

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2016 AND 2015

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, 2016 and 2015, and the related statements of revenue, expenses and other changes in net assets - modified cash basis for the years then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accordance with the modified cash basis of accounting.

Seaford, Delaware
August 15, 2016

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2016 AND 2015

EXHIBIT A

<u>ASSETS</u>	<u>JUNE 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ <u>486,145</u>	\$ <u>526,427</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Water Improvements	1,049,933	899,709
Equipment and Improvements	71,839	30,457
Vehicles	91,749	57,169
Accumulated Depreciation	<u>(413,945)</u>	<u>(371,585)</u>
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>825,269</u>	<u>641,443</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,311,414</u>	<u>\$ 1,167,870</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 5,748	\$ 5,787
Note Payable - Current Portion	<u>15,231</u>	<u>14,563</u>
<u>TOTAL CURRENT LIABILITIES</u>	20,979	20,350
<u>LONG - TERM LIABILITIES:</u>		
Note Payable - Net of Current Portion	<u>413,497</u>	<u>430,900</u>
<u>TOTAL LIABILITIES</u>	434,476	451,250
<u>NET ASSETS - UNRESTRICTED</u>	<u>876,938</u>	<u>716,620</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,311,414</u>	<u>\$ 1,167,870</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, 2016 AND 2015

	<u>JUNE 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>Revenue:</u>		
Property Taxes	\$ 154,236	\$ 125,775
Transfer Tax	76,695	92,452
Fees and Fines	13,436	6,504
Water Charges	154,646	124,093
Trash Charges	119,032	114,017
Impact Fees	48,000	46,250
Rents	43,333	33,213
Grants	57,680	28,961
Escrows	-	114
Other Charges	13	2,320
Interest Income	713	582
Permits	11,832	5,035
Business Licenses	10,458	8,161
Franchise Taxes	14,363	13,819
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>704,437</u>	<u>601,296</u>
<u>Expenses:</u>		
Advertising	2,622	1,044
Automotive Expense	8,589	5,559
Bank Service Charges	23	8
Contributions	425	400
Depreciation	42,360	33,357
Dues and Subscriptions	1,772	1,149
Insurance	40,577	26,197
Interest Expense	17,473	20,436
Payroll and Related Expenses	133,396	110,784
Professional Fees	34,686	52,770
Repairs and Maintenance	94,695	64,078
Office Equipment	9,508	11,514
Police Department - Operating Expenses	23,686	9,404
Supplies	3,932	1,893
Telephone	7,320	5,692
Trash Removal	99,973	87,406
Utilities - Electric	19,753	20,492
Utilities - Heat	2,078	5,058
Utilities - Sewer Charges	1,251	1,001
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>544,119</u>	<u>458,242</u>
<u>Revenue over (under) Expenses</u>	<u>160,318</u>	<u>143,054</u>
<u>Net Assets at Beginning of Period</u>	<u>716,620</u>	<u>573,566</u>
<u>Net Assets at End of Period</u>	<u>\$ 876,938</u>	<u>\$ 716,620</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016 AND 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, 2016 AND 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 and Improvements	5 - 30 Years
Vehicles	7 - 10 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, 2016 AND 2015

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		10,367
Certificate of Deposit - 60 Months		10,404
Certificate of Deposit - 48 Months		10,263
Certificate of Deposit - 60 Months		10,317
 <u>COUNTY BANK</u>		
Checking Account		1,923
 <u>M&T BANK</u>		
General Fund Checking		103,358
Police Department		34,929
Special Water Fund		100,366
Municipal Street Aid		2,076
Development Escrow		167,444
Community Safety		40,484
		<hr/>
<u>TOTAL CASH PER BANK STATEMENTS</u>	<u>\$</u>	<u>492,080</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	293,423
Uninsured and Uncollateralized	\$	198,657
		<hr/>

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, 2015	<u>ASSETS</u>			Balance June 30, 2016
		<u>Acquisitions</u>	<u>Retirements</u>		
Land	\$ 25,693	\$ -	\$ -		\$ 25,693
Water Improvements	899,709	150,224	-		1,049,933
Equipment and Improvements	30,457	41,382	-		71,839
Vehicles	57,169	34,580	-		91,749
	<hr/>				<hr/>
<u>TOTAL</u>	<u>\$ 1,013,028</u>	<u>\$ 226,186</u>	<u>\$ -</u>		<u>\$ 1,239,214</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, 2015	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2016
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 330,126	\$ 28,634	\$ -	\$ 358,760
Equipment and Improvements	15,609	4,217	-	19,826
Vehicles	<u>25,850</u>	<u>9,509</u>	<u>-</u>	<u>35,359</u>
<u>TOTAL</u>	<u>\$ 371,585</u>	<u>\$ 42,360</u>	<u>\$ -</u>	<u>\$ 413,945</u>
<u>CAPITAL ASSETS</u>				<u>\$ 825,269</u>

NOTE 4 - DEBT:

Debt at June 30, 2016, 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.

\$ 428,728

Maturities of Debt subsequent to June 30, 2016, are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
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
6/30/21	18,142	16,066
2022-2026	103,951	67,089
2027-2031	130,017	41,023
2032-2036	<u>111,384</u>	<u>10,033</u>
<u>TOTAL</u>	<u>\$ 428,728</u>	<u>\$ 205,792</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:

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 August 15, 2016, the date the report was available for issuance.