

TOWN OF FREDERICA  
FREDERICA, DELAWARE  
FINANCIAL STATEMENTS  
MODIFIED CASH BASIS  
JUNE 30, 2011 AND 2010

TOWN OF FREDERICA  
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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Town Council  
Town of Frederica, Delaware

We have reviewed the accompanying statements of assets, liabilities and net assets – modified cash basis of the Town of Frederica as of June 30, 2011 and 2010, and the related statements of revenue, expenses and other changes in net assets – modified cash basis for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the modified cash basis of accounting.

Seaford, Delaware  
May 5, 2014

TOWN OF FREDERICA  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2011 AND 2010

EXHIBIT A

ASSETS

	<u>JUNE 30,</u>	
	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ <u>63,640</u>	\$ <u>76,608</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	764,829	764,829
Equipment	11,351	11,351
Vehicles	41,122	6,000
Accumulated Depreciation	<u>(256,728)</u>	<u>(234,464)</u>
 <u>TOTAL PROPERTY AND EQUIPMENT</u>	 <u>586,267</u>	 <u>573,409</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 649,907</u>	 <u>\$ 650,017</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Note Payable - Current Portion	\$ 16,320	\$ 11,644
<u>LONG TERM LIABILITIES:</u>		
Note Payable - USDA - Net of Current Portion	<u>499,000</u>	<u>494,079</u>
 <u>TOTAL LIABILITIES</u>	 <u>515,320</u>	 <u>505,723</u>
 <u>NET ASSETS - UNRESTRICTED</u>	 <u>134,587</u>	 <u>144,294</u>
 <u>TOTAL LIABILITIES AND NET ASSETS</u>	 <u>\$ 649,907</u>	 <u>\$ 650,017</u>

TOWN OF FREDERICA EXHIBIT B  
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	JUNE 30,	
	<u>2011</u>	<u>2010</u>
<u>Revenue:</u>		
Developer Fees	\$ 23,072	\$ 5,000
Property Taxes	58,399	52,925
Transfer Tax	14,406	20,646
Fees and Fines	753	815
Water Charges	77,419	103,542
Trash Charges	81,149	77,678
Impact Fees	7,350	-
Rents	18,155	18,155
Other Charges	15,289	10,504
Permits	2,155	2,065
Business Licenses	250	200
Interest Income	-	6
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>298,397</u>	<u>291,536</u>
<u>Expenses:</u>		
Advertising	537	539
Bank Service Charges	339	451
Automotive Expense	3,477	1,842
Depreciation	22,264	19,084
Dues and Subscriptions	200	300
Electric	29,984	33,616
Heating Oil	5,558	6,032
Insurance	12,010	12,981
Interest Expense	24,100	23,073
Payroll and Related Expenses	56,709	58,213
Professional Fees	60,123	37,333
Repairs and Maintenance	25,059	28,030
Office Equipment	450	1,061
Equipment Lease	-	791
Sewer Charges	751	876
Supplies	2,410	5,120
Telephone	6,242	6,107
Trash Removal	52,520	58,619
Snow Removal	469	8,596
Miscellaneous Expense	4,902	9,010
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>308,104</u>	<u>311,674</u>
<u>Revenue over (under) Expenses</u>	(9,707)	(20,138)
<u>Net Assets at Beginning of Period</u>	<hr/>	<hr/>
	144,294	164,432
<u>Net Assets at End of Period</u>	<u>\$ 134,587</u>	<u>\$ 144,294</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011

EXHIBIT C

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

The Town of Frederica is located in southeast Kent County Delaware and has a population of approximately 648 people. Some of the major services provided by the Town include water services, trash collection, police protection, planning and zoning, and improvements.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues are recorded when received rather than when earned, and expenses are recorded when paid rather than when incurred. Certain water system fixed assets and the related debt have been recorded on the statements of assets, liabilities and net assets – modified cash basis.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Town holds the corporate powers of the organization
- The Town appoints a voting majority of the organization's board
- The Town is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Town
- There is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Frederica has no component units.

C. Basis of Presentation

All of the Town's activities are classified as governmental activities. These financial statements report information on all of the activities of the Town.

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

The Town has presented the following major governmental fund:

*General Fund*

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

D. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type. The types of investments allowed are governed by Delaware Statute.

TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011

EXHIBIT C  
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Property Taxes

Property taxes are billed at the beginning of each fiscal year and are due and payable by September 30. Tax liens are placed on delinquent taxpayers at the Council's request.

F. Capital Assets

The Town of Frederica owns various small parcels of real estate, vehicles, and equipment, for which historical acquisition cost cannot be determined. These fixed assets are not recorded on the financial statements. The Town has capitalized and depreciated the water improvements funded by a Rural Development loan in 1993, plus asset acquisitions subsequent to June 30, 2004.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>CLASSIFICATION</u>	<u>LIFE</u>
Water Assets	10 - 50 Years
Equipment	5 Years
Vehicle	7 Years

In accordance with Accounting Standards Codification (ASC), No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", management reviews capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the years presented.

G. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H. Use of Estimates

The process of preparing financial statements in conformity with the modified cash basis of accounting requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011

EXHIBIT C  
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NOTE 2 – CASH:

The balance of cash is categorized as follows:

General Fund Checking	\$	9,235
Police Department		6,890
Special Water Fund		10,079
Municipal Street Aid		2,091
Development Escrow		10,687
Community Safety		16,300
CJC Grant		807
SALLE Account		2,573
SLEAF Account		1,890
EIDE Account		2,873
West Harrington Water Account		<u>5,850</u>
 <u>TOTAL CASH PER BANK STATEMENTS</u>	 \$	 <u><u>69,275</u></u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	<u>69,275</u>
Uninsured and Uncollateralized	\$	<u>-</u>

NOTE 3 – CAPITAL ASSETS:

Following is a summary of Capital Asset changes for the current year:

	BALANCE JULY 1, 2010	<u>ASSETS</u>		BALANCE JUNE 30, 2011
		<u>ACQUISITIONS</u>	<u>RETIREMENTS</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Water Improvements	764,829	-	-	764,829
Equipment	11,351	-	-	11,351
Vehicles	<u>6,000</u>	<u>35,122</u>	<u>-</u>	<u>41,122</u>
 <u>TOTAL</u>	 \$ <u>807,873</u>	 \$ <u>35,122</u>	 \$ <u>-</u>	 \$ <u>842,995</u>
		<u>ACCUMULATED DEPRECIATION</u>		
	BALANCE JULY 1, 2010	<u>DEPRECIATION</u>	<u>RETIREMENTS</u>	BALANCE JUNE 30, 2011
Water Improvements	\$ 228,534	\$ 16,532	\$ -	\$ 245,066
Equipment	3,502	2,533	-	6,035
Vehicles	<u>2,428</u>	<u>3,199</u>	<u>-</u>	<u>5,627</u>
 <u>TOTAL</u>	 \$ <u>234,464</u>	 \$ <u>22,264</u>	 \$ <u>-</u>	 \$ <u>256,728</u>
 <u>CAPITAL ASSETS</u>				 \$ <u><u>586,267</u></u>



TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 4 – DEBT:

Debt at June 30, 2011 consists of the following:

Note payable dated January 11, 1993 for \$633,000 to Rural Development in quarterly installments of \$8,552 including interest of 4.50% through December 11, 2034. Water Improvement upgrade.	\$ 494,077
Note payable dated December 12, 2010 for \$23,497 to Ally Auto Finance in monthly installments of \$487 for the purchase of a 2011 Chevy Silverado. Interest rate of 8.790% for 5 years.	\$ <u>21,243</u>
<u>TOTAL</u>	\$ <u>515,320</u>

Maturities of Debt subsequent to June 30, 2011 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/12	\$ 16,320	\$ 23,733
6/30/13	17,256	22,797
6/30/14	18,254	21,740
6/30/15	19,314	20,738
6/30/16	21,899	14,611
2017-2021	83,453	87,586
2022-2026	104,376	66,661
2027-2031	130,547	44,896
2032-2036	<u>103,901</u>	<u>9,217</u>
<u>TOTAL</u>	<u>\$ 515,320</u>	<u>\$ 311,979</u>

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>07/01/10</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/11</u>
Rural Development	\$ 505,723	\$ -	\$ 11,646	\$ 494,077
Ally Auto Finance	<u>-</u>	<u>23,497</u>	<u>2,254</u>	<u>21,243</u>
<u>TOTAL</u>	<u>\$ 505,723</u>	<u>\$ 23,497</u>	<u>\$ 13,900</u>	<u>\$ 515,320</u>

NOTE 5 – RISK AND INSURANCE COVERAGE:

The Town has exposure to various kinds of risk. As a vehicle to reduce this exposure, the Town has purchased insurance policies from commercial insurance agents. These policies cover property, general liability, auto, workman's compensation and employee bonding.

NOTE 6 – SUBSEQUENT EVENTS:

Subsequent event inquiries and testing were performed through the report date, May 5, 2014, the date the report was available for issuance.