

TOWN OF TOWNSEND
FINANCIAL STATEMENTS
Year Ended June 30, 2019



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

TOWN OF TOWNSEND
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YEAR ENDED JUNE 30, 2019

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FINANCIAL SECTION

Independent Accountants' Review Report

To the Mayor and Council
Town of Townsend
Townsend, Delaware

We have reviewed the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Townsend, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

To the Mayor and Council
Town of Townsend
Townsend, Delaware

Required Supplementary Information

Management has omitted 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 conclusion is not modified with respect to this matter.

Maillie LLP

New Castle, Delaware
November 19, 2019

TOWN OF TOWNSEND
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,681,695	\$ -	\$ 1,681,695
Restricted cash	65,168	-	65,168
Investments	1,946,476	-	1,946,476
Accounts receivable, net	11,749	44,679	56,428
Prepaid expenses	9,348	-	9,348
Capital assets			
Land and construction in progress	6,433	-	6,433
Depreciable buildings, property and equipment, net	3,175,932	-	3,175,932
TOTAL ASSETS	\$ 6,896,801	\$ 44,679	\$ 6,941,480
LIABILITIES			
Accounts payable	\$ 65,115	\$ -	\$ 65,115
Refundable advances	19,627	-	19,627
Deferred revenue	2,184	-	2,184
Accrued vacation	5,798	-	5,798
Escrow liabilities	153,421	-	153,421
Fire company impact fees payable	48,415	-	48,415
TOTAL LIABILITIES	294,560	-	294,560
NET POSITION			
Net investment in capital assets	3,182,365	-	3,182,365
Restricted			
Developer escrows	153,421	-	153,421
Municipal Street Aid	65,168	-	65,168
Unrestricted	3,201,287	44,679	3,245,966
TOTAL NET POSITION	6,602,241	44,679	6,646,920
TOTAL LIABILITIES AND NET POSITION	\$ 6,896,801	\$ 44,679	\$ 6,941,480

See accompanying notes.

TOWN OF TOWNSEND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
FUNCTIONS/PROGRAMS			
Governmental activities			
General government	\$ 686,252	\$ 196,457	\$ -
Street lights	72,710	144,278	-
Municipal street aid	9,274	-	34,335
Public safety	55,646	15,574	-
TOTAL GOVERNMENTAL ACTIVITIES	823,882	356,309	34,335
Business-type activities			
Trash	149,891	260,492	-
TOTAL	\$ 973,773	\$ 616,801	\$ 34,335

GENERAL REVENUES

Property taxes
Real estate transfer taxes
Investment income, net of fees
Impact fees
Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes.

Net (Expense) Revenues and
Changes in Net Position

Governmental Activities	Business- Type Activities	Total
\$ (489,795)	\$ -	\$ (489,795)
71,568	-	71,568
25,061	-	25,061
<u>(40,072)</u>	<u>-</u>	<u>(40,072)</u>
(433,238)	-	(433,238)
<u>-</u>	<u>110,601</u>	<u>110,601</u>
<u>(433,238)</u>	<u>110,601</u>	<u>(322,637)</u>
170,197	-	170,197
278,876	-	278,876
78,229	-	78,229
161,200	-	161,200
32,110	-	32,110
<u>74,863</u>	<u>(74,863)</u>	<u>-</u>
<u>795,475</u>	<u>(74,863)</u>	<u>720,612</u>
362,237	35,738	397,975
<u>6,240,004</u>	<u>8,941</u>	<u>6,248,945</u>
<u>\$ 6,602,241</u>	<u>\$ 44,679</u>	<u>\$ 6,646,920</u>

TOWN OF TOWNSEND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General</u>	<u>Municipal Street Aid (Nonmajor)</u>	<u>Street Lights (Nonmajor)</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,681,695	\$ -	\$ -	\$ 1,681,695
Restricted cash	-	65,168	-	65,168
Investments	1,946,476	-	-	1,946,476
Accounts receivable, net	-	-	11,749	11,749
Prepaid expenses	9,348	-	-	9,348
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,637,519</u>	<u>\$ 65,168</u>	<u>\$ 11,749</u>	<u>\$ 3,714,436</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 65,115	\$ -	\$ -	\$ 65,115
Refundable advances	19,627	-	-	19,627
Deferred revenue	2,184	-	-	2,184
Accrued vacation	5,798	-	-	5,798
Escrow liabilities	153,421	-	-	153,421
Fire company impact fees payable	48,415	-	-	48,415
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>294,560</u>	<u>-</u>	<u>-</u>	<u>294,560</u>
FUND BALANCES				
Nonspendable				
Prepaid expense	9,348	-	-	9,348
Restricted				
Developer escrows	153,421	-	-	153,421
Municipal street aid	-	65,168	-	65,168
Unassigned	3,180,190	-	11,749	3,191,939
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>3,342,959</u>	<u>65,168</u>	<u>11,749</u>	<u>3,419,876</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,637,519</u>	<u>\$ 65,168</u>	<u>\$ 11,749</u>	<u>\$ 3,714,436</u>

See accompanying notes.

TOWN OF TOWNSEND

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET

TO STATEMENT OF NET POSITION

JUNE 30, 2019

TOTAL FUND BALANCES FOR GOVERNMENT FUNDS	\$ 3,419,876
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>3,182,365</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>6,602,241</u></u>

See accompanying notes.

TOWN OF TOWNSEND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General	Municipal Street Aid (Nonmajor)	Street Lights (Nonmajor)	Total
REVENUES				
Grants and contributions	\$ -	\$ 34,335	\$ -	\$ 34,335
Property taxes	169,667	-	-	169,667
Real estate transfer taxes	278,876	-	-	278,876
Fines	15,574	-	-	15,574
Franchise fees	22,546	-	-	22,546
Impact fees	161,200	-	-	161,200
Permits and licenses	169,083	-	-	169,083
Street lights fees	-	-	144,278	144,278
Community events	1,950	-	-	1,950
Miscellaneous	34,990	-	-	34,990
Investment return, net	78,229	-	-	78,229
TOTAL REVENUES	<u>932,115</u>	<u>34,335</u>	<u>144,278</u>	<u>1,110,728</u>
EXPENDITURES				
Salaries	250,427	-	-	250,427
Payroll taxes	18,137	-	-	18,137
Employee benefits	41,513	-	-	41,513
Utilities	13,419	-	-	13,419
Engineer consulting fees	61,832	-	-	61,832
Professional fees	68,064	-	-	68,064
Police services	55,646	-	-	55,646
Advertising	147	-	-	147
Office supplies	13,558	-	-	13,558
Bank fees	741	-	-	741
Computer support	24,111	-	-	24,111
Community events	6,197	-	-	6,197
Maintenance expense	35,389	-	-	35,389
Town decorations	2,575	-	-	2,575
Dues and membership fees	60	-	-	60
Insurance	12,624	-	-	12,624
Street lights	-	6,485	71,405	77,890
Street repairs	-	2,789	-	2,789
Bad debt expense	-	-	1,305	1,305
Miscellaneous	5,211	-	-	5,211
Capital outlay	135,000	-	-	135,000
Vehicle expense	1,565	-	-	1,565
TOTAL EXPENDITURES	<u>746,216</u>	<u>9,274</u>	<u>72,710</u>	<u>828,200</u>
EXCESS OF REVENUES OVER EXPENDITURES	185,899	25,061	71,568	282,528
OPERATING TRANSFER	<u>74,863</u>	<u>-</u>	<u>-</u>	<u>74,863</u>
NET CHANGE IN FUND BALANCES	260,762	25,061	71,568	357,391
FUND BALANCES AT BEGINNING OF YEAR	<u>3,022,378</u>	<u>40,107</u>	<u>-</u>	<u>3,062,485</u>
FUND BALANCES AT END OF YEAR	<u>\$ 3,283,140</u>	<u>\$ 65,168</u>	<u>\$ 71,568</u>	<u>\$ 3,419,876</u>

See accompanying notes.

TOWN OF TOWNSEND

RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

NET CHANGE IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS \$ 357,391

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	135,000
Depreciation expense	<u>(130,154)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 362,237

See accompanying notes.

TOWN OF TOWNSEND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

YEAR ENDED JUNE 30, 2019

	Original & Final Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES			
General Fund			
Property taxes	\$ 180,000	\$ 169,667	\$ (10,333)
Transfer taxes	200,000	278,876	78,876
Fines	10,000	15,574	5,574
Franchise fees	20,000	22,546	2,546
Impact fees	124,800	161,200	36,400
Permits and licenses	106,275	169,083	62,808
Community events	5,000	1,950	(3,050)
Miscellaneous	3,900	34,990	31,090
Investment return, net	-	78,229	78,229
TOTAL REVENUES	<u>649,975</u>	<u>932,115</u>	<u>282,140</u>
EXPENSES			
General Fund			
Salaries	234,500	250,427	(15,927)
Payroll taxes	18,500	18,137	363
Employee benefits	78,850	41,513	37,337
Utilities	16,800	13,419	3,381
Engineer consulting fee	32,600	61,832	(29,232)
Professional fees	70,300	68,064	2,236
Police services	45,000	55,646	(10,646)
Advertising	2,000	147	1,853
Office supplies	15,450	13,558	1,892
Bank fees	-	741	(741)
Computer support	25,000	24,111	889
Community event	9,300	6,197	3,103
Maintenance expense	44,275	35,389	8,886
Town decorations	2,500	2,575	(75)
Dues and membership fees	3,000	60	2,940
Insurance	27,000	12,624	14,376
Travel and entertainment	500	-	500
Miscellaneous	15,400	5,211	10,189
Capital outlay	-	135,000	(135,000)
Vehicle expense	4,000	1,565	2,435
TOTAL EXPENDITURES	<u>644,975</u>	<u>746,216</u>	<u>(101,241)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,000	185,899	383,381
OPERATING TRANSFERS	-	74,863	74,863
NET CHANGE IN FUND BALANCES	<u>\$ 5,000</u>	<u>\$ 260,762</u>	<u>\$ 458,244</u>

See accompanying notes.

TOWN OF TOWNSEND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	<u>Trash</u>
CURRENT ASSETS	
Receivables, net	\$ <u>44,679</u>
NET POSITION	
Unassigned - unrestricted	\$ <u>44,679</u>

See accompanying notes.

TOWN OF TOWNSEND

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	<u>Trash</u>
OPERATING REVENUES	
Trash collection	\$ 211,523
Late charges	3,266
Bad debt recoveries	45,703
TOTAL OPERATING REVENUES	<u>260,492</u>
OPERATING EXPENSES	
Trash collection expense	<u>149,891</u>
OPERATING INCOME BEFORE TRANSFERS	110,601
OPERATING TRANSFER	<u>(74,863)</u>
CHANGE IN NET POSITION	35,738
NET POSITION AT BEGINNING OF YEAR	<u>8,941</u>
NET POSITION AT END OF YEAR	<u><u>\$ 44,679</u></u>

See accompanying notes.

TOWN OF TOWNSEND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	<u>Trash</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 224,754
Paid to suppliers for goods and services	<u>(149,891)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	74,863
CASH FUNDS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating transfers	<u>(74,863)</u>
NET CHANGE IN CASH	-
CASH AT BEGINNING OF YEAR	<u>-</u>
CASH AT END OF YEAR	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 110,601
Adjustments to reconcile net income to cash provided by operating activities	
(Increase) decrease in	
Receivables	<u>(35,738)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 74,863</u></u>

See accompanying notes.

NOTE A - 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 Funds (non-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.

NOTE A - 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 sixty days after year end. Property taxes, trash fees, 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 at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied in June 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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

During the course of normal operations, the Town has numerous transactions between the funds. Interfund transactions are classified as other financing services 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.

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 November 19, 2019, which is the date the financial statements were available to be issued.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

The carrying amount of the cash deposits and cash on hand is \$1,746,863 in the various funds. The bank balances are approximately \$1,771,113 as of June 30, 2019. Of the bank balance, \$250,000 was covered by federal depository insurance and \$135,495 was covered by Security Investor Protection Corporation, and \$1,385,618 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 allows investments in mutual funds, stocks, bonds and exchange traded funds.

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

Investment Type	Fair Value	Cost	Credit Rating-Moody
Mutual funds	\$ 1,744,080	\$ 1,690,274	N/A
Exchange traded funds	202,396	154,258	N/A
	<u>\$ 1,946,476</u>	<u>\$ 1,844,532</u>	

Credit Risk

Authority and responsibility for managing investments is covered by an Investment Policy Statement approved by the Mayor and Council.

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 portfolio may be invested in the securities of a single issuer. In addition, no more than 10% of the overall portfolio may be invested in alternative investments. As of June 30, 2019, there were seven mutual fund holdings exceeding 5% of total fair value of investments.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE C - RECEIVABLES

Receivables as of June 30, 2019 for the Government's funds, net of applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Business- Type</u>
Trash receivables, net	\$ -	\$ 44,679
Street lights, net	<u>11,749</u>	<u>-</u>
	<u>\$ 11,749</u>	<u>\$ 44,679</u>

The allowance for uncollectible trash utility billings was \$4,964 and street lights was \$1,305 as of June 30, 2019.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 6,433	\$ -	\$ -	\$ 6,433
Capital assets, depreciated				
Building improvements	1,202,361	35,000	-	1,237,361
Infrastructure	1,133,483	100,000	-	1,233,483
Office equipment	92,302	-	-	92,302
Machinery and equipment	168,708	-	-	168,708
Municipal park	<u>1,443,075</u>	<u>-</u>	<u>-</u>	<u>1,443,075</u>
	4,039,929	135,000	-	4,174,929
Less accumulated depreciation	<u>868,843</u>	<u>130,154</u>	<u>-</u>	<u>998,997</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>3,171,086</u>	<u>4,846</u>	<u>-</u>	<u>3,175,932</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 3,177,519</u>	<u>\$ 4,846</u>	<u>\$ -</u>	<u>\$ 3,182,365</u>

Depreciation expense for the year ended June 30, 2019 was charged to the General Fund in the amount of \$130,154.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE E - COMMITMENTS AND CONTINGENCIES

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 \$149,891 for the year ended June 30, 2019. 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 F - MAJOR VENDORS AND SUPPLIERS

For the year ended June 30, 2019, the Town purchases of trash services from Waste Industries exceeds 10% of the total expenditures.

In addition, the Town incurred expenditures to two other vendors exceeding 10%:

Vendor 1	\$	112,128
Vendor 2		100,000

NOTE G - 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.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE G - FAIR VALUES MEASURED ON RECURRING BASIS (Continued)

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, 2019 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	\$ 202,396	\$ 202,396	\$ -	\$ -
Mutual funds	<u>1,744,080</u>	<u>1,744,080</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,946,476</u>	<u>\$ 1,946,476</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 H - NET POSITION AND FUND EQUITY

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

- a. 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;
- b. Restricted: for municipal street aid and developer escrows;
- c. 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:

- a. Nonspendable: Prepaid expense which are reserved.

TOWN OF TOWNSEND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE H - NET POSITION AND FUND EQUITY (Continued)

- b. 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. The developer escrows are funds received from developers to pay engineer design fees for various projects.

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 I - 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 J - 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 \$3,270 for the year ended June 30, 2019.