

TOWN OF FREDERICA  
FREDERICA, DELAWARE  
FINANCIAL STATEMENTS  
MODIFIED CASH BASIS  
JUNE 30, 2013 AND 2012

TOWN OF FREDERICA  
TABLE OF CONTENTS  
JUNE 30, 2013 AND 2012

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

BASIC FINANCIAL STATEMENTS

Statements of Assets, Liabilities and Net Assets - Modified Cash Basis	Exhibit A
Statements of Revenue, Expenses and Other Changes in Net Assets - Modified Cash Basis	Exhibit B
Notes to Basic Financial Statements	Exhibit C



Robert B. Lank, C.P.A.  
Terrence Johnson, C.P.A.  
Richard L. Tull, C.P.A.

Gary W. Tuttle, C.P.A.  
John E. Cullen, Jr., C.P.A.  
Robert B. Lank, Jr., C.P.A.

Seaford Office  
(302) 629-9543  
Fax (302) 629-3501

Milford Office  
(302) 422-3308  
Fax (302) 422-4782

# LANK, JOHNSON & TULL

*Certified Public Accountants*

P.O. Box 418 • 521 N. Market St. Ext. • Seaford, Delaware 19973  
P.O. Box 253 • 268 Milford-Harrington Highway • Milford, Delaware 19963

## 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, 2013 and 2012, 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 Town 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  
March 12, 2015

Members

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • PRIVATE COMPANIES PRACTICE SECTION  
DELAWARE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF FREDERICA  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2013 AND 2012

EXHIBIT A

ASSETS

	<u>JUNE 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ <u>273,967</u>	\$ <u>195,493</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	845,608	782,447
Equipment	17,225	17,225
Vehicles	46,587	41,122
Accumulated Depreciation	<u>(307,811)</u>	<u>(280,821)</u>
 <u>TOTAL PROPERTY AND EQUIPMENT</u>	 <u>627,302</u>	 <u>585,666</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 901,269</u>	 <u>\$ 781,159</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 3,711	\$ 2,453
Notes Payable - Current Portion	<u>18,106</u>	<u>17,256</u>
 <u>TOTAL CURRENT LIABILITIES</u>	 21,817	 19,709
<u>LONG - TERM LIABILITIES:</u>		
Notes Payable - Net of Current Portion	<u>466,877</u>	<u>481,747</u>
 <u>TOTAL LIABILITIES</u>	 488,694	 501,456
 <u>NET ASSETS - UNRESTRICTED</u>	 <u>412,575</u>	 <u>279,703</u>
 <u>TOTAL LIABILITIES AND NET ASSETS</u>	 <u>\$ 901,269</u>	 <u>\$ 781,159</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA EXHIBIT B  
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	JUNE 30,	
	2013	2012
<u>Revenue:</u>		
Developer Fees	\$ -	\$ 24,590
Property Taxes	75,165	70,818
Transfer Tax	63,745	26,156
Fees and Fines	18,805	3,379
Water Charges	110,239	85,653
Trash Charges	98,487	88,132
Impact Fees	40,950	40,050
Rents	19,414	29,007
Grants - State of Delaware	18,793	60,876
Other Charges	-	9,076
Permits	8,520	6,847
Business Licenses	6,050	4,350
Franchise Taxes	12,841	12,775
	<u>473,009</u>	<u>461,709</u>
<u>Total Revenue</u>		
<u>Expenses:</u>		
Advertising	892	215
Automotive Expense	4,254	3,339
Bank Service Charges	103	101
Contributions	13,100	10,000
Depreciation	26,990	24,093
Dues and Subscriptions	-	84
Insurance	15,002	15,729
Interest Expense	17,482	23,764
Payroll and Related Expenses	63,400	61,452
Professional Fees	19,709	43,090
Repairs and Maintenance	60,601	24,757
Office Equipment	10,352	1,010
Supplies	9,165	11,760
Taxes, Licenses and Permits	15	100
Telephone	5,387	6,177
Trash Removal	79,569	59,950
Utilities - Electric	13,115	27,266
Utilities - Heat	-	2,705
Utilities - Sewer Charges	1,001	1,001
	<u>340,137</u>	<u>316,593</u>
<u>Total Expenses</u>		
<u>Revenue over (under) Expenses</u>	132,872	145,116
<u>Net Assets at Beginning of Period</u>	<u>279,703</u>	<u>134,587</u>
<u>Net Assets at End of Period</u>	<u>\$ 412,575</u>	<u>\$ 279,703</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

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 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, 2013

EXHIBIT C  
PAGE 2

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
Vehicles	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, 2013

EXHIBIT C  
 PAGE 3

NOTE 2 - CASH:

The balance of cash is categorized as follows:

General Fund Checking	\$	75,674
Police Department		21,484
Special Water Fund		41,860
Municipal Street Aid		14,688
Development Escrow		16,831
Community Safety		20,300
CJC Grant		767
SALLE Account		2,573
SLEAF Account		1,890
EIDE Account		2,873
West Harrington Water Account		66,300
		66,300
<u>TOTAL CASH PER BANK STATEMENTS</u>	\$	<u>265,240</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	<u>265,240</u>
Uninsured and Uncollateralized	\$	<u>-</u>

The Town maintains its cash accounts at M&T Bank. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per customer. The Town's balances at times during the year may have exceeded the coverage provided by the FDIC.

NOTE 3 - CAPITAL ASSETS:

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

	<u>ASSETS</u>			Balance June 30, 2013
	Balance July 1, 2012	Acquisitions	Retirements	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Water Improvements	782,447	63,161	-	845,608
Equipment	17,225	-	-	17,225
Vehicles	41,122	5,465	-	46,587
	866,487	68,626	-	935,113
<u>TOTAL</u>	<u>\$ 866,487</u>	<u>\$ 68,626</u>	<u>\$ -</u>	<u>\$ 935,113</u>



TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

EXHIBIT C  
PAGE 4

NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, <u>2012</u>	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, <u>2013</u>
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 261,965	\$ 19,869	\$ -	\$ 281,834
Equipment	8,860	2,491	-	11,351
Vehicles	<u>9,996</u>	<u>4,630</u>	<u>-</u>	<u>14,626</u>
<b><u>TOTAL</u></b>	<b>\$ <u>280,821</u></b>	<b>\$ <u>26,990</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>307,811</u></b>
<b><u>CAPITAL ASSETS</u></b>				<b>\$ <u>627,302</u></b>

NOTE 4 - DEBT:

Debt at June 30, 2013 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. \$ 472,404

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.

12,579

**TOTAL** **\$ 484,983**

Maturities of Debt subsequent to June 30, 2013 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/14	\$ 18,106	\$ 21,948
6/30/15	19,159	20,895
6/30/16	16,657	19,852
6/30/17	15,061	19,147
6/30/18	15,750	18,458
2019-2023	90,249	80,791
2024-2028	112,878	58,162
2029-2033	141,180	29,860
2034-2037	<u>55,943</u>	<u>2,500</u>
<b><u>TOTAL</u></b>	<b>\$ <u>484,983</u></b>	<b>\$ <u>271,613</u></b>

TOWN OF FREDERICA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 4 - DEBT (CONTINUED):

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>07/01/12</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/13</u>
Rural Development	\$ 481,902	\$ -	\$ 9,498	\$ 472,404
Ally Auto Finance	<u>17,101</u>	<u>-</u>	<u>4,522</u>	<u>12,579</u>
<u>TOTAL</u>	<u>\$ 499,003</u>	<u>\$ -</u>	<u>\$ 14,020</u>	<u>\$ 484,983</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, March 12, 2015, the date the report was available for issuance.