

TOWN OF TOWNSEND, DELAWARE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2023

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, 2023, 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, 2023, 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 January 17, 2024, 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.

January 17, 2024
Wilmington, Delaware

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 2,380,813
Restricted Cash	148,626
Investments	2,676,869
Accounts Receivable, Net	50,262
Prepaid Expenses	31,322
Capital Assets	
Land and Construction in Progress	4,998,407
Depreciable Buildings, Property, and Equipment, Net	23,242,769
TOTAL ASSETS	33,529,068
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Amounts on Pensions	12,615
LIABILITIES	
Accounts Payable	135,410
Deferred Revenue	654,175
Payroll Liabilities and Accrued Vacation	24,842
Escrow Liabilities	118,762
TOTAL LIABILITIES	933,189
NET POSITION	
Net Investment in Capital Assets	28,241,176
Restricted	
Municipal Street Aid	146,614
Grant In Aid	7,309
Unrestricted	4,213,395
TOTAL NET POSITION	32,608,494
TOTAL LIABILITIES AND NET POSITION	\$ 33,541,683

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

TOWN OF TOWNSEND, DELAWARE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

	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	\$ 961,066	\$ 256,915	\$ 138,072	\$ 8,203,370	\$ 7,637,291
Public Works	666,839	-	72,673	59,678	(534,488)
Public Safety	203,079	-	22,386	-	(180,693)
	TOTAL GOVERNMENTAL ACTIVITIES	\$ 256,915	\$ 233,131	\$ 8,263,048	\$ 6,922,110
GENERAL REVENUES					
					\$ 629,611
					256,875
					120,519
					147,000
					(4,017)
					12,915
					TOTAL GENERAL REVENUES
					1,162,903
					CHANGE IN NET POSITION
					8,085,013
					NET POSITION AT BEGINNING OF YEAR
					24,523,481
					NET POSITION AT END OF YEAR
					\$ 32,608,494

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

TOWN OF TOWNSEND, DELAWARE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2023

	<u>General</u>	<u>ARPA</u>	<u>Municipal Street Aid (Nonmajor)</u>	<u>Police (Nonmajor)</u>	<u>Total</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,699,974	\$ 671,259	\$ -	\$ 9,580	\$ 2,380,813
Restricted Cash	-	-	148,626	-	148,626
Investments	2,676,869	-	-	-	2,676,869
Accounts Receivable, Net	46,850	-	-	3,412	50,262
Prepaid Expenses	31,322	-	-	-	31,322
TOTAL ASSETS	<u>\$ 4,455,015</u>	<u>\$ 671,259</u>	<u>\$ 148,626</u>	<u>\$ 12,992</u>	<u>\$ 5,287,892</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 125,814	\$ -	\$ -	\$ 9,596	\$ 135,410
Deferred Revenue	1,538	652,637	-	-	654,175
Payroll Liabilities and Accrued Vacation	24,842	-	-	-	24,842
Escrow Liabilities	118,762	-	-	-	118,762
Due To/(From)	(23,355)	18,622	2,012	2,721	-
TOTAL LIABILITIES	<u>247,601</u>	<u>671,259</u>	<u>2,012</u>	<u>12,317</u>	<u>933,189</u>
FUND BALANCES					
Nonspendable					
Prepaid Expenses	31,322	-	-	-	31,322
Restricted					
Municipal Street Aid	-	-	146,614	-	146,614
Grant In Aid	6,634	-	-	675	7,309
Unassigned	4,169,458	-	-	-	4,169,458
TOTAL FUND BALANCES	<u>4,207,414</u>	<u>-</u>	<u>146,614</u>	<u>675</u>	<u>4,354,703</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,455,015</u>	<u>\$ 671,259</u>	<u>\$ 148,626</u>	<u>\$ 12,992</u>	<u>\$ 5,287,892</u>

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, 2023

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 4,354,703
Capital Assets Used in Governmental Activities are not Financial Resources and, Therefore, are not Reported in the Funds	28,241,176
Deferred Outflows of Resources - Pensions	<u>12,615</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 32,608,494</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, 2023

	<u>General Fund</u>	<u>ARPA Major</u>	<u>Municipal Street Aid (Nonmajor)</u>	<u>Police (Nonmajor)</u>	<u>Total</u>
REVENUES					
Property Taxes	\$ 629,611	\$ -	\$ -	\$ -	\$ 629,611
Real Estate Transfer Taxes	256,875	-	-	-	256,875
Fines	5,275	-	-	-	5,275
Franchise Fees	19,397	-	-	-	19,397
Impact Fees	147,000	-	-	-	147,000
Permits and Licenses	232,243	-	-	-	232,243
Grants and Contributions	72,673	138,068	59,678	22,386	292,805
Investment Return, Net of Fees	120,519	-	-	-	120,519
Miscellaneous	12,915	-	-	-	12,915
TOTAL REVENUES	<u>1,496,508</u>	<u>138,068</u>	<u>59,678</u>	<u>22,386</u>	<u>1,716,640</u>
EXPENDITURES					
Current					
General Government	902,374	17,583	-	-	919,957
Public Works	222,556	-	2,012	-	224,568
Public Safety	200,538	-	-	9,466	210,004
Capital Outlay	86,285	120,485	-	12,245	219,015
TOTAL EXPENDITURES	<u>1,411,753</u>	<u>138,068</u>	<u>2,012</u>	<u>21,711</u>	<u>1,573,544</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>84,755</u>	<u>-</u>	<u>57,666</u>	<u>675</u>	<u>143,096</u>
NET CHANGES IN FUND BALANCES	84,755	-	57,666	675	143,096
FUND BALANCES - Beginning of Year	<u>4,122,659</u>	<u>-</u>	<u>88,948</u>	<u>-</u>	<u>4,211,607</u>
FUND BALANCES - End of Year	<u>\$ 4,207,414</u>	<u>\$ -</u>	<u>\$ 146,614</u>	<u>\$ 675</u>	<u>\$ 4,354,703</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, 2023

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 143,096

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	219,015
Depreciation Expense	<u>(489,066)</u>
	<u>(270,051)</u>

The net effect of transactions involving capital assets, i.e. donations and contributions from private developers and other governments. These transactions are not reported in the governmental funds.

Contributed Infrastructure Assets	<u>8,203,370</u>
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Under the modified accrual basis of accounting used in governmental funds, losses on the disposal of fixed assets are not recognized because the losses do not use expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, losses on the disposal of fixed assets are reported regardless of when financial resources are used.

(4,017)

Governmental Funds Report Pension Contributions as Expenditures. However, in the Statement of Activities, the Expenditures are Reported Based on the Annual Required Contribution (ARC), Regardless of the Expended Amount. (the ARC was \$0 for the Year Ended June 30, 2023.

12,615

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,085,013

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, 2023

	Final		Variance -
	Budget	Actual	Favorable/
			(Unfavorable)
REVENUES			
General Fund			
Property Taxes	\$ 655,400	\$ 629,611	\$ (25,789)
Transfer Taxes	345,000	256,875	(88,125)
Fines	6,000	5,275	(725)
Franchise Fees	22,000	19,397	(2,603)
Impact Fees	178,500	147,000	(31,500)
Permits and Licenses	215,800	232,243	16,443
Community Events	1,000	1,695	695
Grants and Contributions	126,900	72,673	(54,227)
Miscellaneous	22,400	11,220	(11,180)
Investment Return, Net	18,000	120,519	102,519
TOTAL REVENUES	1,591,000	1,496,508	(94,492)
EXPENDITURES			
General Fund			
Salaries, Payroll Taxes, and Benefits	732,300	599,475	132,825
Utilities	20,400	19,364	1,036
Engineer Consulting Fee	75,600	76,132	(532)
Professional Fees	205,950	153,683	52,267
Police Services	25,000	24,261	739
Advertising	300	260	40
Office Supplies	10,700	15,931	(5,231)
Bank Fees/Rebates	-	(2,603)	2,603
Computer Support	30,000	29,208	792
Community Events	13,450	11,837	1,613
Maintenance Expense	53,800	38,184	15,616
Town Decorations	1,000	828	172
Dues and Membership Fees	4,200	3,325	875
Insurance	23,500	28,317	(4,817)
Travel and Entertainment	1,400	330	1,070
Miscellaneous	42,600	25,818	16,782
Capital Outlay	82,500	72,289	10,211
Vehicle Expense	18,000	9,631	8,369
Street Light	92,900	90,706	2,194
Trash	214,800	214,777	23
TOTAL EXPENDITURES	1,648,400	1,411,753	236,647
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES	(57,400)	84,755	142,155
NET CHANGE IN FUND BALANCE	\$ (57,400)	\$ 84,755	\$ 142,155

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

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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 Council-Manager 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.

ARPA Fund (Major Governmental Fund) - This fund is used to account for the financial resources provided under the American Rescue Plan Act from United States Department of the Treasury, through the State of Delaware.

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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, Finance Committee and Town Manager 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 October 31 and become delinquent November 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, 2023, the allowance was \$0.

Investments - Investments are stated at fair value.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Inflows and Deferred Outflows of Resources - In addition to assets and liabilities, the statement of net assets and fund statements may report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time.

Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until the future period. The Town has one item that is required to be reported in this category. This is a result of the Town electing to participate in the Delaware Public Employees' Retirement System County & Municipal Police and Firefighters' Pension Plan for the year ended June 30, 2023. The Town made its required contributions to the Plan; however, its proportionate share of the net pension liability for the Plan has not yet been determined.

Deferred inflows of resources represent an acquisition of net assets that applies to future periods. The revenue is recognized in the applicable future period(s). The Town has no items that are required to be reported in this category for the year ended June 30, 2023.

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.

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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 \$2,529,439 in the various funds. The bank balances were \$2,567,246, as of June 30, 2023. Of the bank balance, \$250,000 was covered by federal depository insurance and \$250,000 was covered by Security Investor Protection Corporation, and \$2,067,246 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 other deposits that are not collateralized and are uninsured. All of the Town's investments are held by third parties in the Town's name.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 2: DEPOSITS AND INVESTMENTS

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	\$ 2,265,264	\$ 2,368,143	N/A
Exchange Traded Funds	411,605	296,012	N/A
	\$ 2,676,869	\$ 2,664,155	

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, 2023, for the Town's funds, net of applicable allowances for uncollectible accounts, are as follows:

Receivables	
Trash Collections	\$ 10,894
Street Lights	5,351
Property Tax	33,782
Grants	3,753
Gross Receivables	53,780
Less: Allowance for Uncollectible Accounts	3,518
Net Receivables	\$ 50,262

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated				
Land	\$ 4,842,677	\$ 96,364	\$ -	\$ 4,939,041
Construction in Progress	-	59,366	-	59,366
Total Capital Assets Not Being Depreciated	4,842,677	155,730	-	4,998,407
Capital Assets, Depreciated				
Building Improvements	1,336,332	6,679	(15,717)	1,327,294
Infrastructure	14,500,522	8,203,483	-	22,704,005
Office Equipment	100,613	-	(6,135)	94,478
Machinery and Equipment	214,961	56,491	(13,331)	258,121
Municipal Park	1,615,687	-	-	1,615,687
Total Capital Assets Being Depreciated	17,768,115	8,266,653	(35,183)	25,999,585
Less: Accumulated Depreciation	2,298,918	489,065	(31,167)	2,756,816
Total Capital Assets Being Depreciated, Net	15,469,197	7,777,588	(4,016)	23,242,769
Governmental Activities Capital Assets, Net	\$ 20,311,874	\$ 7,933,318	\$ (4,016)	\$ 28,241,176

Depreciation expense for the year ended June 30, 2023, was charged to the Governmental Activities in the amount of \$489,066.

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, 2023, the Town had used \$138,068 of the ARPA funds. The remaining 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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

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 \$24,261 was expended for the year ended June 30, 2023.

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 \$214,777 for the year ended June 30, 2023. 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, 2023, the Town incurred expenditures of \$214,777 to one vendor for solid waste collection service exceeding 10% of total government-wide expenses.

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.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 8: FAIR VALUES MEASURED ON RECURRING BASIS

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, 2023, 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	\$ 411,605	\$ 411,605	\$ -	\$ -
Mutual Funds	2,265,264	2,265,264	-	-
	<u>\$ 2,676,869</u>	<u>\$ 2,676,869</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 9: NET POSITION AND FUND EQUITY

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

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

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

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 9: NET POSITION AND FUND EQUITY

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, 2023, are comprised of \$31,322 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, 2023, \$146,614 was restricted by the State's Municipal Street Aid grant, \$6,634 was restricted by the State's Grant in Aid and \$675 was restricted by a State Police grant.

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.

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 \$6,247 for the year ended June 30, 2023.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 12: DEFINED BENEFIT PENSION PLAN

The Town participates in one defined benefit pension plan, the State of Delaware Public Employees Retirement System County and Municipal Police and Firefighters' Pension Plan ("DPERS Police Plan"). The Town adopted and was accepted into the DPERS Police Plan, effective July 6, 2022.

Plan Description - The DPERS Police Plan is a multi-employer cost-sharing plan administered by the Delaware Public Employees Retirement System (DPERS) and covers all full-time uniformed police officers hired on or after January 1, 2016. The Town's police officers, whose employment started with the Town on or after January 1, 2016, can participate in this plan.

The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees ("the Board").

The management of the Plan is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex officio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plan are commingled with other plans for investment purposes, the DPERS Police Plan's assets may be used only for the payment of benefits to the members of the plan in accordance with the terms of the plan.

As of June 30, 2023, the Town's membership in this plan is comprised of two active employees, none of whom are vested.

Benefits Provided -

Service Benefits - The DPERS Police Plan's service benefits calculation is 2.5% of the final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation, multiplied by years of service, in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation (excluding overtime and special pay).

Vesting - Vesting is at five years of credited service.

Retirement - Retirement age is 62 with five years of service; age plus credited service (but not less than ten years) equals 75 or 20 years of credited service.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 12: DEFINED BENEFIT PENSION PLAN - CONTINUED

Disability Benefits -

Duty - Total Disability - 75% of final average compensation plus 10% of each dependent not to exceed 25% for all dependents.

Duty - Partial Disability - Calculated in the same manner as service benefits, subject to a minimum 50% of final average compensation.

Non-duty - Calculated in the same manner as service benefits. Total disability benefits are subject to a minimum of 50% of final average monthly compensation plus 5% for each dependent, not to exceed 20% for all dependents. Partial disability benefits are subject to a minimum of 30% of the final average monthly compensation.

Survivor Benefits - If the employee is receiving pension benefits at the time of death, the eligible survivor receives 50% of the pension benefit. If the employee is active at the time of death, the eligible survivor receives 75% of the benefit the employee would have received at age 62. If the employee is killed in the line of duty, the eligible survivor receives 75% of the pension benefit.

Burial Benefit - \$7,000 per member.

Contributions - Employer contributions are determined by the Board of Pension Trustees. Employer contributions were 16.03% for the year ended June 30, 2023. The Town's contributions of \$12,615 for the year ended June 30, 2023, were equal to the required contribution for the year. Total eligible full-time wages covered by the DPERS Police Plan for the year totaled \$76,298.

Net Pension Liability, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions -

As of June 30, 2023, the Town reported \$0 for its proportionate share of the collective net pension asset because this is the first year of its participation in the DPERS Police Plan. The Town's future proportionate share of the net pension asset will be based on the percentage of actual contributions and will be measured as the difference between its proportionate share of the total pension assets and its proportionate share of the DPERS Police Plan's fiduciary net position. The Town's future proportionate share of the net pension asset will be recorded as an asset related to the governmental funds and will only be recorded in the governmental activities in the government-wide statement of net position.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 12: DEFINED BENEFIT PENSION PLAN - CONTINUED

Net Pension Liability, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions - Continued

For the year ended June 30, 2023, for the DPERS Police Plan the Town recognized pension expense of \$0. As of June 30, 2023, the Town reported deferred inflows and outflows of resources related to pensions of \$0 and \$12,615, respectively. The deferred outflows resulted from the Town's contributions subsequent to the measurement date and will be recognized as a decrease in the net pension liability in the year ending June 30, 2024.

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used in the June 30, 2021, actuarial valuation.

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality assumptions are based on the Pub-2010 mortality tables with gender adjustments for employees, healthy annuitants, and disabled retirees as well as an adjusted version on MP-2020 mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs), as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

Asset Allocation and Long-term Expected Rate of Return - The long-term expected rate of return on pension plan investments is determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation.

TOWN OF TOWNSEND, DELAWARE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 12: DEFINED BENEFIT PENSION PLAN - CONTINUED

Asset Allocation and Long-term Expected Rate of Return - Continued

Best estimates of geometric real rates of return for each major asset class included in the Plan’s current and expected asset allocation as of June 30, 2023, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Rate of Return</u>	<u>Asset Allocation</u>
Domestic Equity	5.7%	31.8%
International Equity	5.7%	15.0%
Fixed Income	2.0%	23.6%
Alternative Investments	7.8%	21.5%
Cash and equivalents	0.0%	8.1%

Discount Rate - The discount rate used to measure the total pension liability is 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The pension plan is managed by the State of Delaware Board of Pension Trustees. The Annual Comprehensive Financial Report of the Delaware Public Employees Retirement System can be obtained from the Office of Pensions at: McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904 or at www.delawarepensions.com.