

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2015 AND 2014

TOWN OF FREDERICA
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Lank, Johnson & Tull, CPAs is a full service Delaware accounting firm specializing in tax planning and audit services.

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, 2015 and 2014, 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
October 19, 2015

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TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2015 AND 2014

EXHIBIT A

<u>ASSETS</u>	<u>JUNE 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 526,427	\$ 385,783
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	899,709	877,889
Equipment	30,457	30,457
Vehicles	57,169	57,169
Accumulated Depreciation	<u>(371,585)</u>	<u>(338,228)</u>
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>641,443</u>	<u>652,980</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,167,870</u>	<u>\$ 1,038,763</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 5,787	\$ 5,962
Notes Payable - Current Portion	<u>14,563</u>	<u>17,311</u>
<u>TOTAL CURRENT LIABILITIES</u>	20,350	23,273
<u>LONG - TERM LIABILITIES:</u>		
Notes Payable - Net of Current Portion	<u>430,900</u>	<u>441,924</u>
<u>TOTAL LIABILITIES</u>	451,250	465,197
<u>NET ASSETS - UNRESTRICTED</u>	<u>716,620</u>	<u>573,566</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,167,870</u>	<u>\$ 1,038,763</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

EXHIBIT B

	<u>JUNE 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>Revenue:</u>		
Property Taxes	\$ 125,775	\$ 131,308
Transfer Tax	92,452	66,778
Fees and Fines	6,504	4,216
Water Charges	124,093	121,895
Trash Charges	114,017	101,485
Impact Fees	46,250	51,200
Rents	33,213	21,453
Grants	28,961	13,913
Escrows	114	7,500
Other Charges	2,320	2,063
Interest Income	582	364
Permits	5,035	11,666
Business Licenses	8,161	6,525
Franchise Taxes	13,819	13,230
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>601,296</u>	<u>553,596</u>
<u>Expenses:</u>		
Advertising	1,044	1,402
Automotive Expense	5,559	5,204
Bank Service Charges	8	-
Contributions	400	18,000
Depreciation	33,357	30,418
Dues and Subscriptions	1,149	853
Grants Returned to the State of Delaware	-	8,104
Insurance	26,197	21,533
Interest Expense	20,436	21,979
Payroll and Related Expenses	110,784	95,016
Professional Fees	52,770	39,700
Repairs and Maintenance	64,078	46,223
Office Equipment	11,514	14,543
Police Department - Operating Expenses	9,404	7,258
Supplies	1,893	1,606
Telephone	5,692	6,278
Trash Removal	87,406	82,873
Utilities - Electric	20,492	14,863
Utilities - Heat	5,058	4,132
Utilities - Sewer Charges	1,001	1,001
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>458,242</u>	<u>420,986</u>
<u>Revenue over (under) Expenses</u>	<u>143,054</u>	<u>132,610</u>
<u>Net Assets at Beginning of Period</u>	<u>573,566</u>	<u>440,956</u>
<u>Net Assets at End of Period</u>	<u>\$ 716,620</u>	<u>\$ 573,566</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015

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, 2015

NOTE 2 - CASH:

The balance of cash is categorized as follows:

<u>DISCOVER BANK</u>	
Checking Account	\$ 149
Certificate of Deposit - 48 Months	10,213
Certificate of Deposit - 60 Months	10,235
Certificate of Deposit - 48 Months	10,087
Certificate of Deposit - 60 Months	10,104
<u>COUNTY BANK</u>	
Checking Account	1,956
<u>M&T BANK</u>	
General Fund Checking	174,409
Police Department	26,289
Special Water Fund	118,114
Municipal Street Aid	7,469
Development Escrow	16,994
Community Safety	28,484
West Harrington Water Account	117,450
	117,450
 <u>TOTAL CASH PER BANK STATEMENTS</u>	 <u>\$ 531,953</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$ 467,153
Uninsured and Uncollateralized	\$ 64,800

The Town maintains its cash accounts at Discover Bank, County Bank and M&T Bank. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000 per customer. The Town's balances 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, 2014	<u>ASSETS</u>		Balance June 30, 2015
		<u>Acquisitions</u>	<u>Retirements</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Water Improvements	877,889	21,820	-	899,709
Equipment	30,457	-	-	30,457
Vehicles	57,169	-	-	57,169
	57,169	-	-	57,169
 <u>TOTAL</u>	 <u>\$ 991,208</u>	 <u>\$ 21,820</u>	 <u>\$ -</u>	 <u>\$ 1,013,028</u>

TOWN OF FREDERICA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT C
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NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, 2014	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2015
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 305,609	\$ 24,517	\$ -	\$ 330,126
Equipment	12,717	2,892	-	15,609
Vehicles	<u>19,902</u>	<u>5,948</u>	<u>-</u>	<u>25,850</u>
<u>TOTAL</u>	<u>\$ 338,228</u>	<u>\$ 33,357</u>	<u>\$ -</u>	<u>\$ 371,585</u>
				<u>\$ 641,443</u>

NOTE 4 - DEBT:

Debt at June 30, 2015, 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.

\$ 445,463

Maturities of Debt subsequent to June 30, 2015, are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
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
6/30/20	17,419	16,778
2021-2025	122,592	82,654
2026-2030	130,547	40,690
2031-2035	<u>112,527</u>	<u>9,318</u>
<u>TOTAL</u>	<u>\$ 445,463</u>	<u>\$ 223,886</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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 October 19, 2015, the date the report was available for issuance.