

TOWN OF FREDERICA, DELAWARE
FINANCIAL STATEMENTS
MODIFIED CASH BASIS
FOR THE YEARS ENDED
JUNE 30, 2024 AND 2023

TOWN OF FREDERICA, DELAWARE
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FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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RICHARD L. TULL, CPA
 MARK A. JOHNSON, CPA/ABV
 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 statements of assets, liabilities and net assets – modified cash basis of the Town of Frederica, Delaware, as of the years ended June 30, 2024 and 2023, 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.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on 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 11, 2024

EXHIBIT A

TOWN OF FREDERICA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
(MODIFIED CASH BASIS)
JUNE 30, 2024 AND 2023

ASSETS

	<u>2024</u>	<u>2023</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 1,154,385	\$ 1,224,767
Reimbursements Due	<u>-</u>	<u>92,388</u>
<u>TOTAL CURRENT ASSETS</u>	<u>1,154,385</u>	<u>1,317,155</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Land	25,693	25,693
Park	250,175	200,551
Water Improvements	1,977,302	1,977,302
Equipment and Improvements	389,577	265,243
Vehicles	192,761	192,761
Accumulated Depreciation	<u>(1,101,587)</u>	<u>(959,096)</u>
<u>TOTAL PROPERTY AND EQUIPMENT</u>	<u>1,733,921</u>	<u>1,702,454</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,888,306</u>	<u>\$ 3,019,609</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Payroll Liabilities	\$ 17,611	\$ 4,644
Note Payable - Current Portion	<u>21,699</u>	<u>28,126</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>39,310</u>	<u>32,770</u>
<u>LONG-TERM LIABILITIES:</u>		
Unearned Revenue	119,800	208,400
Note Payable - Net of Current Portion	<u>264,356</u>	<u>286,053</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>384,156</u>	<u>494,453</u>
<u>TOTAL LIABILITIES</u>	423,466	527,223
<u>NET ASSETS - UNRESTRICTED</u>	<u>2,464,840</u>	<u>2,492,386</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 2,888,306</u>	<u>\$ 3,019,609</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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
<u>Revenue:</u>		
Property Taxes	\$ 218,238	\$ 178,387
Transfer Tax	66,516	60,961
Fees and Fines	14,441	20,197
Water Charges	174,810	159,283
Trash Charges	140,736	142,638
Impact Fees	13,400	3,500
Rents	19,906	36,612
Grants	145,196	603,411
Other Income	44,559	35,252
Interest Income	54,458	2,435
Permits	3,138	12,019
Business Licenses and Taxes	60,073	37,663
Franchise Taxes	11,752	23,424
	<hr/>	<hr/>
<u>Total Revenue</u>	<u>967,223</u>	<u>1,315,782</u>
<u>Expenses:</u>		
Advertising	1,211	1,616
Automotive Expense	5,038	3,428
Bank Service Charges	-	377
Contributions	500	6,382
Depreciation	142,491	135,320
Dues and Subscriptions	8,954	4,800
Insurance	73,064	51,433
Interest Expense	13,841	15,366
Payroll and Related Expenses	248,572	180,140
Professional Fees	123,982	115,656
Repairs and Maintenance	84,319	292,731
Office Equipment and Supplies	18,529	16,162
Police Department - Operating Expenses	33,901	14,878
Supplies	1,523	508
Telephone	14,241	14,208
Trash Removal and Recycling	121,541	133,847
Miscellaneous Expense	36,381	16,043
Utilities - Electric	64,953	68,826
Utilities - Heat	-	681
Utilities - Sewer Charges	1,728	1,592
	<hr/>	<hr/>
<u>Total Expenses</u>	<u>994,769</u>	<u>1,073,994</u>
<u>Revenue over (under) Expenses</u>	<u>(27,546)</u>	<u>241,788</u>
<u>Net Assets at Beginning of Period</u>	<u>2,492,386</u>	<u>2,250,598</u>
<u>Net Assets at End of Period</u>	<u>\$ 2,464,840</u>	<u>\$ 2,492,386</u>

SEE ACCOMPANYING NOTES AND ACCOUNTANT'S REPORT

TOWN OF FREDERICA, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

EXHIBIT C

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

The Town of Frederica, Delaware 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 financial statements of the Town are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP) in the United States of America.

The selection of this accounting basis results in differences from GAAP. Under GAAP, revenues and expenses are recognized when earned and incurred, respectively, regardless of when cash is received or paid. GAAP requires the recognition of all assets and liabilities, including receivables, payables, and accrued items, whereas the modified cash basis recognizes only certain assets and liabilities. Furthermore, GAAP mandates a comprehensive set of financial statements and extensive disclosures, some of which may be omitted under the modified cash basis.

To better reflect its financial position, the Town has made certain modifications to the pure cash basis of accounting. Capital assets are recorded at historical cost upon purchase and are depreciated over their estimated useful lives using the straight-line method. Notes payable are recognized as liabilities when proceeds are received, and repayments of principal and interest are recorded when paid. The Town also recognizes certain liabilities, such as payroll liabilities and unearned revenue for grant funds received, but not yet expended.

Management has elected to use the modified cash basis of accounting because it believes this method provides a simpler, easier-to-understand representation of the Town's cash flows and financial accountability, given the nature of its operations and the absence of more restrictive reporting requirements.

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, Delaware 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.

TOWN OF FREDERICA, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

EXHIBIT C

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

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.

G. Capital Assets

The Town of Frederica, Delaware 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 preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts, such as depreciation of capital assets and the recognition of certain liabilities. Actual results may differ from these estimates.

TOWN OF FREDERICA, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

EXHIBIT C

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	75,352
Shore United - General	61,421
Shore United - Public Works	23,628
Shore United - Police	450,981
Shore United - Community Safety	24,358
Shore United - Capital Improvements	518,481
<u>TOTAL CASH ON HAND</u>	<u>\$ 1,154,385</u>

The Town maintains its cash accounts at Shore United Bank. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000 per customer. During 2024, the Town enrolled in a sweep program that automatically transfers excess funds into interest-bearing accounts at specified financial institutions. These sweep accounts are managed to ensure that funds are placed in institutions where they are fully covered by FDIC insurance.

NOTE 3 - CAPITAL ASSETS:

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

	Balance July 1, <u>2023</u>	<u>ASSETS</u>		Balance June 30, <u>2024</u>
		<u>Additions</u>	<u>Disposals</u>	
Land	\$ 25,693	\$ -	\$ -	\$ 25,693
Park	200,551	49,624	-	250,175
Water Improvements	1,977,302	-	-	1,977,302
Equipment and Improvements	265,243	124,334	-	389,577
Vehicles	192,761	-	-	192,761
<u>TOTAL</u>	<u>\$ 2,661,550</u>	<u>\$ 173,958</u>	<u>\$ -</u>	<u>\$ 2,835,508</u>
		<u>ACCUMULATED DEPRECIATION</u>		
	Balance July 1, <u>2023</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2024</u>
Water Improvements	\$ 669,534	\$ 93,644	\$ -	\$ 763,178
Equipment and Improvements	135,826	29,779	-	165,605
Vehicles	153,736	19,068	-	172,804
<u>TOTAL</u>	<u>\$ 959,096</u>	<u>\$ 142,491</u>	<u>\$ -</u>	<u>\$ 1,101,587</u>
<u>CAPITAL ASSETS</u>				<u>\$ 1,733,921</u>

TOWN OF FREDERICA, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

EXHIBIT C

NOTE 4 - DEBT:

Debt at June 30, 2024, 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.	\$ 286,055
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Maturities of Debt subsequent to June 30, 2024, are estimated as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>
2025	\$ 21,699	\$ 12,510
2026	22,691	11,517
2027	23,730	10,478
2028	24,816	9,392
2029	25,951	8,256
2030 - 2034	148,697	22,343
2035 - 2038	18,471	322
<u>TOTAL</u>	\$ 286,055	\$ 74,818

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 11, 2024, the date the report was available for issuance.

NOTE 7 - UNEARNED REVENUE:

To date, the Town has received \$456,573 in grant funds from the American Rescue Plan Act of 2021 (ARPA). The Town made eligible expenditures of ARPA funds in the amount of \$248,173 as of June 30, 2023. During 2024, the Town expended an additional \$88,600, leaving \$119,800 in Unearned Revenue at June 30, 2024.

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.