

TOWN OF FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
JUNE 30, 2023 AND 2022

TOWN OF FREDERICA
TABLE OF CONTENTS
JUNE 30, 2023 AND 2022

	<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

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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, Delaware, as of the years ended June 30, 2023 and 2022, and the related statements of revenues, 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 of Frederica, Delaware's basic financial statements. 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 accounting principles generally accepted in the United States of America. 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, Delaware, 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 27, 2023

EXHIBIT A

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 1,224,767	\$ 1,287,387
Reimbursements Due	92,388	-
<u>TOTAL CURRENT ASSETS</u>	<u>1,317,155</u>	<u>1,287,387</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Park	200,551	200,551
Water Improvements	1,977,302	1,786,702
Equipment and Improvements	265,243	234,472
Vehicles	192,761	192,761
Construction In Progress	-	9,866
Accumulated Depreciation	(959,096)	(823,776)
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>1,702,454</u>	<u>1,626,269</u>
<u>TOTAL ASSETS</u>	<u>\$ 3,019,609</u>	<u>\$ 2,913,656</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 4,644	\$ 5,626
Note Payable - Current Portion	28,126	41,550
<u>TOTAL CURRENT LIABILITIES</u>	<u>32,770</u>	<u>47,176</u>
<u>LONG-TERM LIABILITIES:</u>		
Unearned Revenue	208,400	301,702
Note Payable - Net of Current Portion	286,053	314,180
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>494,453</u>	<u>615,882</u>
<u>TOTAL LIABILITIES</u>	<u>527,223</u>	<u>663,058</u>
<u>NET ASSETS - UNRESTRICTED</u>	<u>2,492,386</u>	<u>2,250,598</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 3,019,609</u>	<u>\$ 2,913,656</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

EXHIBIT B

TOWN OF FREDERICA
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Revenue:</u>		
Property Taxes	\$ 178,387	\$ 180,779
Transfer Tax	60,961	152,739
Fees and Fines	20,197	16,863
Water Charges	159,283	171,686
Trash Charges	142,638	153,629
Impact Fees	3,500	1,000
Rents	36,612	60,171
Grants	603,411	766,182
Other Income	35,252	28,332
Interest Income	2,435	5,235
Permits	12,019	141,454
Business Licenses	37,663	40,400
Franchise Taxes	23,424	6,455
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>1,315,782</u>	<u>1,724,925</u>
<u>Expenses:</u>		
Advertising	1,616	2,300
Automotive Expense	3,428	5,351
Bank Service Charges	377	241
Contributions	6,382	500
Depreciation	135,320	86,703
Dues and Subscriptions	4,800	3,641
Insurance	51,433	56,090
Interest Expense	15,366	17,040
Payroll and Related Expenses	180,140	191,589
Professional Fees	115,656	65,667
Repairs and Maintenance	292,731	76,877
Office Equipment and Supplies	16,162	15,923
Police Department - Operating Expenses	14,878	19,408
Supplies	508	4,161
Telephone	14,208	14,836
Trash Removal and Recycling	133,847	120,495
Miscellaneous Expense	16,043	7,221
Utilities - Electric	68,826	42,672
Utilities - Heat	681	552
Utilities - Sewer Charges	1,592	1,972
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>1,073,994</u>	<u>733,239</u>
<u>Revenue over (under) Expenses</u>	241,788	991,686
<u>Net Assets at Beginning of Period</u>	<u>2,250,598</u>	<u>1,258,912</u>
<u>Net Assets at End of Period</u>	<u>\$ 2,492,386</u>	<u>\$ 2,250,598</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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.

B. Basis of Accounting

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.

C. 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.

D. 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.

E. 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.

F. 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, 2023 AND 2022

EXHIBIT C

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

G. 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

H. 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.

I. 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	\$ 164
<u>BANK ACCOUNTS</u>	
Shore United - Certificate of Deposit	72,379
General Fund	33,145
Special Water A/C	9,309
Police Account	93,889
Shore United - General	34,203
Shore United - Public Works	10,716
Shore United - Police	319,153
Municipal Street Aid	884
Community Safety	24,333
Shore United - Construction in Progress	<u>626,592</u>
<u>TOTAL CASH ON HAND</u>	<u>\$ 1,224,603</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$ <u>458,722</u>
Uninsured and Uncollateralized	\$ <u>765,881</u>

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

EXHIBIT C

NOTE 2 - CASH (CONTINUED):

The Town maintains its cash accounts at M&T Bank and Shore United 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 June 30, 2023
	Balance July 1, 2022	Acquisitions	Adjustments	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Park	200,551	-	-	200,551
Water Improvements	1,786,702	186,584	4,016	1,977,302
Equipment and Improvements	234,472	24,921	5,850	265,243
Vehicles	192,761	-	-	192,761
Construction in Progress	<u>9,866</u>	<u>-</u>	<u>(9,866)</u>	<u>-</u>
<u>TOTAL</u>	<u>\$ 2,450,045</u>	<u>\$ 211,505</u>	<u>\$ -</u>	<u>\$ 2,661,550</u>

	<u>ACCUMULATED DEPRECIATION</u>			Balance June 30, 2023
	Balance July 1, 2022	Depreciation	Retirements	
Water Improvements	\$ 576,863	\$ 92,671	\$ -	\$ 669,534
Equipment and Improvements	110,480	25,346	-	135,826
Vehicles	<u>136,433</u>	<u>17,303</u>	<u>-</u>	<u>153,736</u>
<u>TOTAL</u>	<u>\$ 823,776</u>	<u>\$ 135,320</u>	<u>\$ -</u>	<u>\$ 959,096</u>

CAPITAL ASSETS

\$ 1,702,454

NOTE 4 - DEBT:

Debt at June 30, 2023, 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. For a water improvement upgrade.

\$ 306,803

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.

7,376

TOTAL

\$ 314,179

TOWN OF FREDERICA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

EXHIBIT C

NOTE 4 - DEBT (CONTINUED):

Maturities of Debt subsequent to June 30, 2023, are estimated as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
2024	\$ 28,126	\$ 13,504
2025	21,698	12,510
2026	22,691	11,517
2027	23,730	10,478
2028	24,815	9,392
2029 - 2033	142,190	28,850
2034 - 2038	50,929	2,071
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<u>TOTAL</u>	\$ 314,179	\$ 88,322

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 27, 2023, 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. During 2022, the Town made expenditures of these funds totaling \$154,871. As a result, the Town recorded Unearned Revenue of \$301,702 at June 30, 2022.

During 2023, the town made eligible expenditures of these funds totaling \$93,301. As a result, the Town had Unearned Revenue of \$208,400 at June 30, 2023.

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 - WATER MAIN REPLACEMENT AND UPGRADES:

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 \$195,588 and \$501,604 during the years ended June 30, 2023, and 2022, respectively, which were 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.

NOTE 9 - REIMBURSEMENTS DUE:

During 2023, the town remitted payment to a vendor twice in error. As a result, a Reimbursement Due is recorded in the amount of \$92,388, which the vendor has committed to return to the Town.