

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2020 AND 2019

TOWN OF FREDERICA
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RICHARD L. TULL, CPA
TERRENCE JOHNSON, CPA

GARY W. TUTTLE, CPA
ROBERT B. LANK, JR., CPA/PFS
MARK A. JOHNSON, CPA/ABV



LJT SEAFORD
(302) 629-9543
FAX: (302) 629-3501

LJT MILFORD
(302) 422-3308
FAX: (302) 422-4782
SUPPORT@LJTCPA.COM

P.O. BOX 418 • 521 N. MARKET ST. EXT. • SEAFORD, DE 19973
P.O. BOX 253 • 268 MILFORD-HARRINGTON HWY. • MILFORD, DE 19963

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, 2020 and 2019, 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 determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Lank, Johnson & Tull

Seaford, Delaware
October 15, 2020

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TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2020 AND 2019

EXHIBIT A

ASSETS

	JUNE 30,	
	2020	2019
<u>CURRENT ASSETS:</u>		
Cash	\$ 770,126	\$ 704,776
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Park	71,464	71,464
Water Improvements	1,131,405	1,126,011
Equipment and Improvements	234,472	135,205
Vehicles	192,761	204,226
Accumulated Depreciation	(656,063)	(586,163)
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>999,732</u>	<u>976,436</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,769,858</u>	<u>\$ 1,681,212</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 4,882	\$ 6,549
Note Payable - Current Portion	38,632	17,348
<u>TOTAL CURRENT LIABILITIES</u>	<u>43,514</u>	<u>23,897</u>
<u>LONG-TERM LIABILITIES:</u>		
Note Payable - Net of Current Portion	395,813	363,774
<u>TOTAL LIABILITIES</u>	<u>439,327</u>	<u>387,671</u>
<u>NET ASSETS - UNRESTRICTED</u>	<u>1,330,531</u>	<u>1,293,541</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,769,858</u>	<u>\$ 1,681,212</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

EXHIBIT B

	JUNE 30,	
	<u>2020</u>	<u>2019</u>
<u>Revenue:</u>		
Property Taxes	\$ 167,317	\$ 180,499
Transfer Tax	94,246	101,977
Fees and Fines	20,695	75,213
Water Charges	159,947	168,537
Trash Charges	140,123	140,432
Impact Fees	26,000	52,700
Rents	48,574	46,431
Grants	33,608	25,724
Other Charges	471	3,351
Other Income	20,510	16,323
Interest Income	1,805	1,098
Permits	7,019	7,470
Business Licenses	10,325	11,908
Franchise Taxes	12,540	14,258
	<u>743,180</u>	<u>845,921</u>
<u>Expenses:</u>		
Advertising	2,861	1,357
Automotive Expense	12,223	7,007
Bank Service Charges	50	70
Contributions	7,900	500
Depreciation	81,365	68,698
Dues and Subscriptions	895	1,185
Insurance	50,358	55,632
Interest Expense	18,669	17,624
Payroll and Related Expenses	191,191	187,411
Professional Fees	68,342	53,583
Repairs and Maintenance	73,879	61,552
Office Equipment and Supplies	34,163	20,971
Police Department - Operating Expenses	10,016	2,262
Street Lighting	18,353	18,379
Supplies	2,173	9,775
Telephone	14,234	10,830
Trash Removal and Recycling	99,517	124,859
Utilities - Electric	18,666	20,341
Utilities - Heat	-	2,356
Utilities - Sewer Charges	1,335	1,339
	<u>706,190</u>	<u>665,731</u>
<u>Revenue over (under) Expenses</u>	36,990	180,190
<u>Net Assets at Beginning of Period</u>	<u>1,293,541</u>	<u>1,113,351</u>
<u>Net Assets at End of Period</u>	<u>\$ 1,330,531</u>	<u>\$ 1,293,541</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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

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, 2020 AND 2019

EXHIBIT C
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NOTE 2 - CASH:

The balance of cash is categorized as follows:

<u>DISCOVER BANK</u>		
Certificate of Deposit - 60 Months	\$	32,169
Certificate of Deposit - 48 Months		21,652
Certificate of Deposit - 60 Months		11,213
 <u>CASH ON HAND</u>		
Petty Cash		400
 <u>M&T BANK</u>		
General Fund Checking		90,250
Police Department		136,631
Special Water Fund		107,919
Municipal Street Aid		3,947
Development Escrow		10,844
Water's Edge Development		276,450
Community Safety		<u>78,651</u>
 <u>TOTAL CASH PER BANK STATEMENTS</u>	 \$	 <u>770,126</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	<u>315,034</u>
Uninsured and Uncollateralized	\$	<u>455,092</u>

The Town maintains its cash accounts at Discover 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:

	<u>ASSETS</u>			
	Balance July 1, <u>2019</u>	<u>Acquisitions</u>	<u>Retirements</u>	Balance June 30, <u>2020</u>
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Park	71,464	-	-	71,464
Water Improvements	1,126,011	5,394	-	1,131,405
Equipment and Improvements	135,205	99,267	-	234,472
Vehicles	<u>204,226</u>	<u>-</u>	<u>(11,465)</u>	<u>192,761</u>
 <u>TOTAL</u>	 \$ <u>1,562,599</u>	 \$ <u>104,661</u>	 \$ <u>(11,465)</u>	 \$ <u>1,655,795</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, 2019	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2020
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 464,496	\$ 37,165	\$ -	\$ 501,661
Equipment and Improvements	44,894	17,648	-	62,542
Vehicles	<u>76,773</u>	<u>26,552</u>	<u>(11,465)</u>	<u>91,860</u>
<u>TOTAL</u>	<u>\$ 586,163</u>	<u>\$ 81,365</u>	<u>\$ (11,465)</u>	<u>\$ 656,063</u>
				<u>\$ 999,732</u>

NOTE 4 - DEBT:

Debt at June 30, 2020, 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.

\$ 363,779

Note payable dated October 21, 2019 for \$84,000 to Kubota Leasing in monthly installments of \$1,855 including interest of 2.894% through October 2023 for a tractor with backhoe

70,666

Total

\$ 434,445

Maturities of Debt subsequent to June 30, 2020, are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/21	\$ 38,632	\$ 16,860
6/30/22	40,063	16,066
6/30/23	41,550	15,236
6/30/24	28,125	14,367
6/30/25	21,698	13,459
2026-2030	124,327	52,153
2031-2035	<u>140,050</u>	<u>22,343</u>
<u>TOTAL</u>	<u>\$ 434,445</u>	<u>\$ 150,484</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.

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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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 15, 2020, the date the report was available for issuance.

As a result of the spread of COVID-19 (Coronavirus), economic uncertainties have arisen which are likely to negatively impact the Town's income. Other financial impact could occur, though such potential impact is unknown at this time.