423</u>	<u>6,423</u>
Rents and concessions			
	<u>414,750</u>	<u>387,505</u>	<u>(27,245)</u>
Contributions and donations			
	<u>10,245</u>	<u>15,470</u>	<u>5,225</u>
Miscellaneous revenues			
	<u>115,600</u>	<u>169,152</u>	<u>53,552</u>
TOTAL REVENUES	<u>9,989,936</u>	<u>10,882,733</u>	<u>892,797</u>
EXPENDITURES			
General government:			
Mayor and Council	71,144	84,685	(13,541)
Assessors	11,320	6,484	4,836
Administrative	1,125,366	953,054	172,312
Alderman Court	76,346	63,641	12,705
Buildings and licensing	387,754	418,667	(30,913)
Information technology	233,729	219,162	14,567
Buildings and grounds	381,531	372,421	9,110
Total General Government	<u>2,287,190</u>	<u>2,118,114</u>	<u>169,076</u>

Continued on next page.

**CITY OF REHOBOTH BEACH
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2013**

	<u>Original and Final Appropriated Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (cont'd)			
Public safety:			
Police	1,970,346	2,066,897	(96,551)
Dispatch	497,760	473,539	24,221
Volunteer fire	30,600	48,029	(17,429)
Total Public Safety	<u>2,498,706</u>	<u>2,588,465</u>	<u>(89,759)</u>
Public works:			
Streets	807,968	912,439	(104,471)
Waste collection	888,373	933,640	(45,267)
Parking	929,237	776,351	152,886
Total Public Works	<u>2,625,578</u>	<u>2,622,430</u>	<u>3,148</u>
Recreation and culture:			
Comfort stations	166,620	153,161	13,459
Parks	173,031	154,247	18,784
Lifeguards	534,838	576,546	(41,708)
Library	12,000	12,000	-
Recreation	182,422	189,807	(7,385)
Total Recreation and Culture	<u>1,068,911</u>	<u>1,085,761</u>	<u>(16,850)</u>
Debt service:			
Interest and Principal	734,906	734,906	-
Capital outlays	1,012,800	1,262,176	(249,376)
TOTAL EXPENDITURES	<u>10,228,091</u>	<u>10,411,852</u>	<u>(183,761)</u>
 DEFICIENCY OF REVENUES UNDER EXPENDITURES	 <u>(238,155)</u>	 <u>470,881</u>	 <u>709,036</u>
 OTHER FINANCING SOURCES			
Transfers in	-	814,363	814,363
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>814,363</u>	<u>814,363</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ (238,155)</u>	 <u>1,285,244</u>	 <u>\$ 1,523,399</u>
 FUND BALANCE, BEGINNING OF YEAR		 <u>2,705,971</u>	
 FUND BALANCE, END OF YEAR		 <u>\$ 3,991,215</u>	

COMBINING NONMAJOR FUND STATEMENTS

**CITY OF REHOBOTH BEACH
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 MARCH 31, 2013**

	<u>Municipal Street Aid</u>	<u>State of Delaware Police Grants</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 64,694</u>	<u>\$ 10,594</u>	<u>\$ 75,288</u>
TOTAL ASSETS	<u><u>\$ 64,694</u></u>	<u><u>\$ 10,594</u></u>	<u><u>\$ 75,288</u></u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	<u>\$ 10,030</u>	<u>\$ -</u>	<u>\$ 10,030</u>
FUND BALANCES:			
Assigned:			
Police expenditures	-	10,594	10,594
Public works expenditures	<u>54,664</u>	<u>-</u>	<u>54,664</u>
TOTAL FUND BALANCES	<u><u>54,664</u></u>	<u><u>10,594</u></u>	<u><u>65,258</u></u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 64,694</u></u>	 <u><u>\$ 10,594</u></u>	 <u><u>\$ 75,288</u></u>

CITY OF REHOBOTH BEACH
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	Municipal Street Aid	State of Delaware Police Grants	Total
REVENUES			
Intergovernmental	\$ 114,257	\$ 31,085	\$ 145,342
TOTAL REVENUES	<u>114,257</u>	<u>31,085</u>	<u>145,342</u>
EXPENDITURES			
Public safety	-	59,872	59,872
Public works	133,441	-	133,441
TOTAL EXPENDITURES	<u>133,441</u>	<u>59,872</u>	<u>193,313</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(19,184)</u>	<u>(28,787)</u>	<u>(47,971)</u>
OTHER FINANCING SOURCES			
Transfers in	6,504	28,614	35,118
TOTAL OTHER FINANCING SOURCES	<u>6,504</u>	<u>28,614</u>	<u>35,118</u>
CHANGE IN FUND BALANCES	(12,680)	(173)	(12,853)
FUND BALANCES, BEGINNING OF YEAR	<u>67,344</u>	<u>10,767</u>	<u>78,111</u>
FUND BALANCES, END OF YEAR	<u>\$ 54,664</u>	<u>\$ 10,594</u>	<u>\$ 65,258</u>

To the Honorable Mayor and Commissioners
City of Rehoboth Beach

Compliance and Other Matters

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

Purpose of this Report

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

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP