

TOWN OF TOWNSEND, DELAWARE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2022

TOWN OF TOWNSEND, DELAWARE
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Certified Public Accountants

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Independent Auditors' Report

To the Mayor and Council
Town of Townsend
Townsend, Delaware

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Townsend, Delaware, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town of Townsend, Delaware's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Townsend, Delaware as of June 30, 2022, and the respective changes in financial position 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Town of Townsend, Delaware, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

To the Mayor and Council
Town of Townsend
Townsend, Delaware

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Townsend, Delaware's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Townsend, Delaware's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Townsend, Delaware's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

To the Mayor and Council
Town of Townsend
Townsend, Delaware

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 November 22, 2022, on our consideration of the Town of Townsend, Delaware’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 of Townsend, Delaware’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 of Townsend, Delaware’s internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

November 22, 2022
Wilmington, Delaware

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 2,572,522
Restricted Cash	88,948
Investments	2,554,982
Accounts Receivable, Net	58,955
Prepaid Expenses	23,208
Capital Assets	
Land and Construction in Progress	4,842,677
Depreciable Buildings, Property, and Equipment, Net	15,469,197
TOTAL ASSETS	\$ 25,610,489
LIABILITIES	
Accounts Payable	\$ 96,701
Deferred Revenue	787,624
Payroll Liabilities and Accrued Vacation	20,872
Escrow Liabilities	181,811
TOTAL LIABILITIES	1,087,008
NET POSITION	
Net Investment in Capital Assets	20,311,874
Restricted	
Municipal Street Aid	88,948
Grant In Aid	6,634
Unrestricted	4,116,025
TOTAL NET POSITION	24,523,481
TOTAL LIABILITIES AND NET POSITION	\$ 25,610,489

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Revenues			Net (Expense) Revenues and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Total Governmental Activities
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 629,949	\$ 148,331	\$ -	\$ 13,062,677
Public Works	738,218	-	299,373	57,423
Public Safety	121,372	-	120,310	-
TOTAL GOVERNMENTAL ACTIVITIES	\$ 1,489,539	\$ 148,331	\$ 419,683	\$ 13,120,100
				\$ 12,198,575
				GENERAL REVENUES
				Property Taxes
				\$ 638,276
				Real Estate Transfer Taxes
				159,240
				Investment Loss, Net of Fees
				(261,360)
				Impact Fees
				35,700
				Miscellaneous
				5,361
				577,217
				CHANGE IN NET POSITION
				12,775,792
				NET POSITION AT BEGINNING OF YEAR
				11,747,689
				NET POSITION AT END OF YEAR
				\$ 24,523,481

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

TOWN OF TOWNSEND, DELAWARE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	General	Municipal Street Aid (Nonmajor)	Police (Nonmajor)	Total
ASSETS				
Cash and Cash Equivalents	\$ 2,572,522	\$ -	\$ -	\$ 2,572,522
Restricted Cash	-	88,948	-	88,948
Investments	2,554,982	-	-	2,554,982
Accounts Receivable, Net	57,665	-	1,290	58,955
Prepaid Expenses	23,208	-	-	23,208
TOTAL ASSETS	\$ 5,208,377	\$ 88,948	\$ 1,290	\$ 5,298,615
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 96,701	\$ -	\$ -	\$ 96,701
Deferred Revenue	787,624	-	-	787,624
Accrued Vacation	20,872	-	-	20,872
Escrow Liabilities	181,811	-	-	181,811
Due To/(From)	(1,290)	-	1,290	-
TOTAL LIABILITIES	1,085,718	-	1,290	1,087,008
FUND BALANCES				
Nonspendable				
Prepaid Expenses	23,208	-	-	23,208
Restricted				
Municipal Street Aid	-	88,948	-	88,948
Grant In Aid	6,634	-	-	6,634
Committed	-	-	-	-
Unassigned	4,092,817	-	-	4,092,817
TOTAL FUND BALANCES	4,122,659	88,948	-	4,211,607
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,208,377	\$ 88,948	\$ 1,290	\$ 5,298,615

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
JUNE 30, 2022

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 4,211,607
Capital Assets Used in Governmental Activities are not Financial Resources and, Therefore, are not Reported in the Funds	<u>20,311,874</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 24,523,481</u></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, 2022

	General Fund	Municipal Street Aid (Nonmajor)	Police (Nonmajor)	Total
REVENUES				
Property Taxes	\$ 638,276	\$ -	\$ -	\$ 638,276
Real Estate Transfer Taxes	159,240	-	-	159,240
Fines	5,602	-	-	5,602
Franchise Fees	20,848	-	-	20,848
Impact Fees	35,700	-	-	35,700
Permits and Licenses	121,881	-	-	121,881
Grants and Contributions	418,393	57,423	1,290	477,106
Investment Return, Net	(261,360)	-	-	(261,360)
Miscellaneous	5,361	-	-	5,361
TOTAL REVENUES	1,143,941	57,423	1,290	1,202,654
EXPENDITURES				
Current				
General Government	586,868	-	-	586,868
Public Works	404,345	17,035	-	421,380
Public Safety	120,275	-	1,290	121,565
Capital Outlay	224,799	-	-	224,799
TOTAL EXPENDITURES	1,336,287	17,035	1,290	1,354,612
NET CHANGES IN FUND BALANCES	(192,346)	40,388	-	(151,958)
FUND BALANCES - Beginning of Year	4,315,005	48,560	-	4,363,565
FUND BALANCES - End of Year	\$ 4,122,659	\$ 88,948	\$ -	\$ 4,211,607

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, 2022

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	<u>\$ (151,958)</u>
<p>Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:</p>	
Capital Outlays	224,799
Depreciation Expense	<u>(359,726)</u>
	<u>(134,927)</u>
<p>The net effect of transactions involving capital assets, i.e., gain/loss on sales, donations and contributions from private developers and other governments. These transactions are not reported in the governmental funds.</p>	
Contributed Assets	<u>13,062,677</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,775,792</u></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, 2022

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable</u>
REVENUES			
General Fund			
Property Taxes	\$ 646,000	\$ 638,276	\$ (7,724)
Transfer Taxes	300,000	159,240	(140,760)
Fines	4,500	5,602	1,102
Franchise Fees	22,000	20,848	(1,152)
Impact Fees	178,500	35,700	(142,800)
Permits and Licenses	197,575	121,881	(75,694)
Community Events	1,500	-	(1,500)
Grants and Contributions	26,000	418,393	392,393
Miscellaneous	2,400	5,361	2,961
Investment Return, Net	18,000	(261,360)	(279,360)
TOTAL REVENUES	<u>1,396,475</u>	<u>1,143,941</u>	<u>(252,534)</u>
EXPENSES			
General Fund			
Salaries, Payroll Taxes and Benefits	661,651	426,896	234,755
Utilities	17,500	14,094	3,406
Engineer Consulting Fee	97,500	52,293	45,207
Professional Fees	69,600	118,978	(49,378)
Police Services	60,000	59,155	845
Advertising	300	173	127
Office Supplies	9,000	6,211	2,789
Bank Fees/Rebates	150	(1,968)	2,118
Computer Support	28,000	43,012	(15,012)
Community Events	5,500	1,108	4,392
Maintenance Expense	45,300	46,821	(1,521)
Town Decorations	2,000	929	1,071
Dues and Membership Fees	3,700	2,256	1,444
Insurance	20,000	20,521	(521)
Travel and Entertainment	2,500	200	2,300
Miscellaneous	38,825	25,583	13,242
Capital Outlay	477,949	224,799	253,150
Street Light	95,100	86,932	8,168
Trash	212,000	207,544	4,456
Fire House Grants	22,500	750	21,750
TOTAL EXPENDITURES	<u>1,869,075</u>	<u>1,336,287</u>	<u>532,788</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(472,600)</u>	<u>(192,346)</u>	<u>280,254</u>
NET CHANGE IN FUND BALANCES	<u>\$ (472,600)</u>	<u>\$ (192,346)</u>	<u>\$ 280,254</u>

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

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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 - A separate financial statement is provided for the governmental funds. The 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.

Municipal Street Aid Fund (Nonmajor Governmental Fund) - This fund is used to account for the financial resources, provided by the State of Delaware's Municipal Street Aid program that are used for street maintenance and repairs

Police Fund (Nonmajor Governmental Fund) - This fund is used to account for the grants received and expended for the Town's police department.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Government-Wide Financial Statements - The government-wide 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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 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. The budget 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, 2022, the allowance was \$0.

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. Donations of real property, such as land dedicated for open space, are recorded at acquisition value which is defined by GASB as what it would cost government to acquire the asset itself, not the asset's market value (or lack thereof). 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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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.

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 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* to the government-wide financial statements 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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand and demand deposits with original maturities of one year or less.

Deposits - The carrying amount of the cash deposits and cash on hand is \$2,661,470 in the various funds. The bank balances were \$2,737,931, as of June 30, 2022. Of the bank balance, \$250,000 was covered by federal depository insurance and \$284,220 was covered by Security Investor Protection Corporation, and \$2,203,711 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

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

	Fair Value	Cost	Credit Rating - Moody
Investment Type			
Mutual Funds	\$ 2,228,774	\$ 2,377,421	N/A
Exchange Traded Funds	326,208	228,181	N/A
	\$ 2,554,982	\$ 2,605,602	

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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 3: RECEIVABLES

Receivables as of June 30, 2022, for the Town's funds, net of applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>
Receivables	
Trash Collections	\$ 12,276
Street Lights	8,006
Property Tax	27,516
Grants	15,965
Gross Receivables	63,763
Less: Allowance for Uncollectible Accounts	4,808
Net Receivables	\$ 58,955

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated				
Land	\$ 1,130,678	\$ 3,711,999	\$ -	\$ 4,842,677
Construction in Progress	163,286	-	(163,286)	-
Total Capital Assets Not Being Depreciated	1,293,964	3,711,999	(163,286)	4,842,677
Capital Assets, Depreciated				
Building Improvements	1,267,022	69,310	-	1,336,332
Infrastructure	5,063,632	9,436,890	-	14,500,522
Office Equipment	100,613	-	-	100,613
Machinery and Equipment	153,746	61,215	-	214,961
Municipal Park	1,444,339	171,348	-	1,615,687
Total Capital Assets Being Depreciated	8,029,352	9,738,763	-	17,768,115
Less: Accumulated Depreciation	1,939,194	359,724	-	2,298,918
Total Capital Assets Being Depreciated, Net	6,090,158	9,379,039	-	15,469,197
Governmental Activities Capital Assets, Net	\$ 7,384,122	\$ 13,091,038	\$ (163,286)	\$ 20,311,874

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 4: CAPITAL ASSETS - CONTINUED

Depreciation expense for the year ended June 30, 2022, was charged to the Governmental Activities in the amount of \$359,724

NOTE 5: DEFERRED REVENUE

In fiscal years 2021 and 2022, the Town of Townsend received a total of \$787,624 under the American Rescue Plan Act from United States Department of the Treasury, through the State of Delaware. As of June 30, 2022, the funds have not been spent and the Town Council is considering acceptable uses for the funds. The funds are required to be obligated by December 31, 2024, and the Town has until December 31, 2026, to fully expend the funds.

NOTE 6: COMMITMENTS AND CONTINGENCIES

The Town of Townsend maintains a small municipal police service but in some instances contracts for the Delaware State Police to provide extra duty patrols. The Town requests supplemental extra duty patrols through a third-party 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 the Town of Townsend Police Department 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 \$59,155 was expended for the year ended June 30, 2022.

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 \$207,544 for the year ended June 30, 2022. 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 7: MAJOR VENDORS AND SUPPLIERS

For the year ended June 30, 2022, the Town incurred expenditures of \$207,544 to one vendor for solid waste collection service exceeding 10% of total government-wide expenses.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 8: 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.

Fair values of assets measured on a recurring basis at June 30, 2022, 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	\$ 326,208	\$ 326,208	\$ -	\$ -
Mutual Funds	<u>2,228,774</u>	<u>2,228,774</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,554,982</u>	<u>\$ 2,554,982</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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 9: 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, 2022, are comprised of \$23,208 of prepaid expenses.

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, 2022, \$88,948 was restricted by the State's Municipal Street Aid grant and \$6,634 was restricted by the State's Grant in Aid.

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 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 statement of financial position.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

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 \$5,510 for the year ended June 30, 2022.