

TOWN OF FREDERICA
FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2021 AND 2020

TOWN OF FREDERICA
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Lank, Johnson & Tull, CPAs, LLC 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, 2021 and 2020, 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, which collectively comprise the Town's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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.

We are required to be independent of the Town of Frederica and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Lank, Johnson & Tull

Seaford, Delaware
August 23, 2021

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TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2021 AND 2020

EXHIBIT A

<u>ASSETS</u>	JUNE 30,	
	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 868,682	\$ 770,126
Reimbursements Due	430	-
	869,112	770,126
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Park	167,218	71,464
Water Improvements	1,131,405	1,131,405
Equipment and Improvements	234,472	234,472
Vehicles	192,761	192,761
Construction In Progress	5,850	-
Accumulated Depreciation	(737,073)	(656,063)
	1,020,326	999,732
<u>TOTAL ASSETS</u>		
	\$ 1,889,438	\$ 1,769,858
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 5,553	\$ 4,882
Note Payable - Current Portion	40,063	38,632
	45,616	43,514
<u>LONG-TERM LIABILITIES:</u>		
Note Payable - Net of Current Portion	355,730	395,813
	401,346	439,327
<u>NET ASSETS - UNRESTRICTED</u>		
	1,488,092	1,330,531
<u>TOTAL LIABILITIES AND NET ASSETS</u>		
	\$ 1,889,438	\$ 1,769,858

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, 2021 AND 2020

EXHIBIT B

	JUNE 30,	
	<u>2021</u>	<u>2020</u>
<u>Revenue:</u>		
Property Taxes	\$ 148,820	\$ 167,317
Transfer Tax	55,000	94,246
Fees and Fines	6,903	20,695
Gain on Sale of Fixed Assets	10,000	-
Water Charges	145,485	159,947
Trash Charges	128,952	140,123
Impact Fees	4,589	26,000
Rents	49,353	48,574
Grants	264,613	33,608
Other Income	22,732	20,981
Interest Income	1,853	1,805
Permits	8,378	7,019
Business Licenses	12,200	10,325
Franchise Taxes	11,765	12,540
	<u>870,643</u>	<u>743,180</u>
<u>Expenses:</u>		
Advertising	2,045	2,861
Automotive Expense	5,645	12,223
Bank Service Charges	34	50
Contributions	14,099	7,900
Depreciation	81,010	81,365
Dues and Subscriptions	1,617	895
Insurance	49,690	50,358
Interest Expense	18,265	18,669
Payroll and Related Expenses	178,578	191,191
Professional Fees	78,213	68,342
Repairs and Maintenance	74,498	73,879
Office Equipment and Supplies	20,015	34,163
Police Department - Operating Expenses	15,197	10,016
Street Lighting	15,825	18,353
Supplies	570	2,173
Telephone	12,450	14,234
Trash Removal and Recycling	117,438	99,517
Miscellaneous Expense	6,941	-
Utilities - Electric	18,937	18,666
Utilities - Heat	605	-
Utilities - Sewer Charges	1,410	1,335
	<u>713,082</u>	<u>706,190</u>
<u>Revenue over (under) Expenses</u>	157,561	36,990
<u>Net Assets at Beginning of Period</u>	<u>1,330,531</u>	<u>1,293,541</u>
<u>Net Assets at End of Period</u>	<u>\$ 1,488,092</u>	<u>\$ 1,330,531</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

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	\$	33,136
Certificate of Deposit - 48 Months		11,449
Certificate of Deposit - 60 Months		22,303
 <u>CASH ON HAND</u>		
Petty Cash		186
 <u>M&T BANK</u>		
General Fund Checking		242,467
Police Department		185,826
Special Water Fund		38,577
Municipal Street Aid		6,532
Development Escrow		10,842
Water's Edge Development		276,448
Community Safety		51,151
		<hr/>
<u>TOTAL CASH PER BANK STATEMENTS</u>	<u>\$</u>	<u>878,917</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$	316,888
Uninsured and Uncollateralized	\$	562,029
		<hr/>
		<hr/>

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:

	Balance July 1, <u>2020</u>	<u>ASSETS</u>		Balance June 30, <u>2021</u>
		<u>Acquisitions</u>	<u>Retirements</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Park	71,464	95,754	-	167,218
Water Improvements	1,131,405	-	-	1,131,405
Equipment and Improvements	234,472	-	-	234,472
Vehicles	192,761	-	-	192,761
Construction in Progress	-	5,850	-	5,850
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL</u>	<u>\$ 1,655,795</u>	<u>\$ 101,604</u>	<u>\$ -</u>	<u>\$ 1,757,399</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

EXHIBIT C
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NOTE 3 - CAPITAL ASSETS (CONTINUED):

	Balance July 1, 2020	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2021
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 501,661	\$ 37,165	\$ -	\$ 538,826
Equipment and Improvements	62,542	20,280	-	82,822
Vehicles	91,860	23,565	-	115,425
<u>TOTAL</u>	<u>\$ 656,063</u>	<u>\$ 81,010</u>	<u>\$ -</u>	<u>\$ 737,073</u>
<u>CAPITAL ASSETS</u>				<u>\$ 1,020,326</u>

NOTE 4 - DEBT:

Debt at June 30, 2021, 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.

\$ 345,617

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.

50,176

Total

\$ 395,793

Maturities of Debt subsequent to June 30, 2021, are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
6/30/22	\$ 40,063	\$ 16,409
6/30/23	41,550	14,923
6/30/24	28,126	13,504
6/30/25	21,698	12,510
6/30/26	22,691	11,517
2027-2031	125,017	41,023
2032-2036	116,648	9,769
2037-2041	-	-
<u>TOTAL</u>	<u>\$ 395,793</u>	<u>\$ 119,655</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, 2021 AND 2020

EXHIBIT C
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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 August 23, 2021, the date the report was available for issuance.

As a result of the spread of COVID-19 (Coronavirus) and its variants, 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.