

TOWN OF FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2022 AND 2021

TOWN OF FREDERICA
TABLE OF CONTENTS
JUNE 30, 2022 AND 2021

	<u>PAGE</u>
<u>TITLE PAGE</u>	1
<u>TABLE OF CONTENTS</u>	2
<u>INDEPENDENT ACCOUNTANT'S REVIEW REPORT</u>	3
<u>BASIC FINANCIAL STATEMENTS</u>	
Statements of Assets, Liabilities and Net Assets - Modified Cash Basis	Exhibit A 4
Statements of Revenues, Expenses and Other Changes in Net Assets - Modified Cash Basis	Exhibit B 5
<u>NOTES TO BASIC FINANCIAL STATEMENTS</u>	Exhibit C 6 - 9

RICHARD L. TULL, CPA
MARK A. JOHNSON, CPA/ABV

GARY W. TUTTLE, CPA
ROBERT B. LANK JR., CPA/PFS



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

LJT MILFORD
(302) 422-3308
FAX: (302) 422-4782
SUPPORT@DELAWARECPAS.ORG

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

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Town Council
Town of Frederica, Delaware

We have reviewed the accompanying financial statements of assets, liabilities and net assets - modified cash basis of the Town of Frederica as of June 30, 2022 and 2021, 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
October 28, 2022

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2022 AND 2021

ASSETS

	<u>2022</u>	Restated <u>2021</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 1,287,387	\$ 868,682
Reimbursements Due	<u>-</u>	<u>430</u>
<u>TOTAL CURRENT ASSETS</u>	<u>1,287,387</u>	<u>869,112</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Park	200,551	167,218
Water Improvements	1,786,702	1,131,405
Equipment and Improvements	234,472	234,472
Vehicles	192,761	192,761
Construction In Progress	9,866	5,850
Accumulated Depreciation	<u>(823,776)</u>	<u>(737,073)</u>
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>1,626,269</u>	<u>1,020,326</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,913,656</u>	<u>\$ 1,889,438</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 5,626	\$ 5,553
Note Payable - Current Portion	<u>41,550</u>	<u>40,063</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>47,176</u>	<u>45,616</u>
<u>LONG-TERM LIABILITIES:</u>		
Unearned Revenue	301,702	229,180
Note Payable - Net of Current Portion	<u>314,180</u>	<u>355,730</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>615,882</u>	<u>584,910</u>
<u>TOTAL LIABILITIES</u>	663,058	630,526
<u>NET ASSETS - UNRESTRICTED</u>	<u>2,250,598</u>	<u>1,258,912</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 2,913,656</u>	<u>\$ 1,889,438</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

EXHIBIT B

TOWN OF FREDERICA
STATEMENTS OF REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	Restated <u>2021</u>
<u>Revenue:</u>		
Property Taxes	\$ 180,779	\$ 148,820
Transfer Tax	152,739	55,000
Fees and Fines	16,863	6,903
Gain on Sale of Fixed Assets	-	10,000
Water Charges	171,686	145,485
Trash Charges	153,629	128,952
Impact Fees	1,000	4,589
Rents	60,171	49,353
Grants	766,182	35,433
Other Income	28,332	22,732
Interest Income	5,235	1,853
Permits	141,454	8,378
Business Licenses	40,400	12,200
Franchise Taxes	6,455	11,765
	<u>1,724,925</u>	<u>641,463</u>
<u>Expenses:</u>		
Advertising	2,300	2,045
Automotive Expense	5,351	5,645
Bank Service Charges	241	34
Contributions	500	14,099
Depreciation	86,703	81,010
Dues and Subscriptions	3,641	1,617
Insurance	56,090	49,690
Interest Expense	17,040	18,265
Payroll and Related Expenses	191,589	178,578
Professional Fees	65,667	78,213
Repairs and Maintenance	76,877	74,498
Office Equipment and Supplies	15,923	20,015
Police Department - Operating Expenses	19,408	15,197
Supplies	4,161	570
Telephone	14,836	12,450
Trash Removal and Recycling	120,495	117,438
Miscellaneous Expense	7,221	6,941
Utilities - Electric	42,672	34,762
Utilities - Heat	552	605
Utilities - Sewer Charges	1,972	1,410
	<u>733,239</u>	<u>713,082</u>
<u>Revenue over (under) Expenses</u>	991,686	(71,619)
<u>Net Assets at Beginning of Period</u>	<u>1,258,912</u>	<u>1,330,531</u>
<u>Net Assets at End of Period</u>	<u>\$ 2,250,598</u>	<u>\$ 1,258,912</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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.

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.

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

EXHIBIT C

NOTE 1 - SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (CONTINUED):

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.

NOTE 2 - CASH:

The balance of cash is categorized as follows:

<u>CASH ON HAND</u>	
Petty Cash	\$ 186
<u>M&T BANK</u>	
General Fund Checking	477,120
Police Department	337,198
Special Water Fund	107,442
Municipal Street Aid	7,179
Development Escrow	10,824
Water's Edge Development	222,183
Community Safety	53,133
Certificate of Deposit - 6 months	<u>72,122</u>
<u>TOTAL CASH ON HAND AND AS PER BANK STATEMENTS</u>	<u>\$ 1,287,387</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$ <u>322,122</u>
Uninsured and Uncollateralized	\$ <u>965,079</u>

The Town maintains its cash accounts at 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.

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

EXHIBIT C

NOTE 3 - CAPITAL ASSETS:

Following is a summary of Capital Asset changes for the current year:

	Balance July 1, 2021	<u>ASSETS</u>		Balance June 30, 2022
		<u>Acquisitions</u>	<u>Retirements</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Park	167,218	33,333	-	200,551
Water Improvements	1,131,405	655,297	-	1,786,702
Equipment and Improvements	234,472	-	-	234,472
Vehicles	192,761	-	-	192,761
Construction in Progress	5,850	4,016	-	9,866
<u>TOTAL</u>	<u>\$ 1,757,399</u>	<u>\$ 692,646</u>	<u>\$ -</u>	<u>\$ 2,450,045</u>

	Balance July 1, 2021	<u>ACCUMULATED DEPRECIATION</u>		Balance June 30, 2022
		<u>Depreciation</u>	<u>Retirements</u>	
Water Improvements	\$ 538,826	\$ 38,037	\$ -	\$ 576,863
Equipment and Improvements	82,822	27,658	-	110,480
Vehicles	115,425	21,008	-	136,433
<u>TOTAL</u>	<u>\$ 737,073</u>	<u>\$ 86,703</u>	<u>\$ -</u>	<u>\$ 823,776</u>

CAPITAL ASSETS

\$ 1,626,269

NOTE 4 - DEBT:

Debt at June 30, 2022, 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.

\$ 326,644

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.

29,086

TOTAL

\$ 355,730

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

EXHIBIT C

NOTE 4 - DEBT (CONTINUED):

Maturities of Debt subsequent to June 30, 2022, are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
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
6/30/27	23,730	10,478
2028-2032	135,968	35,072
2033-2037	81,967	5,240
2038-2042	-	-
	<hr/>	<hr/>
<u>TOTAL</u>	<u>\$ 355,730</u>	<u>\$ 103,244</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 October 28, 2022, 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 revenue. Other financial impact could occur, though such potential impact is unknown at this time.

NOTE 7 - UNEARNED REVENUE:

To date, the Town has received \$456,573 in grant funds from the American Rescue Plan Act of 2021 (ARPA). These funds were held in the Town's General Fund checking account at year-end. During 2022, the Town made expenditures of these funds totaling \$154,871. As a result, the Town has opted to record Unearned Revenue of \$301,702 at June 30, 2022.

The Town has elected the standard deduction available in the Act's final guidance. A standard deduction allows an awardee to spend up to \$10,000,000 in grant funds received on any government services.

NOTE 8 - PRIOR PERIOD ADJUSTMENT:

In 2021, ARPA funds received were classified as grant revenue. In the accompanying financial statements these funds have been re-classified to Unearned Revenue, in the amount of \$229,180. As a result, beginning net assets have also decreased by this amount. The reclassification was made to better aid in the presentation of comparative financial statements and to defer grant funds that won't be recognized as revenue until expenditures are incurred.

NOTE 9 - WATER MAIN REPLACEMENT AND UPGRADES:

In 2022, the Town received grant funds from the State of Delaware to finance water main replacement and upgrades in the Town. The total funds received were \$501,604, which are recorded in grant revenue. Expenses related to this project were capitalized and appear as a part of Water Improvements on the accompanying Statements of Assets, Liabilities and Net Assets - Modified Cash Basis.