

TOWN OF TOWNSEND, DELAWARE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2020

TOWN OF TOWNSEND, DELAWARE
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Independent Auditor's Report

To the Mayor and Council
Town of Townsend
Townsend, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Townsend (Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town'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

To the Mayor and Council
Town of Townsend

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, each major fund, and the aggregate remaining fund information of the Town of Townsend, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the 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's discussion and analysis that accounting principles generally accepted in the United States of America require 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 the appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, on our consideration of the Town'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 solely 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 the effectiveness of the Town's 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's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

December 21, 2020
Wilmington, Delaware

TOWN OF TOWNSEND
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
ASSETS			
Cash and Cash Equivalents	\$ 2,168,668	\$ -	\$ 2,168,668
Restricted Cash	75,843	-	75,843
Investments	1,948,542	-	1,948,542
Accounts Receivable, Net	22,139	49,182	71,321
Prepaid Expenses	17,513	-	17,513
Capital Assets			
Land and Construction in Progress	1,146,862	-	1,146,862
Depreciable Buildings, Property and Equipment, Net	<u>6,443,777</u>	<u>-</u>	<u>6,443,777</u>
TOTAL ASSETS	<u>\$ 11,823,344</u>	<u>\$ 49,182</u>	<u>\$ 11,872,526</u>
LIABILITIES			
Accounts Payable	\$ 78,578	\$ -	\$ 78,578
Refundable Advances	9,557	-	9,557
Deferred Revenue	506	-	506
Payroll Liabilities and Accrued Vacation	10,106	-	10,106
Escrow Liabilities	<u>68,272</u>	<u>-</u>	<u>68,272</u>
TOTAL LIABILITIES	<u>167,019</u>	<u>-</u>	<u>167,019</u>
NET POSITION			
Net Investment in Capital Assets	7,590,639	-	7,590,639
Restricted			
Municipal Street Aid	75,843	-	75,843
Unrestricted	<u>3,989,843</u>	<u>49,182</u>	<u>4,039,025</u>
TOTAL NET POSITION	<u>11,656,325</u>	<u>49,182</u>	<u>11,705,507</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 11,823,344</u>	<u>\$ 49,182</u>	<u>\$ 11,872,526</u>

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

**TOWN OF TOWNSEND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities							
General Government	\$ 802,748	\$ 288,397	\$ 233,186	\$ -	\$ (281,165)	\$ -	\$ (281,165)
Street Lights	82,835	149,078	-	-	66,243	-	66,243
Municipal Street Aid	355	-	-	57,080	56,725	-	56,725
Public Safety	37,993	8,443	-	-	(29,550)	-	(29,550)
TOTAL GOVERNMENTAL ACTIVITIES	923,931	445,918	233,186	57,080	(187,747)	-	(187,747)
Business-Type Activities							
Trash	177,023	220,888	-	-	-	43,865	43,865
TOTAL	\$ 1,100,954	\$ 666,806	\$ 233,186	\$ 57,080	(187,747)	43,865	(143,882)
GENERAL REVENUES							
Property Taxes					194,732	-	194,732
Real Estate Transfer Taxes					451,640	-	451,640
Investment Income, Net of Fees					60,790	-	60,790
Impact Fees					156,300	-	156,300
Miscellaneous					7,876	-	7,876
TOTAL GENERAL REVENUES					871,338	-	871,338
TRANSFERS					39,362	(39,362)	-
TOTAL GENERAL REVENUES AND TRANSFERS					910,700	(39,362)	871,338
CHANGE IN NET POSTION					722,953	4,503	727,456
NET POSITION AT BEGINNING OF YEAR (RESTATED)					10,933,372	44,679	10,978,051
NET POSITION AT END OF YEAR					\$ 11,656,325	\$ 49,182	\$ 11,705,507

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

TOWN OF TOWNSEND
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Municipal Street Aid (Nonmajor)</u>	<u>Street Lights (Nonmajor)</u>	<u>Total</u>
ASSETS				
Cash and Cash Equivalents	\$ 2,168,668	\$ -	\$ -	\$ 2,168,668
Restricted Cash	-	75,843	-	75,843
Investments	1,948,542	-	-	1,948,542
Accounts Receivable, Net	9,554	-	12,585	22,139
Prepaid Expenses	17,513	-	-	17,513
TOTAL ASSETS	<u>\$ 4,144,277</u>	<u>\$ 75,843</u>	<u>\$ 12,585</u>	<u>\$ 4,232,705</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 78,578	\$ -	\$ -	\$ 78,578
Refundable Advances	9,557	-	-	9,557
Deferred Revenue	506	-	-	506
Accrued Vacation	10,106	-	-	10,106
Escrow Liabilities	68,272	-	-	68,272
TOTAL LIABILITIES	<u>167,019</u>	<u>-</u>	<u>-</u>	<u>167,019</u>
FUND BALANCES				
Nonspendable				
Prepaid Expenses	17,513	-	-	17,513
Restricted				
Municipal Street Aid	-	75,843	-	75,843
Unassigned	3,959,745	-	12,585	3,972,330
TOTAL FUND BALANCES	<u>3,977,258</u>	<u>75,843</u>	<u>12,585</u>	<u>4,065,686</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,144,277</u>	<u>\$ 75,843</u>	<u>\$ 12,585</u>	<u>\$ 4,232,705</u>

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

TOWN OF TOWNSEND
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

TOTAL FUND BALANCES FOR GOVERNMENT FUND	\$ 4,065,686
Capital Assets Used in Governmental Activities are not Financial Resources and, therefore, are not Reported in the Funds	<u>7,590,639</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 11,656,325</u></u>

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

TOWN OF TOWNSEND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Municipal Street Aid (Nonmajor)	Street Lights (Nonmajor)	Total
REVENUES				
Property Taxes	\$ 194,732	\$ -	\$ -	\$ 194,732
Real Estate Transfer Taxes	451,640	-	-	451,640
Fines	8,443	-	-	8,443
Franchise Fees	21,635	-	-	21,635
Impact Fees	204,732	-	-	204,732
Permits and Licenses	266,762	-	-	266,762
Street Light Fees	-	-	149,078	149,078
Grants and Contributions	184,754	57,080	-	241,834
Community Events	2,250	-	-	2,250
Investment Return, Net	60,790	-	-	60,790
Miscellaneous	5,626	-	-	5,626
TOTAL REVENUES	1,401,364	57,080	149,078	1,607,522
EXPENDITURES				
Current:				
General Government	593,278	-	-	593,278
Public Works	-	355	82,835	82,835
Public Safety	37,993	-	-	37,993
Capital Outlay	265,676	46,090	-	311,766
TOTAL EXPENDITURES	896,947	46,445	82,835	1,026,227
EXCESS OF REVENUES OVER EXPENDITURES	504,417	10,635	66,243	581,295
OTHER FINANCING SOURCES (USES)				
Operating Transfers	95,084	40	(55,762)	39,362
NET CHANGES IN FUND BALANCES	599,501	10,675	10,481	620,657
FUND BALANCES - Beginning of Year (Restated)	3,377,757	65,168	2,104	3,445,029
FUND BALANCES - End of Year	\$ 3,977,258	\$ 75,843	\$ 12,585	\$ 4,065,686

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

TOWN OF TOWNSEND
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 620,657
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 Depreciation Expense:	
Capital Outlays	311,766
Depreciation Expense	<u>(209,470)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 722,953</u></u>

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

TOWN OF TOWNSEND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES			
General Fund			
Property Taxes	\$ 175,000	\$ 194,732	\$ 19,732
Transfer Taxes	260,000	451,640	191,640
Fines	8,000	8,443	443
Franchise Fees	20,000	21,635	1,635
Impact Fees	124,800	204,732	79,932
Permits and Licenses	151,225	266,762	133,537
Community Events	2,000	2,250	250
Grants	-	184,754	184,754
Miscellaneous	7,000	5,626	(1,374)
Investment Return, Net	-	60,790	60,790
TOTAL REVENUES	<u>748,025</u>	<u>1,401,364</u>	<u>610,549</u>
EXPENSES			
General Fund			
Salaries	287,890	264,816	(23,074)
Payroll Taxes	20,500	21,757	1,257
Employee Benefits	78,100	26,753	(51,347)
Grants	-	48,432	48,432
Utilities	10,400	13,068	2,668
Engineer Consulting Fee	56,600	82,943	26,343
Professional Fees	82,300	46,346	(35,954)
Police Services	45,000	37,993	(7,007)
Advertising	300	154	(146)
Office Supplies	24,700	7,936	(16,764)
Bank Fees	1,110	1,002	(108)
Computer Support	41,000	21,977	(19,023)
Community Events	6,550	3,476	(3,074)
Maintenance Expense	52,250	23,937	(28,313)
Town Decorations	3,000	50	(2,950)
Dues and Membership Fees	2,300	1,850	(450)
Insurance	20,000	21,389	1,389
Travel and Entertainment	2,500	69	(2,431)
Miscellaneous	30,950	4,937	(26,013)
Capital Outlay	25,000	265,676	240,676
Vehicle Expense	2,000	2,386	386
TOTAL EXPENDITURES	<u>792,450</u>	<u>896,947</u>	<u>104,497</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(44,425)	504,417	506,052
OPERATING TRANSFERS	-	95,084	-
NET CHANGE IN FUND BALANCES	<u>\$ (44,425)</u>	<u>\$ 599,501</u>	<u>\$ 506,052</u>

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

TOWN OF TOWNSEND
STATEMENT OF NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Trash</u>
CURRENT ASSETS	
Receivables, Net	\$ 49,182
	<u>49,182</u>
NET POSITION	
Unrestricted	\$ 49,182
	<u>49,182</u>

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

TOWN OF TOWNSEND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Trash
OPERATING REVENUE	
Charges for Services	\$ 220,388
OPERATING EXPENSES	
Trash Collection Expense	176,523
OPERATING INCOME BEFORE TRANSFERS	43,865
OPERATING TRANSFER	(39,362)
CHANGE IN NET POSITION	4,503
NET POSITION - Beginning of Year	44,679
NET POSITION - End of Year	\$ 49,182

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

TOWN OF TOWNSEND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Trash</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	\$ 215,885
Paid to Suppliers for Goods and Services	<u>(177,523)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>38,362</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to General Fund	<u>(39,362)</u>
NET CHANGE IN CASH	(1,000)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>-</u>
CASH AND CASH EQUIVALENTS - End of Year	<u><u>\$ (1,000)</u></u>
RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 43,865
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities	
(Increase) Decrease in Receivables	<u>(4,503)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 39,362</u></u>

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

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The Town of Townsend, Delaware (Town) is a municipality incorporated in 1885 under the laws of the State of Delaware. It is located in New Castle County, Delaware. The Town operates under a Mayor-Council form of government. The Town has no component units in its financial reporting entity.

Government-Wide Statements - The government-wide financial statements include the statement of net position and the statement of activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses relate to a given function or segment and amount of related program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other revenue items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

General Fund (Major Governmental Fund) - This fund is used to account for all financial transactions not accounted for in another fund. Revenues are derived principally from property taxes, real estate transfer taxes and impact fees. This fund accounts for the general administrative services of the Town not recorded elsewhere.

Trash Fund (Major Proprietary Fund) - This fund is used to report Town operations that provide services financed primarily by user charges, or activities where the period measurement of net income is appropriate for capital maintenance, public policy and management control.

Municipal Street Aid Fund (Non-major Governmental Fund) - This fund is used to account for the financial resources that were used for street maintenance, repairs and public safety.

Street Lights Fund (Non-major Governmental Fund) - This fund is used to account for the financial resources that were mainly used for electrical charges to maintain the existing street lighting system.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Government-Wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (non-exchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Government Fund Financial Statements - The government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if revenues are collected within 60 days after year end. Property taxes and impact fees are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Budgetary Information - The Financial Officer submits an annual budget to the Town Council in accordance with the Town Charter. The budget is presented to the Town Council for review. In July, the Town Council adopts the annual fiscal year budget for Town operating funds.

The budgets for the operating funds and proprietary fund operations are prepared on the cash receipts and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Encumbrances - Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under the Town Charter, appropriations lapse on June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Property Taxes - Property taxes are levied in July on the assessed value provided by New Castle County. Taxes are due and payable on or before September 30 and become delinquent October 1 with late payment penalties. The Town bills and collects its own property taxes. The Town property tax revenues are recognized when levied. The allowance for uncollectible delinquent taxes is based upon collection trends and experience.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Trash Customer Charges - Customer charges are recorded when billed. An allowance for uncollectible accounts is recorded based on historical collection trends and experience.

Street Lights Fees - Street lights fees are recorded when billed. An allowance for uncollectible accounts is recorded based on historical collection trends and experience.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Proprietary Fund Types consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. For purposes of the statement of cash flows, restricted cash is not considered a cash equivalent.

Investments - Investments are stated at fair value.

Capital Assets - Capital assets are reported in the government-wide financial statements. The Town has defined capital assets as assets with a minimum cost of \$1,000. Capital assets may be purchased and are recorded at cost or estimated historical cost. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Building and Improvements	5 - 40 Years
Infrastructure	50 Years
Machinery and Equipment	5 - 7 Years
Office Equipment	5 - 7 Years

Interfund Transactions - During the course of normal operations, the Town has numerous transactions between the funds. Interfund transactions are classified as other financing sources and uses in the governmental funds and as operating transfers. Net operating transfers are reported in the statement of revenue and expenses below operating income in the proprietary funds.

Compensated Leave - The Town's Personnel Policy permits employees to accumulate unused vacation time, which is capped at the employee's current annual allowance. Upon termination, the Town pays all accumulated unused vacation time.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Program Revenues - Amounts reported as program revenues include charges to customers for goods, services or privileges provided, and operating grants and contributions. General revenues include all taxes, impact fees and building permits and licenses.

Applicability of Optional Guidance - The Town applies both the government-wide and proprietary fund financial statements, Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements* unless they conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events - The Town's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through the date the financial statements were available to be issued.

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits - The carrying amount of the cash deposits and cash on hand is \$2,244,511 in the various funds. The bank balances were \$2,231,987 as of June 30, 2020. Of the bank balance, \$250,000 was covered by federal depository insurance and \$194,219 was covered by Security Investor Protection Corporation, and \$1,787,767 was exposed to custodial credit risk because it was uninsured.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the Town's deposits or investments may not be returned. The Town carries deposits that are fully insured by FDIC insurance or collateralized, and deposits that are not collateralized and are uninsured. All of the Town's investments are held by third parties in the Town's name.

Investments - The investment policy statement, approved by the Mayor and Council, allows investments in mutual funds, stocks, bonds and exchange traded funds.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 2: DEPOSITS AND INVESTMENTS - CONTINUED

Investments - Continued

The following is a schedule which details the Town's investments:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Rating - Moody</u>
Investment Type			
Mutual Funds	\$ 1,686,135	\$ 1,648,156	N/A
Exchange Traded Funds	<u>262,407</u>	<u>202,596</u>	N/A
	<u><u>\$ 1,948,542</u></u>	<u><u>\$ 1,850,752</u></u>	

Credit and Interest Rate Risk - The Town manages its exposure to interest rate risk through active investment management, asset allocation, and conservative management of asset duration.

Concentration of Credit Risk - The Town's investment policy statement states that no more than 5% of the total value of the portfolio may be invested in the commercial paper of a single issuer. In addition, no more than 10% of the overall portfolio may be invested in alternative investments.

NOTE 3: RECEIVABLES

Receivables as of June 30, 2020 for the Government's funds, net of applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Receivables		
Trash Collections	\$ -	\$ 54,647
Street Lights	13,983	-
Property Tax	<u>9,554</u>	<u>-</u>
Gross Receivables	23,537	54,647
Less: Allowance for Uncollectibles	<u>1,398</u>	<u>5,465</u>
Net Receivables	<u><u>\$ 22,139</u></u>	<u><u>\$ 49,182</u></u>

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated				
Land	\$ 1,128,712	\$ 1,966	\$ -	\$ 1,130,678
Construction in Progress	-	16,184	-	16,184
Total Capital Assets Not Being Depreciated	1,128,712	18,150	-	1,146,862
Capital Assets, Depreciated				
Building Improvements	1,225,139	35,258	-	1,260,397
Infrastructure	5,017,542	249,593	-	5,267,135
Office Equipment	92,302	7,500	(9,003)	90,799
Machinery and Equipment	168,708	-	(9,985)	158,723
Municipal Park	1,443,075	1,264	-	1,444,339
Total Capital Assets Being Depreciated	7,946,766	293,615	(18,988)	8,221,393
Less: Accumulated Depreciation	1,587,134	209,470	(18,988)	1,777,616
Total Capital Assets Being Depreciated, Net	6,359,632	84,145	-	6,443,777
Governmental Activities Capital Assets, Net	\$ 7,488,344	\$ 102,295	\$ -	\$ 7,590,639

Depreciation expense for the year ended June 30, 2020 was charged to the General Fund in the amount of \$209,470.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 5: COMMITMENTS AND CONTINGENCIES

The Town of Townsend does not maintain its own municipal police service. Currently the Town is patrolled by the Delaware State Police, Troop 9 (DSP). However, from time to time the Town may supplement DSP sector patrols with extra duty patrols. Extra duty patrols are provided through the State contractor, Jobs4Blue. The Town requests supplemental extra duty patrols through Jobs4Blue, who then secures off duty troopers to provide patrol services, specifically in the Town of Townsend. These extra duty patrols may be used to supplement DSP sector patrols at special events, for traffic calming, or to support general community safety patrols. The Town maintains a specific line item in the annual budget to fund these services of which \$37,993 was expended for the year ended June 30, 2020.

The Town has a solid waste collection management contract with a third party. The Town pays the solid waste collection management contract monthly, based upon units of trash collected and disposed. The total solid waste management fees charged to operations were \$176,523 for the year ended June 30, 2020. The future commitment cannot be determined since it depends on the number of units collected and disposed.

The Town is party to various legal proceedings which normally occur in governmental operations. In the opinion of the administration, these legal proceedings are not likely to have a material adverse effect on the accompanying financial statements and, accordingly, no provision has been recorded.

NOTE 6: MAJOR VENDORS AND SUPPLIERS

For the year ended June 30, 2020, the Town's purchases of trash services in the amount of \$176,523, from Waste Industries, exceeded 10% of total government-wide expenses. In addition, the Town incurred expenditures of \$212,233 to one other vendor, also exceeding 10%.

NOTE 7: FAIR VALUES MEASURED ON RECURRING BASIS

Generally accepted accounting principles define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standards require that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting standards also establish a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 - Financial assets and liabilities whose values reflect unadjusted quoted prices that are available in active markets for identical investments as of the reporting date.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 7: FAIR VALUES MEASURED ON RECURRING BASIS - CONTINUED

Level 2 - Financial assets and liabilities whose values are based upon pricing inputs, including certain broker dealer quotes, that are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Financial assets and liabilities whose values are based on pricing inputs that are unobservable for the investment and includes situations where a) there is minimal, if any, market activity for the investment, or b) the inputs used in the determination of fair value require significant management judgment or estimation.

Fair values of assets measured on a recurring basis at June 30, 2020 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Exchange Traded Funds	\$ 262,407	\$ 262,407	\$ -	\$ -
Mutual Funds	<u>1,686,135</u>	<u>1,686,135</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,948,542</u>	<u>\$ 1,948,542</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE 8: NET POSITION AND FUND EQUITY

In the Government-wide and Proprietary Fund statements, net position is reported in the following categories:

Invested in Capital Assets, Net of Related Debt - Capital assets, net of accumulated depreciation, outstanding principal balances of debt attributable to the acquisition, construction and improvement of those assets.

Restricted - Restricted net position results when constraints placed on net position are either externally imposed by creditors, grantors, contributors, and the like, or are imposed by law through constitutional provisions or enabling legislation.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 8: NET POSITION AND FUND EQUITY - CONTINUED

Unrestricted - Remaining net position not considered invested in capital assets, net of related debts or restricted.

Fund balance amounts have been designated as nonspendable, restricted, or unassigned in the General Fund for specific purposes as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Restricted fund balances have constraints placed on the use of resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions.

When both restricted and unrestricted (assigned or unassigned) resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

NOTE 9: INTERFUND TRANSFERS

Interfund transfers arise primarily from the General Fund's role as receiver, investor, and disbursing officer of cash. During the year ended June 30, 2020, the General Fund transferred \$40 to the Municipal Street Aid Fund and received transfers from the Town's Trash Fund and Street Lighting Fund totaling \$39,362 and \$55,762, respectively.

NOTE 10: RISK AND UNCERTAINTIES

The Town invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 11: RETIREMENT PLAN

The Town provides a Simplified IRA Plan covering all employees who are reasonably expected to receive at least \$5,000 in compensation during the year. Eligible employees may contribute up to 15% of their compensation or the maximum amount allowable by law. The Town contributes 2% of compensation for eligible employees. The Town contributed \$4,650 for the year ended June 30, 2020.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE 12: RECLASSIFICATIONS

In previous years, the Town did not present the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances' expenditures by function or program, and by character, e.g., Current, Capital Outlays, and Debt Service as required by GASB Cod. Sec. 1800.132-.133 and .136. Accordingly, the Town has corrected the classifications in the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances.

NOTE 13: PRIOR PERIOD ADJUSTMENTS

In previous years, the Town did not recognize certain street and sidewalk infrastructure assets in accordance with GASB 34. The net result of the correction for this error is a restatement to increase the General Fund Beginning Fund Balance and Governmental Activities Beginning Net Position totaling \$4,305,978.

In previous years, the Town did not recognize firehouse impact fees revenue in accordance with GASB 33. The net result of the correction for this error is a restatement to increase the General Fund Beginning Fund Balance and Governmental Activities Beginning Net Position totaling \$34,795.

As a result of a recordkeeping error, the prior year Street Light Fees Receivable balance was overstated by \$9,645. The net result of the correction for this error is a restatement to decrease the Street Lights Beginning Fund Balance and Governmental Activities Beginning Net Position totaling \$9,645.

NOTE 14: SUBSEQUENT EVENT

On August 5, 2020, the Town amended its fiscal year 2021 Budget to adjust for the removal of Garbage Collection Services and Street Light Utility revenue and to modify expenditures accordingly to reflect estimated revenues and expenditures. Also, effective July 1, 2020, the Town's property tax rate was increased to compensate for the elimination of the Garbage Collection Services and Street Light Utility revenues.