

TOWN OF TOWNSEND, DELAWARE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2021

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, 2021, 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.

Auditors' 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 auditors' 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, 2021, 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 October 8, 2021, 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.

October 8, 2021
Wilmington, Delaware

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 2,310,836	\$ -	\$ 2,310,836
Restricted Cash	48,560	-	48,560
Investments	2,800,242	-	2,800,242
Accounts Receivable, Net	44,879	-	44,879
Prepaid Expenses	22,272	-	22,272
Capital Assets			
Land and Construction in Progress	1,293,964	-	1,293,964
Depreciable Buildings, Property and Equipment, Net	6,090,158	-	6,090,158
TOTAL ASSETS	\$ 12,610,911	\$ -	\$ 12,610,911
LIABILITIES			
Accounts Payable	\$ 201,350	\$ -	\$ 201,350
Refundable Advances	9,557	-	9,557
Deferred Revenue	395,603	-	395,603
Payroll Liabilities and Accrued Vacation	19,371	-	19,371
Escrow Liabilities	237,341	-	237,341
TOTAL LIABILITIES	863,222	-	863,222
NET POSITION			
Net Investment in Capital Assets	7,384,122	-	7,384,122
Restricted			
Municipal Street Aid	48,560	-	48,560
Committed	41,985	-	41,985
Unrestricted	4,273,022	-	4,273,022
TOTAL NET POSITION	11,747,689	-	11,747,689
TOTAL LIABILITIES AND NET POSITION	\$ 12,610,911	\$ -	\$ 12,610,911

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	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	\$ 948,271	\$ 141,889	\$ 20,585	\$ -	\$ (785,797)	\$ -	\$ (785,797)
Street Lights	-	-	-	-	-	-	-
Municipal Street Aid	85,036	-	-	57,753	(27,283)	-	(27,283)
Public Safety	58,107	4,822	-	-	(53,285)	-	(53,285)
TOTAL GOVERNMENTAL ACTIVITIES	1,091,414	146,711	20,585	57,753	(866,365)	-	(866,365)
Business-Type Activities							
Trash	-	-	-	-	-	-	-
TOTAL	\$ 1,091,414	\$ 146,711	\$ 20,585	\$ 57,753	(866,365)	-	(866,365)
GENERAL REVENUES							
Property Taxes					\$ 618,754	\$ -	\$ 618,754
Real Estate Transfer Taxes					230,968	-	230,968
Investment Income, Net of Fees					207,801	-	207,801
Impact Fees					41,650	-	41,650
Miscellaneous					10,163	-	10,163
TOTAL GENERAL REVENUES					1,109,336	-	1,109,336
TRANSFERS					49,182	(49,182)	-
TOTAL GENERAL REVENUES AND TRANSFERS					1,158,518	(49,182)	1,109,336
CHANGE IN NET POSITION					292,153	(49,182)	242,971
NET POSITION AT BEGINNING OF YEAR (RESTATED)					11,455,536	49,182	11,504,718
NET POSITION AT END OF YEAR					\$ 11,747,689	\$ -	\$ 11,747,689

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

TOWN OF TOWNSEND, DELAWARE
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General	Municipal Street Aid (Nonmajor)	Street Lights (Nonmajor)	Total
ASSETS				
Cash and Cash Equivalents	\$ 2,310,836	\$ -	\$ -	\$ 2,310,836
Restricted Cash	-	48,560	-	48,560
Investments	2,800,242	-	-	2,800,242
Accounts Receivable, Net	44,879	-	-	44,879
Prepaid Expenses	22,272	-	-	22,272
TOTAL ASSETS	\$ 5,178,229	\$ 48,560	\$ -	\$ 5,226,789
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 201,350	\$ -	\$ -	\$ 201,350
Refundable Advances	9,557	-	-	9,557
Deferred Revenue	395,603	-	-	395,603
Accrued Vacation	19,371	-	-	19,371
Escrow Liabilities	237,341	-	-	237,341
TOTAL LIABILITIES	863,222	-	-	863,222
FUND BALANCES				
Nonspendable				
Prepaid Expenses	22,272	-	-	22,272
Restricted				
Municipal Street Aid	-	48,560	-	48,560
Committed	41,985	-	-	41,985
Unassigned	4,250,750	-	-	4,250,750
TOTAL FUND BALANCES	4,315,007	48,560	-	4,363,567
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,178,229	\$ 48,560	\$ -	\$ 5,226,789

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

**TOWN OF TOWNSEND, DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 4,363,567
Capital Assets Used in Governmental Activities are not Financial Resources and, Therefore, are not Reported in the Funds	<u>7,384,122</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 11,747,689</u>

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Municipal Street Aid (Nonmajor)</u>	<u>Street Lights (Nonmajor)</u>	<u>Total</u>
REVENUES				
Property Taxes	\$ 618,754	\$ -	\$ -	\$ 618,754
Real Estate Transfer Taxes	230,968	-	-	230,968
Fines	4,826	-	-	4,826
Franchise Fees	21,797	-	-	21,797
Impact Fees	41,650	-	-	41,650
Permits and Licenses	120,092	-	-	120,092
Grants and Contributions	20,585	57,753	-	78,338
Investment Return, Net	207,801	-	-	207,801
Miscellaneous	10,163	-	-	10,163
TOTAL REVENUES	<u>1,276,636</u>	<u>57,753</u>	<u>-</u>	<u>1,334,389</u>
EXPENDITURES				
Current				
General Government	760,512	-	-	760,512
Public Works	7,626	85,036	-	7,626
Public Safety	58,107	-	-	58,107
Capital Outlay	174,409	-	-	174,409
TOTAL EXPENDITURES	<u>1,000,654</u>	<u>85,036</u>	<u>-</u>	<u>1,085,690</u>
EXCESS OF REVENUES OVER EXPENDITURES	275,982	(27,283)	-	248,699
OTHER FINANCING SOURCES (USES)				
Transfers to Close Street Light and Trash Funds	61,767	-	(12,585)	49,182
NET CHANGES IN FUND BALANCES	337,749	(27,283)	(12,585)	297,881
FUND BALANCES - Beginning of Year	<u>3,977,258</u>	<u>75,843</u>	<u>12,585</u>	<u>4,065,686</u>
FUND BALANCES - End of Year	<u>\$ 4,315,007</u>	<u>\$ 48,560</u>	<u>\$ -</u>	<u>\$ 4,363,567</u>

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

TOWN OF TOWNSEND, DELAWARE
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 297,881
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	174,409
Depreciation Expense	<u>(180,137)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 292,153</u>

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES			
General Fund			
Property Taxes	\$ 625,000	\$ 618,754	\$ (6,246)
Transfer Taxes	300,000	230,968	(69,032)
Fines	8,000	4,822	(3,178)
Franchise Fees	22,000	21,797	(203)
Impact Fees	73,000	41,650	(31,350)
Permits and Licenses	119,700	120,092	392
Community Events	2,000	-	(2,000)
Grants	89,400	20,585	(68,815)
Miscellaneous	3,600	10,167	6,567
Investment Return, Net	30,000	207,801	177,801
TOTAL REVENUES	<u>1,272,700</u>	<u>1,276,636</u>	<u>3,936</u>
EXPENSES			
General Fund			
Salaries	417,850	289,873	127,977
Payroll Taxes	-	23,479	(23,479)
Employee Benefits	-	27,641	(27,641)
Utilities	17,850	13,860	3,990
Engineer Consulting Fee	94,500	65,860	28,640
Professional Fees	32,000	44,522	(12,522)
Police Services	60,000	58,107	1,893
Advertising	500	206	294
Office Supplies	17,000	6,155	10,845
Bank Fees	550	(2,187)	2,737
Computer Support	35,000	27,415	7,585
Community Events	4,250	113	4,137
Maintenance Expense	65,050	16,980	48,070
Town Decorations	2,000	954	1,046
Dues and Membership Fees	2,350	1,500	850
Insurance	22,000	21,082	918
Travel and Entertainment	1,800	49	1,751
Miscellaneous	55,200	4,126	51,074
Capital Outlay	87,400	174,409	(87,009)
Vehicle Expense	17,850	1,251	16,599
Street Light	80,850	7,626	73,224
Trash	192,000	203,383	(11,383)
Fire House Grants	-	14,250	(14,250)
TOTAL EXPENDITURES	<u>1,206,000</u>	<u>1,000,654</u>	<u>205,346</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66,700	275,982	209,282
TRANSFERS TO CLOSE STREET LIGHT AND TRASH FUNDS	-	61,767	-
NET CHANGE IN FUND BALANCES	<u>\$ 66,700</u>	<u>\$ 337,749</u>	<u>\$ 209,282</u>

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Trash Fund</u>
CURRENT ASSETS	
Receivables, Net	<u>\$ -</u>
NET POSITION	
Unrestricted	<u>\$ -</u>

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Trash Fund
OPERATING REVENUE	
Charges for Services	\$ -
TOTAL OPERATING REVENUE	-
OPERATING EXPENSES	
Trash Collection Expense	-
TOTAL OPERATING EXPENSES	-
OPERATING INCOME BEFORE TRANSFERS	-
OPERATING TRANSFER	(49,182)
CHANGE IN NET POSITION	(49,182)
NET POSITION - Beginning of Year	49,182
NET POSITION - End of Year	\$ -

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Trash Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	\$ -
Paid to Suppliers for Goods and Services	-
	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to General Fund	-
	-
NET CHANGE IN CASH	-
CASH AND CASH EQUIVALENTS - Beginning of Year	-
CASH AND CASH EQUIVALENTS - End of Year	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ -
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities	
(Increase) Decrease in Receivables	-
	-
CASH PROVIDED BY OPERATING ACTIVITIES	\$ -
NONCASH ACTIVITIES	
Transfer to General Fund to Close Trash Fund	\$ 49,182

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

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 (Non-major Proprietary Fund) - This fund was used to report Town operations that provide services financed primarily by user charges, or activities where the measurement period of net income is appropriate for capital maintenance, public policy and management control. (See Note 12).

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 was used to account for the financial resources that were mainly used for electrical charges to maintain the existing street lighting system. (See Note 12).

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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 - A formal budget is prepared by the Financial Officer and submitted to Town Council for purposes of budgeting revenues and expenditures of the Town. It is approved by the Town Council, no later than thirty (30) days after the beginning of each fiscal year. In the event of a lack of compromise within the Town Council regarding the immediate annual budget, the Town Council has the authority to pass enabling legislation to extend the previous year's budget until a compromise or settlement can be reached by the members of the Town Council. The budget for the General Fund is prepared on the modified accrual basis of accounting. 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. As of June 30, 2021, the allowance was \$0.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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. (See Note 12).

Street Lights Fees - Street lights fees are recorded when billed. An allowance for uncollectible accounts is recorded based on historical collection trends and experience. (See Note 12).

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. (See Note 12).

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, 2021

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 to 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 it conflicts with or contradicts other 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 \$2,359,395 in the various funds. The bank balances were \$2,372,365 as of June 30, 2021. Of the bank balance, \$250,000 was covered by federal depository insurance and \$300,320 was covered by Security Investor Protection Corporation, and \$1,872,365 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, 2021

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	\$ 2,429,288	\$ 2,308,953	N/A
Exchange Traded Funds	<u>370,954</u>	<u>228,181</u>	N/A
	<u>\$ 2,800,242</u>	<u>\$ 2,537,134</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, 2021, for the Town's funds, net of applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Receivables		
Trash Collections	\$ 16,996	\$ -
Street Lights	11,294	-
Property Tax	<u>21,460</u>	<u>-</u>
Gross Receivables	49,750	-
Less: Allowance for Uncollectibles	<u>4,871</u>	<u>-</u>
Net Receivables	<u>\$ 44,879</u>	<u>\$ -</u>

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated				
Land	\$ 1,130,678	\$ -	\$ -	\$ 1,130,678
Construction in Progress	16,184	147,102	-	163,286
Total Capital Assets Not Being Depreciated	1,146,862	147,102	-	1,293,964
Capital Assets, Depreciated				
Building Improvements	1,260,397	6,625	-	1,267,022
Infrastructure	5,063,632	-	-	5,063,632
Office Equipment	90,798	9,815	-	100,613
Machinery and Equipment	158,723	10,867	(15,844)	153,746
Municipal Park	1,444,339	-	-	1,444,339
Total Capital Assets Being Depreciated	8,017,889	27,307	(15,844)	8,029,352
Less: Accumulated Depreciation	1,774,902	180,136	(15,844)	1,939,194
Total Capital Assets Being Depreciated, Net	6,242,987	(152,829)	-	6,090,158
Governmental Activities Capital Assets, Net	\$ 7,389,849	\$ (5,727)	\$ -	\$ 7,384,122

Depreciation expense for the year ended June 30, 2021, was charged to the General Fund in the amount of \$180,136.

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 a State contractor. The Town requests supplemental extra duty patrols through the contractor, who then secures off-duty state 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 \$58,107 was expended for the year ended June 30, 2021.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5: COMMITMENTS AND CONTINGENCIES - CONTINUED

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 \$203,383 for the year ended June 30, 2021. 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, 2021, the Town incurred expenditures of \$203,383 to one vendor for solid waste collection service and to another vendor for \$146,097 for engineering services, each exceeding 10% of total government-wide expenses.

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.

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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 7: FAIR VALUES MEASURED ON RECURRING BASIS - CONTINUED

Fair values of assets measured on a recurring basis at June 30, 2021, 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	\$ 370,954	\$ 370,954	\$ -	\$ -
Mutual Funds	2,429,288	2,429,288	-	-
	<u>\$ 2,800,242</u>	<u>\$ 2,800,242</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.

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. Nonspendable amounts as of June 30, 2021, are comprised of \$22,272 of prepaid expenses.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 8: NET POSITION AND FUND EQUITY - CONTINUED

Restricted - Amounts with 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. As of June 30, 2021, \$48,500 was restricted by the State's Municipal Street Aid grant.

Committed - Amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (Mayor and Council), which cannot be used for any other purpose. As of June 30, 2021, \$41,985 was committed to the purchase of a vehicle for the Town.

Unassigned - Amounts that are available for any purpose.

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, 2021, the General Fund received accounts receivable of \$12,585 and \$49,182, respectively, from the Town's Trash Fund and Street Lighting Fund. These transfers were made to close these funds to the general fund as discussed in Note #12.

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 \$5,227 for the year ended June 30, 2021.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 12: THE STREET LIGHTS FUND AND THE TRASH FUND WERE MERGED INTO THE GENERAL FUND

The Street Lights Fund and the Trash Fund were merged into the General Fund as of July 1, 2020. Instead of billing Street Lights and Trash separately, beginning on July 1, 2020, the property tax rate increased from .0026% to .008% to cover street light and trash services. As discussed in Note 9, transfers equal to Fiscal Year 2020 ending fund balances were made to the General Fund from these two funds.

NOTE 13: PRIOR PERIOD ADJUSTMENT

As a result of a duplicate posting of donated property related to Wiggins Mill Frontage Road in Fiscal Year 2020, the Governmental Activities' Capital Assets were overstated by \$200,791. The result of the correction for this error is a restatement to decrease the Governmental Activities beginning Net Position by \$200,791.

NOTE 14: CHANGE IN ACCOUNTING ESTIMATE

The Town management re-evaluated the estimated useful lives of two Streetscape assets from 20 years to 50 years, consistent with other similar infrastructure assets. This change in the estimated useful lives to 50 years resulted in current year depreciation expense decreasing by \$26,286 as compared to if a 20-year life were used.

NOTE 15: CREATION OF A POLICE DEPARTMENT

On June 2, 2021, The Town council authorized the formation of a police department. The town is in the process of identifying and hiring a police chief who will be responsible for leading the creation of the police department.

NOTE 16: SUBSEQUENT EVENTS

On June 6, 2021, the Town received its first installment of American Rescue Plan Act funds in the amount of \$395,353. The town will be receiving its second installment of American Rescue Plan Act funds of \$395,353 during Fiscal Year 2022.