

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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.

Lank, Johnson & Tull

Seaford, Delaware
October 28, 2014

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2012 AND 2011

EXHIBIT A

ASSETS

	<u>JUNE 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 195,493	\$ 63,640
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	782,447	764,829
Equipment	17,225	11,351
Vehicles	41,122	41,122
Accumulated Depreciation	(280,821)	(256,728)
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>585,666</u>	<u>586,267</u>
<u>TOTAL ASSETS</u>	<u>\$ 781,159</u>	<u>\$ 649,907</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 2,453	\$ -
Notes Payable - Current Portion	17,256	16,320
<u>TOTAL CURRENT LIABILITIES</u>	<u>19,709</u>	<u>16,320</u>
<u>LONG TERM LIABILITIES:</u>		
Notes Payable - Net of Current Portion	481,747	499,000
<u>TOTAL LIABILITIES</u>	<u>501,456</u>	<u>515,320</u>
<u>NET ASSETS - UNRESTRICTED</u>	<u>279,703</u>	<u>134,587</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 781,159</u>	<u>\$ 649,907</u>

TOWN OF FREDERICA
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

EXHIBIT B

	JUNE 30,	
	<u>2012</u>	<u>2011</u>
<u>Revenue:</u>		
Developer Fees	\$ 24,590	\$ 23,072
Property Taxes	70,818	58,399
Transfer Tax	26,156	14,406
Fees and Fines	3,379	753
Water Charges	85,653	77,419
Trash Charges	88,132	81,149
Impact Fees	40,050	7,350
Rents	29,007	18,155
Grants - State of Delaware	60,876	-
Other Charges	9,076	2,514
Permits	6,847	2,155
Business Licenses	4,350	250
Franchise Taxes	12,775	12,775
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>461,709</u>	<u>298,397</u>
 <u>Expenses:</u>		
Advertising	215	537
Automotive Expense	3,339	3,477
Bank Service Charges	101	339
Contributions	10,000	-
Depreciation	24,093	22,264
Dues and Subscriptions	84	200
Insurance	15,729	12,010
Interest Expense	23,764	24,100
Payroll and Related Expenses	61,452	56,709
Professional Fees	43,090	60,123
Repairs and Maintenance	24,757	25,059
Office Equipment	1,010	450
Supplies	11,760	2,410
Taxes, Licenses and Permits	100	-
Telephone	6,177	6,242
Trash Removal	59,950	52,520
Snow Removal	-	469
Miscellaneous Expense	-	4,902
Utilities - Electric	27,266	29,984
Utilities - Heat	2,705	5,558
Utilities - Sewer Charges	1,001	751
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>316,593</u>	<u>308,104</u>
 <u>Revenue over (under) Expenses</u>	 145,116	 (9,707)
 <u>Net Assets at Beginning of Period</u>	 <hr/>	 <hr/>
	134,587	144,294
 <u>Net Assets at End of Period</u>	 <hr/>	 <hr/>
	\$ 279,703	\$ 134,587

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

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, 2012

EXHIBIT C
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NOTE 2 – CASH:

The balance of cash is categorized as follows:

General Fund Checking	\$	43,944
Police Department		8,319
Special Water Fund		52,861
Municipal Street Aid		16,685
Development Escrow		16,831
Community Safety		17,550
CJC Grant		767
SALLE Account		2,573
SLEAF Account		1,890
EIDE Account		2,873
West Harrington Water Account		31,200
		<u>31,200</u>
<u>TOTAL CASH PER BANK STATEMENTS</u>	<u>\$</u>	<u>195,493</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	195,493
Uninsured and Uncollateralized	\$	-
		<u>-</u>

NOTE 3 – CAPITAL ASSETS:

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

	<u>ASSETS</u>			BALANCE JUNE 30, 2012
	BALANCE JULY 1, 2011	<u>ACQUISITIONS</u>	<u>RETIREMENTS</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Water Improvements	764,829	17,618	-	782,447
Equipment	11,351	5,874	-	17,225
Vehicles	41,122	-	-	41,122
	<u>842,995</u>	<u>23,492</u>	<u>-</u>	<u>866,487</u>
<u>TOTAL</u>	<u>\$ 842,995</u>	<u>\$ 23,492</u>	<u>\$ -</u>	<u>\$ 866,487</u>
	<u>ACCUMULATED DEPRECIATION</u>			
	BALANCE JULY 1, 2011	<u>DEPRECIATION</u>	<u>RETIREMENTS</u>	BALANCE JUNE 30, 2012
Water Improvements	\$ 245,066	\$ 16,899	\$ -	\$ 261,965
Equipment	6,035	2,825	-	8,860
Vehicles	5,627	4,369	-	9,996
	<u>256,728</u>	<u>24,093</u>	<u>-</u>	<u>280,821</u>
<u>TOTAL</u>	<u>\$ 256,728</u>	<u>\$ 24,093</u>	<u>\$ -</u>	<u>\$ 280,821</u>
<u>CAPITAL ASSETS</u>				<u>\$ 585,666</u>

TOWN OF FREDERICA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012

EXHIBIT C
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NOTE 4 – DEBT:

Debt at June 30, 2012 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.	\$			481,902
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.				17,101
<u>TOTAL</u>	\$			499,003

Maturities of Debt subsequent to June 30, 2012 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/13	\$ 17,256	\$ 22,797
6/30/14	18,254	21,800
6/30/15	19,314	20,739
6/30/16	16,819	19,824
6/30/17	15,231	18,977
2018-2022	87,270	83,770
2023-2027	109,152	61,888
2028-2032	136,521	34,519
2033-2037	79,186	6,334
<u>TOTAL</u>	\$ 499,003	\$ 290,648

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>07/01/11</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/12</u>
Rural Development	\$ 494,077	\$ -	\$ 12,175	\$ 481,902
Ally Auto Finance	21,243	-	4,142	17,101
<u>TOTAL</u>	\$ 515,320	\$ -	\$ 16,317	\$ 499,003

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, October 28, 2014, the date the report was available for issuance.