

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, 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.

Lank, Johnson & Tull

Seaford, Delaware
July 13, 2015

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2014 AND 2013

EXHIBIT A

ASSETS

	<u>JUNE 30,</u>	
	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ <u>385,783</u>	\$ <u>302,348</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	877,889	845,608
Equipment	30,457	17,225
Vehicles	57,169	46,587
Accumulated Depreciation	<u>(338,228)</u>	<u>(307,811)</u>
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>652,980</u>	<u>627,302</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,038,763</u>	<u>\$ 929,650</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 5,962	\$ 3,711
Notes Payable - Current Portion	<u>17,311</u>	<u>18,106</u>
<u>TOTAL CURRENT LIABILITIES</u>	23,273	21,817
<u>LONG - TERM LIABILITIES:</u>		
Notes Payable - Net of Current Portion	<u>441,924</u>	<u>466,877</u>
<u>TOTAL LIABILITIES</u>	465,197	488,694
<u>NET ASSETS - UNRESTRICTED</u>	<u>573,566</u>	<u>440,956</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,038,763</u>	<u>\$ 929,650</u>

TOWN OF FREDERICA
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

EXHIBIT B

	JUNE 30,	
	<u>2014</u>	<u>2013</u>
<u>Revenue:</u>		
Property Taxes	\$ 131,308	\$ 75,165
Transfer Tax	66,778	63,745
Fees and Fines	4,216	18,805
Water Charges	121,895	110,239
Trash Charges	101,485	98,487
Impact Fees	51,200	40,950
Rents	21,453	19,414
Grants - State of Delaware	13,913	18,793
Escrows	7,500	-
Other Charges	2,063	-
Interest Income	364	-
Permits	11,666	8,520
Business Licenses	6,525	6,050
Franchise Taxes	13,230	12,841
	<hr/>	<hr/>
<u>Total Revenue</u>	553,596	473,009
<u>Expenses:</u>		
Advertising	1,402	892
Automotive Expense	5,204	4,254
Bank Service Charges	-	103
Contributions	18,000	13,100
Depreciation	30,418	26,990
Dues and Subscriptions	853	-
Grants Returned to the State of Delaware	8,104	-
Insurance	21,533	15,002
Interest Expense	21,979	17,482
Payroll and Related Expenses	95,016	63,400
Professional Fees	39,700	19,709
Repairs and Maintenance	46,223	60,601
Office Equipment	14,543	10,352
Police Department - Operating Expenses	7,258	-
Supplies	1,606	9,165
Taxes, Licenses and Permits	-	15
Telephone	6,278	5,387
Trash Removal	82,873	79,569
Utilities - Electric	14,863	13,115
Utilities - Heat	4,132	-
Utilities - Sewer Charges	1,001	1,001
	<hr/>	<hr/>
<u>Total Expenses</u>	420,986	340,137
<u>Revenue over (under) Expenses</u>	132,610	132,872
<u>Net Assets at Beginning of Period</u>	440,956	279,703
<u>Prior Period Adjustment</u>	<hr/>	<hr/>
	-	28,381
<u>Net Assets at End of Period</u>	<u>\$ 573,566</u>	<u>\$ 440,956</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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
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, 2014

EXHIBIT C
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NOTE 2 - CASH:

The balance of cash is categorized as follows:

<u>DISCOVER BANK</u>		
Checking Account	\$	149
Certificate of Deposit - 48 Months		10,062
Certificate of Deposit - 60 Months		10,068
 <u>DOVER FEDERAL CREDIT UNION</u>		
Savings Account		5
Certificate of Deposit - 36 Months		10,462
 <u>M&T BANK</u>		
General Fund Checking		148,226
Police Department		7,914
Special Water Fund		60,841
Municipal Street Aid		9,093
Development Escrow		16,930
Community Safety		16,484
West Harrington Water Account		95,550
		<hr/>
<u>TOTAL CASH PER BANK STATEMENTS</u>	<u>\$</u>	<u>385,784</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	385,784
Uninsured and Uncollateralized	\$	-
		<hr/> <hr/>

The Town maintains its cash accounts at Discover Bank, Dover Federal Credit Union and M&T Bank. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), 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:

	Balance July 1, 2013	<u>ASSETS</u>		Balance June 30, 2014
		<u>Acquisitions</u>	<u>Retirements</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Water Improvements	845,608	32,281	-	877,889
Equipment	17,225	13,232	-	30,457
Vehicles	46,587	10,582	-	57,169
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL</u>	<u>\$ 935,113</u>	<u>\$ 56,095</u>	<u>\$ -</u>	<u>\$ 991,208</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT C
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NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, 2013	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2014
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 281,834	\$ 23,775	\$ -	\$ 305,609
Equipment	11,351	1,366	-	12,717
Vehicles	<u>14,626</u>	<u>5,276</u>	-	<u>19,902</u>
TOTAL	\$ <u>307,811</u>	\$ <u>30,417</u>	\$ -	\$ <u>338,228</u>
				\$ <u>652,980</u>

NOTE 4 - DEBT:

Debt at June 30, 2014 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.

\$ 459,234

Maturities of Debt subsequent to June 30, 2014 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/15	\$ 17,311	\$ 25,446
6/30/16	14,563	19,643
6/30/17	15,231	18,975
6/30/18	15,927	18,279
6/30/19	16,657	17,549
2020-2024	95,440	75,590
2025-2029	119,371	51,659
2030-2034	149,304	21,726
2035-2037	<u>15,430</u>	<u>253</u>
TOTAL	\$ <u>459,234</u>	\$ <u>249,120</u>

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>07/01/13</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/14</u>
Rural Development	\$ 472,404	\$ -	\$ 13,170	\$ 459,234
Ally Auto Finance	<u>12,579</u>	<u>-</u>	<u>12,579</u>	<u>-</u>
TOTAL	\$ <u>484,983</u>	\$ -	\$ <u>25,749</u>	\$ <u>459,234</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT C
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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:

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through July 13, 2015, the date the report was available for issuance.

NOTE 7 - PRIOR PERIOD ADJUSTMENT:

Management discovered additional bank accounts that were not previously reported on the financial statements. Cash and net assets have been increased by \$28,381 in the June 30, 2013 financial statements.