

TOWN OF FRANKFORD
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

**TOWN OF FRANKFORD
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FOR THE YEAR ENDED JUNE 30, 2016**

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RETIRED

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and Council Members
Town of Frankford
Frankford, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Frankford as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Frankford's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Frankford as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows, thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Frankford's basic financial statements. The supplementary information on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the Town of Frankford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Frankford's internal control over financial reporting and compliance.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
December 5, 2016

BASIC FINANCIAL STATEMENTS

**TOWN OF FRANKFORD
STATEMENT OF NET POSITION
JUNE 30, 2016**

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	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,197	\$ 185,555	\$ 189,752
Receivables:			
Property taxes	26,672	-	26,672
Trash	35,193	-	35,193
Service charges	-	70,672	70,672
Debt service	-	16,128	16,128
Miscellaneous	11,650	-	11,650
Due from other governmental agencies	1,063	-	1,063
Prepaid items	5,909	2,180	8,089
Restricted assets:			
Cash and cash equivalents	132,153	82,868	215,021
Capital assets:			
Land	133,424	27,000	160,424
Other capital assets, net of depreciation	683,126	2,805,390	3,488,516
TOTAL ASSETS	1,033,387	3,189,793	4,223,180
LIABILITIES			
Accounts payable	26,413	25,686	52,099
Accrued liabilities	2,668	36,091	38,759
Long-term liabilities:			
Due within one year	1,598	71,389	72,987
Due in more than one year	68	408,022	408,090
TOTAL LIABILITIES	30,747	541,188	571,935
NET POSITION			
Net investment in capital assets	816,550	2,353,945	3,170,495
Restricted for:			
Municipal street aid grant	30,367	-	30,367
Police grants	31,276	-	31,276
Realty transfer tax	70,510	-	70,510
Construction and debt service	-	82,868	82,868
Unrestricted	53,937	211,792	265,729
TOTAL NET POSITION	\$ 1,002,640	\$ 2,648,605	\$ 3,651,245

The accompanying notes are an integral part of these financial statements.

**TOWN OF FRANKFORD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expense) and Changes in Net Position</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General administration	\$ 218,779	\$ 184,363	\$ -	\$ -	\$ (34,416)	\$ -	\$ (34,416)
Public safety	143,113	9,866	42,378	10,440	(80,429)	-	(80,429)
Streets and parks	54,506	1,325	16,783	-	(36,398)	-	(36,398)
TOTAL GOVERNMENTAL ACTIVITIES	416,398	195,554	59,161	10,440	(151,243)	-	(151,243)
BUSINESS-TYPE ACTIVITIES							
Water facilities	278,610	221,137	85,040	-	-	27,567	27,567
TOTAL PRIMARY GOVERNMENT	<u>\$ 695,008</u>	<u>\$ 416,691</u>	<u>\$ 144,201</u>	<u>\$ 10,440</u>	(151,243)	27,567	(123,676)
GENERAL REVENUES							
Taxes: Property					111,869	-	111,869
Realty transfer					17,652	-	17,652
Unrestricted investment earnings					268	-	268
TRANSFERS					(99,582)	99,582	-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>30,207</u>	<u>99,582</u>	<u>129,789</u>
CHANGE IN NET POSITION					(121,036)	127,149	6,113
NET POSITION - BEGINNING					<u>1,123,676</u>	<u>2,521,456</u>	<u>3,645,132</u>
NET POSITION - ENDING					<u>\$ 1,002,640</u>	<u>\$ 2,648,605</u>	<u>\$ 3,651,245</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF FRANKFORD
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016**

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	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,197
Receivables:	
Property taxes	26,672
Trash	35,193
Miscellaneous	11,650
Due from other governmental agencies	1,063
Restricted assets:	
Cash and cash equivalents	<u>132,153</u>
TOTAL ASSETS	<u><u>\$ 210,928</u></u>
LIABILITIES	
Accounts payable	\$ 26,413
Accrued liabilities	<u>2,668</u>
TOTAL LIABILITIES	<u>29,081</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues:	
Property taxes	25,243
Trash	<u>20,642</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>45,885</u>
FUND BALANCES	
Restricted for:	
Grant funds	31,276
Street improvements	30,367
Realty transfer tax	70,510
Unassigned	<u>3,809</u>
TOTAL FUND BALANCES	135,962
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	816,550
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Property taxes receivable	\$ 25,243
Trash receivables	20,642
Prepaid items	<u>5,909</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,666)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,002,640</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 99,091
Intergovernmental	59,161
Trash collection	64,223
Permits and fees	45,577
Realty transfer tax	17,652
Rental	54,214
Fines	9,866
Miscellaneous	12,049
Interest	<u>268</u>
TOTAL REVENUES	<u>362,101</u>
EXPENDITURES	
Current:	
General administration	206,301
Public safety	110,893
Streets and parks	26,638
Capital outlay	<u>83,567</u>
TOTAL EXPENDITURES	<u>427,399</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,298)
OTHER FINANCING SOURCES	
Transfers out	<u>(99,582)</u>
NET CHANGE IN FUND BALANCE	(164,880)
FUND BALANCE - BEGINNING	<u>300,842</u>
FUND BALANCE - ENDING	<u><u>\$ 135,962</u></u>

TOWN OF FRANKFORD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		\$ (164,880)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as a depreciation expense. This is the amount by which capital outlays (\$ 83,567) exceeded depreciation (\$ 72,415) and disposal of assets (\$ 1,950) in the current period.</p>		
		9,202
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds, as follows:</p>		
Contributed property	\$ 7,968	
Property taxes	12,778	
Trash collection	<u>11,575</u>	32,321
<p>Compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		2,192
<p>Prepaid items are reported in the Statement of Activities, but do not provide current financial resources.</p>		
		<u>129</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (121,036)</u>

TOWN OF FRANKFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual	Variance with Budget - Over (Under)
REVENUES			
Property taxes	\$ 111,500	\$ 99,091	\$ (12,409)
Intergovernmental revenues:			
Municipal street aid	16,500	16,783	283
Law enforcement grants	35,000	42,378	7,378
Trash collection	100,100	64,223	(35,877)
Permits and fees	56,175	45,577	(10,598)
Realty transfer tax	22,365	17,652	(4,713)
Rental	42,130	54,214	12,084
Fines	7,120	9,866	2,746
Miscellaneous	6,320	12,049	5,729
Interest	-	268	268
TOTAL REVENUES	<u>397,210</u>	<u>362,101</u>	<u>(35,109)</u>
EXPENDITURES			
Current:			
General administration	184,350	206,301	21,951
Public safety	139,650	110,893	(28,757)
Streets and parks	34,000	26,638	(7,362)
Capital outlay	10,000	83,567	73,567
TOTAL EXPENDITURES	<u>368,000</u>	<u>427,399</u>	<u>59,399</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	29,210	(65,298)	(94,508)
OTHER FINANCING USES			
Transfers out	(29,210)	(99,582)	(70,372)
NET CHANGE IN FUND BALANCE	-	(164,880)	(164,880)
FUND BALANCE - BEGINNING	<u>300,842</u>	<u>300,842</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 300,842</u>	<u>\$ 135,962</u>	<u>\$ (164,880)</u>

**TOWN OF FRANKFORD
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2016**

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	Water Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 185,555
Receivables, net of allowance for doubtful accounts:	
Service charges	70,672
Debt service	16,128
Prepaid items	<u>2,180</u>
TOTAL CURRENT ASSETS	<u>274,535</u>
NONCURRENT ASSETS	
Restricted assets:	
Cash and cash equivalents	82,868
Capital assets:	
Land	27,000
Other capital assets, net of depreciation	<u>2,805,390</u>
TOTAL NONCURRENT ASSETS	<u>2,915,258</u>
TOTAL ASSETS	<u>3,189,793</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	25,686
Accrued liabilities	36,091
Current portion of long-term liabilities	<u>71,389</u>
TOTAL CURRENT LIABILITIES	133,166
LONG-TERM LIABILITIES, LESS CURRENT PORTION	<u>408,022</u>
TOTAL LIABILITIES	<u>541,188</u>
NET POSITION	
Net investment in capital assets	2,353,945
Restricted for construction and debt service	82,868
Unrestricted	<u>211,792</u>
TOTAL NET POSITION	<u>\$ 2,648,605</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

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	Water Enterprise Fund
OPERATING REVENUES	
Charges for services	\$ 211,705
Other operating revenue	9,432
TOTAL OPERATING REVENUES	<u>221,137</u>
OPERATING EXPENSES	
Chemicals	17,272
Depreciation	85,165
Health insurance	8,699
Insurance	10,015
Maintenance and repairs	16,911
Miscellaneous	436
Office and postage	458
Payroll taxes	3,276
Pension	1,238
Professional services	2,116
Utilities	22,052
Vehicle	370
Wages	35,634
Water testing	59,250
TOTAL OPERATING EXPENSES	<u>262,892</u>
OPERATING LOSS	<u>(41,755)</u>
NON-OPERATING REVENUES (EXPENSES)	
Impact and connection fees	8,250
Debt service and sinking fund	76,652
Interest income	138
Interest expense	(15,718)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>69,322</u>
INCOME BEFORE TRANSFERS	27,567
TRANSFERS IN	<u>99,582</u>
CHANGE IN NET POSITION	127,149
TOTAL NET POSITION - BEGINNING	<u>2,521,456</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 2,648,605</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF FRANKFORD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

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	Water Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 204,177
Payments to suppliers	(109,230)
Payments to employees	(48,563)
	<u>46,384</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>46,384</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from general fund	<u>99,582</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(5,766)
Debt service and sinking fund receipts	76,652
Impact and connection fees	8,250
Interest paid	(15,718)
Retirement of long-term liabilities	(68,439)
	<u>(5,021)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,021)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>138</u>
NET INCREASE IN CASH	141,083
CASH AND CASH EQUIVALENTS - BEGINNING	<u>127,340</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 268,423</u>
Cash and cash equivalents	\$ 185,555
Restricted cash and cash equivalents	<u>82,868</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 268,423</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (41,755)
Adjustments to reconcile operating loss to net cash provided:	
Depreciation	85,165
Changes in assets and liabilities:	
Accounts receivable	(16,960)
Prepaid items	542
Accounts payable	19,108
Accrued liabilities	586
Compensated absences	(302)
	<u>(302)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 46,384</u>

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Frankford (the “Town”) was incorporated in 1883 under the provisions of the State of Delaware. The Town operates under a president and town council as authorized in the charter. The Town provides services in the form of police protection, trash collection and water services.

The Town’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

Reporting Entity

The accompanying financial statements include the various departments and offices that are legally controlled by or dependent on the Town Council. The Town’s major operations include general administration, public safety, streets and parks, and water facilities. The Town’s financial reporting entity is required to consist of all organizations for which the Town is financially accountable or for which there is a significant relationship. The Town has no component units in its reporting entity.

Basic Financial Statements - Government-wide Statements

The Town’s basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town’s governmental activities consist of general administration, public safety, and streets and parks maintenance. The Town’s water service is classified as a business-type activity.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town’s functions and business-type activities. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Direct expenses are those that are clearly identifiable with a specific function.

The net costs (by function or business-type activity) are normally covered by general revenue (property taxes, interest income, etc.).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town’s net position resulting from the current year’s activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The Town does not have a nonmajor fund. The following fund types are used by the Town:

Governmental Fund

The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund

An enterprise fund is used to account for the provision of water service to Town residents. Activities of the enterprise funds include administration, operation, upgrade, and maintenance of the water system, and billing and collection activities. The fund separates operating revenues and expenses from non-operating items. The principal operating revenues are charges to customers for providing services. The operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements are presented on a full accrual basis of accounting with an economic resources measurement focus concentrating on an entity or fund's net position. All transactions and events that affect the total economic resources during the period are reported. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time an obligation (liability) is incurred, regardless of the timing of related cash inflows and outflows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resources measurement focus. This measurement focus concentrates on the fund's resources available for spending in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered available if collected within 60 days of year end. The Town reports deferred inflows when the potential revenue does not meet both the measurable and available criteria for recognition in the current period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting - Continued

Property taxes, interest revenue, intergovernmental, and miscellaneous revenue are the primary revenue sources subject to accrual. Property taxes are reported as receivable and a deferred inflow of resources when an enforceable lien on the property exists. The Town bills and collects its own property taxes.

Under modified accrual accounting, governmental fund liabilities (and expenses) should be accrued in the absence of applicable modification. Such modifications exist for long-term indebtedness, compensated absences, claims and judgments and special termination benefit liabilities. These liabilities are accrued in the governmental funds only to the extent they are due.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is provided in the fund financial statements.

The Proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. In addition, all certificates of deposits are considered highly liquid investments, regardless of maturity date.

Capital Assets

Capital assets purchased or acquired with an original cost of \$ 1,000 or more are reported at historical cost or estimated historical cost. Capital assets are reviewed on an ongoing basis for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the assets carrying amount over the fair value of the asset. The water treatment plant was revalued as of June 10, 2010. A total impairment of \$ 250,000 was recorded at June 30, 2010, reducing the carrying amount of the water plant system. Idle assets had a total carrying cost of \$ 43,175 as of June 30, 2016.

Contributed assets are reported at fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Town's governmental activities infrastructure consists mainly of roads and storm drains. The Town has elected to not capitalize infrastructure acquired prior to July 1, 2003.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Equipment	5 - 15 years
Streets	15 years
Water system	25 - 50 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any items to report in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items, which arise only under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and trash. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity Classifications

Government-wide Statements and Proprietary Fund Net Position

Net position is classified and displayed in three categories:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for expenditures, it will be the responsibility of the Finance Director to determine which resources should generally be spent first.
- c. Unrestricted net position - All remaining net position that does not meet the definition of "restricted" or "net investment in capital assets."

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Equity Classifications - Continued

Governmental Fund Balances

In the fund financial statements, governmental funds report amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form such as prepaid items or inventories; or (2) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications:

- a. Restricted fund balance - This classification reflects the constraints imposed on resources either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- b. Committed fund balance - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Town Council, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Currently, the Town does not have any funds that meet this classification.
- c. Assigned fund balance - This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Council has the authority to assign amounts to be used for specific purposes. Currently, the Town does not have any funds that meet this classification.
- d. Unassigned fund balance - This fund balance is the residual classification for the general fund.

It is the Town's policy to maintain a diversified and stable revenue stream to protect the government from problematic fluctuations in any single revenue source and protect stability to ongoing services. The Town's decision to use restricted or unrestricted resources is determined on a transaction-by-transaction basis in accordance with the specified provisions imposed by those resources. The Town reviews the available resources and Town budget and makes a decision based on their current financial position. The Town's unassigned general fund balance is maintained to provide it with sufficient resources to meet the Town's daily operational needs.

Receivables

Receivables are reported at their gross value. All receivables are considered fully collectible.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenues

Program revenues include charges to customers for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for providing services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses.

Compensated Absences

The Town's proprietary fund accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee. Compensated absences for governmental funds are a reconciling item between the fund and government-wide presentations.

Interfund Activity

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers and are not required to be repaid by the funds. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Transferred funds are available to be used for operational purposes by the recipient fund.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

Budgets and Budgetary Accounting

The budget in these financial statements is presented on a basis consistent with accounting principles generally accepted in the United States of America under modified accrual basis of accounting. Annually each year and not later than July 1, the Town Clerk and the council members prepare the Town's budget. The Town Council shall, as reasonably as possible, adhere to the budget so adopted in the making of appropriations.

NOTE B - SUMMARY OF CASH

All deposits are in one financial institution and are carried at cost. Transactions are made directly with the bank; services of brokers or securities deals are not used. Cash at June 30, 2016 consisted of the following:

UNRESTRICTED CASH

General fund		
Operating - checking	\$	4,197
Water fund		
Operating - checking		<u>185,555</u>
TOTAL UNRESTRICTED CASH		<u>189,752</u>

RESTRICTED CASH

General fund		
Real estate transfer tax - savings	\$	70,510
Municipal street aid - checking		30,367
Law enforcement grant - checking		<u>31,276</u>
		132,153
Water fund		
Water sinking fund - checking		11,052
Water capital reserves - savings		<u>71,816</u>
		<u>82,868</u>
TOTAL RESTRICTED CASH		<u>215,021</u>
TOTAL CASH	\$	<u><u>404,773</u></u>

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town has no formal policy to address custodial credit risk.

NOTE C - PROPERTY TAXES

Taxes are levied in late June for the fiscal year July 1 - June 30, and are due and payable by October 1. All unpaid taxes become delinquent on October 1 of the current year. Town property taxes revenue is recognized on July 1 of the current year. Liens are recorded against the property if no payments have been received during the previous two years. The property tax rate for the year ended June 30, 2016 was \$ 2.50 per \$ 100 of assessed valuation. The total assessment of all real property and improvements was \$ 4,503,874.

NOTE D - RISK MANAGEMENT

The Town is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE E - COMMITMENTS AND CONTINGENCIES

On February 3, 2016, the Town entered into a contract agreement with an engineering firm to conduct a feasibility study related to the Town's water system. The estimated project costs to be incurred by the Town are not to exceed \$ 30,000 per the contact agreement. All associated project costs will be expenses in the subsequent year, upon satisfactory completion of the project.

NOTE F - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 70,634	\$ 62,790	\$ -	\$ 133,424
Other capital assets:				
Buildings	571,543	-	-	571,543
Equipment	354,176	21,525	23,218	352,483
Streets	340,016	7,220	-	347,236
Total other capital assets	<u>1,265,735</u>	<u>28,745</u>	<u>23,218</u>	<u>1,271,262</u>
Less accumulated depreciation for:				
Buildings	178,924	14,045	-	192,969
Equipment	226,812	41,554	21,268	247,098
Streets	131,253	16,816	-	148,069
Total accumulated depreciation	<u>536,989</u>	<u>72,415</u>	<u>21,268</u>	<u>588,136</u>
Other capital assets, net	<u>728,746</u>	<u>(43,670)</u>	<u>1,950</u>	<u>683,126</u>
Governmental Activities Capital Assets, Net	<u>\$ 799,380</u>	<u>\$ 19,120</u>	<u>\$ 1,950</u>	<u>\$ 816,550</u>

NOTE F - CAPITAL ASSETS - CONTINUED

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 27,000	\$ -	\$ -	\$ 27,000
Other capital assets:				
Buildings	49,444	-	-	49,444
Equipment	53,039	5,766	-	58,805
Water system	3,361,639	-	-	3,361,639
Total other capital assets	<u>3,464,122</u>	<u>5,766</u>	<u>-</u>	<u>3,469,888</u>
Less accumulated depreciation for:				
Buildings	14,505	-	-	14,505
Equipment	44,734	2,841	-	47,575
Water system	520,094	82,324	-	602,418
Total accumulated depreciation	<u>579,333</u>	<u>85,165</u>	<u>-</u>	<u>664,498</u>
Other capital assets, net	<u>2,884,789</u>	<u>(79,399)</u>	<u>-</u>	<u>2,805,390</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,911,789</u>	<u>\$ (79,399)</u>	<u>\$ -</u>	<u>\$ 2,832,390</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:		
General administration		\$ 15,196
Public safety		29,351
Streets and parks		<u>27,868</u>
Total Governmental Activities Depreciation Expense		<u>\$ 72,415</u>
Business-type Activities:		
Water		<u>\$ 85,165</u>

NOTE G - TOWN EMPLOYEE PENSION PLAN

The Town of Frankford has a simplified employee pension IRA plan, which is available to employees over the age of 21, who are not covered under a collective bargaining agreement, are a resident alien, and receive over \$ 600 in compensation during the year. This plan became effective to employees of the Town beginning on October 1, 2015. Under the plan provisions, employees are immediately vested in the plan and the employer contributes 5% of gross compensation for each eligible employee as set forth in the Town's employee benefit manual. The Town has no administrative duties in regards to the plan and it is not presented in the financial statements. Vanguard is the agent on the plan. Employer pension contributions for the fiscal year ended June 30, 2016 totaled \$ 4,922.

NOTE H - LONG-TERM LIABILITIES

General Obligation Bonds

At June 30, 2016, business-type general obligation bonds are as follows:

Series 2000 SRF general obligation bond; due in semi-annual installments of \$ 32,453; stated interest rate of 3%; final payment due December 23, 2021.	\$	326,840
Series 2004 SRF general obligation bond; due in semi-annual installments of \$ 9,626; stated interest rate of 2.89%; final payment due May 1, 2025.		<u>151,605</u>
TOTAL GENERAL OBLIGATION BONDS	\$	<u>478,445</u>

As a result of financial difficulties related to the need to rebuild the water plant, the Town did not make scheduled bond payments from June 23, 2009 through June 30, 2010 totaling \$ 116,611 on the Series 2000 SRF and Series 2004 SRF general obligation bonds with the State of Delaware. On August 4, 2010, a forbearance agreement between the State of Delaware and the Town was signed, restructuring the terms of the bonds. The restructure extended the payments and due dates of the existing general obligation bonds. If the Town fails to comply with any of the bond requirements, as modified by the forbearance agreement, then the agreement to forbear shall be null and void, and the State may pursue all rights and remedies under the original financing agreements.

The annual aggregate maturities of business-type general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 70,492	\$ 13,666	\$ 84,158
2018	72,606	11,552	84,158
2019	74,783	9,375	84,158
2020	77,026	7,132	84,158
2021	79,336	4,822	84,158
2022 - 2025	<u>104,202</u>	<u>5,254</u>	<u>109,456</u>
TOTAL	\$ 478,445	\$ 51,801	\$ 530,246

NOTE H - LONG-TERM LIABILITIES - CONTINUED

Long-term Liability Activity

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 3,858	\$ 3,912	\$ 6,104	\$ 1,666	\$ 1,598
Business-type Activities:					
General obligation bonds	\$ 546,884	\$ -	\$ 68,439	\$ 478,445	\$ 70,492
Compensated absences	1,268	-	302	966	897
Total Business-type Activities	<u>\$ 548,152</u>	<u>\$ -</u>	<u>\$ 68,741</u>	<u>\$ 479,411</u>	<u>\$ 71,389</u>

Compensated absences do not have a fixed repayment date, but are due to employees if they terminate employment.

NOTE I - RESTRICTED NET POSITION

Restricted net position indicates portions of net position that are not available for appropriation or expenditure, or are legally separated for a specific future use. At June 30, 2016, restricted net position consisted of the following:

General Fund	
Realty transfer tax (Restricted for capital and operating costs of public safety services, economic development programs, public works services, capital projects and improvements, infrastructure projects and improvements and debt reduction)	\$ 70,510
Police department operating grants (Restricted for public safety expenditures)	31,276
Municipal street aid grant (Street improvements, street lighting, and law enforcement essentials are among the allowable expenditures)	30,367
TOTAL RESTRICTED NET POSITION	<u>\$ 132,153</u>

NOTE I - RESTRICTED NET POSITION - CONTINUED

Water Fund

Water sinking fund (Restricted for repairs and capital improvements to the water system)	\$ 11,052
Water capital reserves (Area construction charges and impact fees restricted for water system debt service, major renovation and expansion)	<u>71,816</u>
TOTAL RESTRICTED NET POSITION	<u><u>\$ 82,868</u></u>

The government-wide Statement of Net Position reports \$ 216,371 of restricted net position. Equity reservations and restrictions for grant funds and realty transfer tax are enforced by outside source enabling legislation. All other equity reservations and restrictions are enforced by the Town's code.

NOTE J - RENT REVENUES

The Town leases the JP Court to the State of Delaware under a 10-year lease that ended in December 2014. The lease was extended for another two years and expires on December 2016. The Town was notified by the State in September 2016 that they will not be renewing their lease past this last extension of the lease. The cost basis and accumulated depreciation of buildings under operating lease arrangements at June 30, 2016 are \$ 487,324 and \$ 160,772, respectively. The minimum future rental revenue under this lease as of June 30, 2016 is \$ 22,100.

NOTE K - INTERFUND TRANSFERS

Interfund transfers from the general fund to the water fund for the year ended June 30, 2016 net to \$ 99,582.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE L - SUBSEQUENT EVENTS

The Town provides water to residential and commercial customers within the Town, approximately 32% of the annual Water Fund charges for services revenue, and 18% of the debt service and sinking fund revenues are from one customer. The Town became aware in May 2016 that this significant customer placed their own wells on their property with the approval of the Delaware Department of Natural Resources and Environmental Control (DNREC). Due to the loss of service revenue, the Town's debt obligations with DNREC have been restructured. On October 14, 2016, the Town's existing loans were granted an extension of ten years beyond the maturity date at zero percent interest. DNREC reserves the right to adjust interest rates and terms of the loan at its sole discretion, not to exceed the original loan agreement. As of the report date, the Town and their attorney are in communication with the customer for resolution to the loss of revenue and the Town is seeking further debt relief from DNREC.

SUPPLEMENTARY INFORMATION

**TOWN OF FRANKFORD
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Budget - Over (Under)
GENERAL ADMINISTRATION			
Building maintenance	\$ 1,100	\$ 4,481	\$ 3,381
Donation	200	-	(200)
Dues and meetings	300	125	(175)
Election	500	475	(25)
Garbage collection	47,000	46,830	(170)
Health insurance	5,400	9,213	3,813
Insurance	10,000	4,587	(5,413)
Miscellaneous	2,140	1,818	(322)
Office and postage	4,860	5,733	873
Office utilities	9,800	7,456	(2,344)
Payroll taxes	6,950	3,137	(3,813)
Pension	4,100	1,238	(2,862)
Professional fees	65,000	84,027	19,027
Public notices	2,000	1,625	(375)
Wages	25,000	35,556	10,556
	<u>184,350</u>	<u>206,301</u>	<u>21,951</u>
TOTAL GENERAL ADMINISTRATION			
PUBLIC SAFETY			
Building maintenance	15,000	-	(15,000)
Insurance	1,200	21,089	19,889
Membership and dues	300	50	(250)
Miscellaneous	3,500	1,475	(2,025)
Office and postage	1,000	1,939	939
Office utilities	4,050	3,878	(172)
Payroll taxes	100	5,532	5,432
Pension	10,000	2,446	(7,554)
Salary and wages	89,000	60,508	(28,492)
Uniforms	2,000	5,739	3,739
Vehicle	13,500	8,237	(5,263)
	<u>139,650</u>	<u>110,893</u>	<u>(28,757)</u>
TOTAL PUBLIC SAFETY			
STREETS AND PARKS			
Street lighting	14,000	16,466	2,466
Street maintenance	9,000	7,314	(1,686)
Town park	11,000	2,858	(8,142)
	<u>34,000</u>	<u>26,638</u>	<u>(7,362)</u>
TOTAL STREETS AND PARKS			
CAPITAL OUTLAY			
	<u>10,000</u>	<u>83,567</u>	<u>73,567</u>
TOTAL EXPENDITURES			
	<u>\$ 368,000</u>	<u>\$ 427,399</u>	<u>\$ 59,399</u>

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FREDERICK A. MAST, CPA

TRUITT W. JEFFERSON
(1937 - 2016)
DAVID R. URIAN, DIRECTOR
RETIRED

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable President and Council Members
Town of Frankford
Frankford, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Frankford as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Frankford's basic financial statements and have issued our report thereon dated December 5, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Frankford's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Frankford's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Frankford's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (Finding 2016-001, 2016-002, and 2016-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Frankford's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain other matters that we reported to management of the Town of Frankford in a separate letter dated December 5, 2016.

Town of Frankford's Response to Findings

The Town of Frankford's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Frankford's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
December 5, 2016

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

2016-001 FINDING - Segregation of Accounting Functions

Material Weakness: Due to staffing limitations, there is a lack of proper segregation of duties. A good system of internal control provides for proper segregation of the accounting functions. No one person should have access to both physical assets and the related accounting records or to all phases of a transaction.

Criteria: Division of duties among several individuals helps prevent intentional or unintentional errors or irregularities that may occur when only one person has access to financial records.

Recommendation: The Town should make every effort to strengthen internal controls as opportunities arise. Although the Town has made efforts to segregate duties, further segregation could be improved if board members were to review reconciliations, statements, and reports on a periodic basis.

Management Response: *“Since the Town has one employee in a clerical position, the Town has instituted certain practices to prevent errors that may occur. Cash receipts are given for all cash payments made. The Town now requires all employees to utilize a time clock when arriving for work and when leaving work. The Town also utilizes an outside payroll firm and has direct deposit for employees’ wages. We now have a handbook which details, vacation, sick time, holidays, etc. for all employees. Certain board members review the time sheet information against the time card and signs off on them, along with reconciliation statements and reports on a periodic basis.”*

2016-002 FINDING - Preparation of Financial Statements and Adjustments

Material Weakness: Management relies on the auditor to perform certain tasks such as prepaid items, depreciation expense, amortization expense, revenue deferrals, accruals, and payables, allocations between funds, and adjustments to the full accrual basis of accounting. In addition, management relies upon the auditor to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America. Management does not have the knowledge of accounting principles to determine whether the disclosures are complete or financial statements are accurately prepared.

Criteria: Preparation of financial statements and accounting adjustments are functions that should be performed by management.

Recommendation: The Town may wish to consider alternatives to improve its control over the financial reporting process.

Management Response: *“Council members and employees at this time do not have the ability to prepare financial statements. We must rely on Jefferson, Urian, Doane & Sterner, P.A. for their expertise in this matter.”*

2016-003 FINDING - Reconciliation of Accounting Records

Material Deficiency: The general fund bank account was not timely reconciled to the bank statement for March 2016 through August 2016 until September 2016. Bank reconciliations did not have evidence of supervisory review and approval.

Accounts receivable had a variance of \$ 805 to the subsidiary ledger at June 30, 2016. No reconciliations of the subsidiary ledgers to the general ledger were performed during the year. It was noted that several collections on account were incorrectly posted to the accounting software, causing some of the variance.

There was no evidence that other balance sheet accounts were reconciled to subsidiary records or other supporting documents. The deficiencies noted were caused by lack of training and experience of Town personnel.

Criteria: Timely reconciliation of accounts, especially bank accounts, are an important internal control to ensure that all transactions are recorded in the accounting records and to help identify errors. To be effective, they need to be performed timely, reconciling items need to be investigated, and adjustments made to the accounting records when necessary. Management should review such reconciliations to help ensure their accuracy and prompt completion.

Recommendation: The Town should adopt a policy requiring monthly reconciliation of all balance sheet accounts to their subsidiary ledgers in order to ensure the accuracy of monthly financial statements and underlying subsidiary ledgers. Supervisory review and approval of reconciliations should be documented. Providing additional QuickBooks and bookkeeping training to personnel may also prove beneficial.

Management Response: *"The Town of Frankford will, based upon the recommendations of Jefferson, Urian, Doane & Sterner, P.A., adopt a policy requiring monthly reconciliation of all balance sheet accounts to their subsidiary ledgers to insure accuracy and require supervisory review to be documented. It is our intention for the current Town Clerk to receive further training in bookkeeping and QuickBooks, by hiring a person experienced in those areas."*