

Financial Statements

CITY OF TOWNSEND, TENNESSEE

Year Ended June 30, 2023

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners
City of Townsend, Tennessee
Townsend, Tennessee

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Townsend, Tennessee as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise City of Townsend, Tennessee'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 and each major fund of City of Townsend, Tennessee as of June 30, 2023, the respective changes in its financial position and the respective budgetary comparisons of the general fund, state street aid fund, and drug 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 City of Townsend, Tennessee 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 the 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 misstatements, whether due to fraud or error.

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 City of Townsend, Tennessee's ability to continue as a going concern within twelve months beyond the date that the financial statements, 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 opinion. 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 and *Government 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 and *Government 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 City of Townsend, Tennessee'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 City of Townsend, Tennessee'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.

Emphasis of Matter

As discussed in Note K to the financial statements, City of Townsend, Tennessee has restated its fund balances and net position as of June 30, 2022 to correct recorded cash, tax revenue and accrued compensated absence balances which were not reported correctly. Our opinion is not modified with respect to this matter.

Required Supplementary Information/Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 to 10, the schedule of changes in net pension liability(asset) on pages 43 to 46 and the schedule of pension contributions on page 47 to 48 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other information we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise City of Townsend, Tennessee's financial statements. The accompanying information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedules of long-term debt requirements, changes in long-term debt by individual issue and expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the schedule of principal officials but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

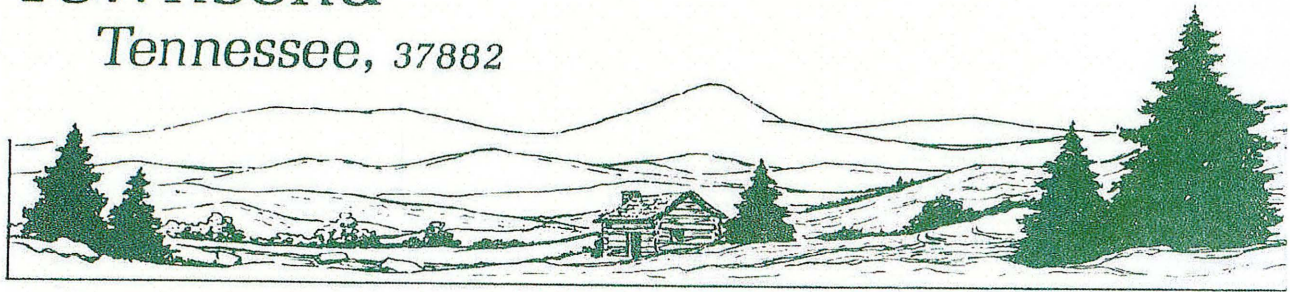
In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2024 on our consideration of City of Townsend, Tennessee’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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 City of Townsend, Tennessee’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 City of Townsend, Tennessee’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mitchell Emert + Hill". The signature is written in a cursive, flowing style.

April 17, 2024

Townsend

Tennessee, 37882



The Most Scenic Entrance to Great Smoky Mountains

Management's Discussion and Analysis For the Year Ended June 30, 2023

The management of City of Townsend, Tennessee (the City) presents this management's discussion and analysis (MD&A) of the City's financial condition and results of operations for the fiscal year ended June 30, 2023. This information should be read in conjunction with the accompanying financial statements.

This MD&A also presents an overview of the City, also known as the primary government. The government-wide financial statements include only the primary government, which is the total reporting entity.

Financial Highlights

The following are key financial highlights:

- The assets of the City were more than its liabilities at June 30, 2023 by \$2,618,460 (\$2,580,944 in 2022).
- The City's net position increased by \$37,516 (\$286,739 in 2022) or 1 percent during the year ended June 30, 2023 (11 percent in 2022).
- At June 30, 2023, the City's governmental funds reported combined ending fund balances of \$992,736, a decrease of \$30,404 for the year ended June 30, 2023. At June 30, 2022, the City's governmental funds reported combined ending fund balances of \$1,023,139, an increase of \$244,346 for the year ended June 30, 2022. Of the total fund balances, \$788,002 (\$700,038 in 2022) is unassigned and available for ongoing operations.
- At June 30, 2023 the unassigned fund balance of the general fund was \$788,022 (\$700,038 in 2022) or 54 percent (59 percent in 2022) of general fund expenditures. This demonstrates the City's fiscal discipline and will help meet unexpected emergencies and other uncertainties the City may face during the course of everyday operations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, including budget comparisons, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all the City's assets and liabilities with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities). The governmental activities of the City include the following:

- General government
- Public safety
- Public works
- Highways and streets

The government-wide financial statements can be found on pages 11-14 of this report.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City only reports one category: governmental funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the City’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures and changes in fund balances for the general fund, state street aid fund, and drug fund. To demonstrate compliance with the budget, budgetary comparison statements have been provided for all major funds and are presented on pages 20-25.

Notes to the Financial Statements - The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Internal Control and Compliance Section - This includes the auditors’ report on the City’s internal controls and compliance.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. At June 30, 2023 the City’s net position was \$2,618,460 (\$2,580,944 in 2022).

By far, the largest portion of the City’s net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services; consequently, these assets are *not* available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate long-term debt.

At June 30 the City’s statement of net position consisted of the following:

	2023	2022
ASSETS		
Current assets	\$ 1,038,156	\$ 1,065,521
Capital assets, net of accumulated depreciation	1,631,285	1,617,744
Other assets	13,943	154,574
	2,683,384	2,837,839
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	159,400	124,651
	\$ 2,842,784	\$ 2,962,490
 LIABILITIES		
Current liabilities	\$ 83,421	\$ 80,386
Long-term liabilities, net of current portion	124,000	162,000
	207,421	242,386

	<u>2023</u>	<u>2022</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	16,904	139,160
NET POSITION		
Investment in capital assets	1,469,285	1,417,740
Restricted	218,677	359,649
Unrestricted	<u>930,498</u>	<u>803,555</u>
	<u>2,618,460</u>	<u>2,580,944</u>
	<u>\$ 2,842,784</u>	<u>\$ 2,962,490</u>

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position may be used to meet obligations to employees and creditors and to help fund next year's budget.

Following is a summary of financial activities for the City during the fiscal year:

	<u>2023</u>	<u>2022</u>
REVENUE		
Program Revenue:		
Fees, fines and charges for services	\$ 138,505	\$ 154,727
Operating grants and contributions	67,514	69,541
Capital grants and contributions	26,862	27,401
General Revenue:		
Local taxes	1,074,288	973,829
Intergovernmental	129,737	216,457
Investment income	1,536	239
Miscellaneous	<u>5,851</u>	<u>1,913</u>
	1,444,293	1,444,107
EXPENSES		
General government	667,894	721,373
Public safety	532,126	309,241
Highways and streets	17,744	0
Public welfare	185,686	126,754
Debt service	<u>3,327</u>	<u>0</u>
	<u>1,406,777</u>	<u>1,157,368</u>
Increase in net position	37,516	286,739
Net position at the beginning of the year, as restated	<u>2,580,944</u>	<u>2,294,205</u>
Net position at the end of the year	<u>\$ 2,618,460</u>	<u>\$ 2,580,944</u>

Governmental Activities - During the year ended June 30, 2023, governmental activities increased the City's net position by \$37,516 (increased \$286,739 in 2022). The decrease in the change in net position compared to prior year is mostly due to increased salaries, repairs and maintenance and paving expenses.

The City's main sources of revenue are from local option sales tax, local beer tax, court revenue, and local and state-shared taxes, which consist of tax revenue shared by the State of Tennessee. The City does not levy a property tax.

Capital Assets

The City's investment in capital assets as of June 30, 2023 was \$1,631,285 (\$1,617,743 in 2022) net of accumulated depreciation.

	<u>2023</u>	<u>2022</u>
Land	\$ 437,438	\$ 437,438
Improvements	237,093	237,093
Buildings	1,147,598	1,120,736
Vehicles	242,446	207,373
Machinery and equipment	376,060	326,179
Accumulated depreciation	<u>(809,350)</u>	<u>(711,075)</u>
	<u>\$ 1,631,285</u>	<u>\$ 1,617,743</u>

The additions to major capital assets during the year ended June 30, 2023 was due to the following:

Buildings	\$ 26,862
Vehicles	35,074
Machinery and equipment	<u>65,855</u>
	<u>\$ 127,791</u>

Debt Administration

At June 30, 2023 the City's governmental fund had outstanding debt of \$162,000 (\$200,000 in 2022) consisting of the following:

	<u>2023</u>	<u>2022</u>
General Obligation Capital Outlay		
Refunding Note, Series 2021	\$ 162,000	\$ 200,000
Less: current portion due	<u>(38,000)</u>	<u>(38,000)</u>
Total long-term debt-principal	<u>\$ 124,000</u>	<u>\$ 162,000</u>

During the year ended June 30, 2023, the City retired \$38,000 (\$36,340 in 2022) of its governmental fund debt.

Financial Analysis of the City's Funds

As previously discussed, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The governmental fund's fund balance decreased by \$30,404 during the year ended June 30, 2023 (increased by \$220,264 in 2022).

Budgetary Highlights

General fund budgeted revenue increased \$150,647 and budgeted expenses increased \$132,468 to account for an increase in tax and grant revenue and an increase in salaries, health insurance expense, and capital outlay purchases that were more than expected.

State street aid fund budgeted revenue increased \$47 to account for an increase in tax revenue. State street aid fund budgeted expenditures increased \$7,549 to account for street paving expenses that did not originally have a budget appropriation.

There were no budget amendments made in the drug fund to increase budgeted revenue. Drug fund budgeted expenditures increased by \$2,819 to account for operating supplies and law enforcement equipment purchases that did not originally have a budget appropriation.

Economic Factors and Next Year's Budgets and Rates

The Board of Commissioners approved the budget for the year ending June 30, 2024. Budgeted revenue and expenditures did not vary significantly from the budget for the year ended June 30, 2023.

Requests for Information

This MD&A and accompanying financial statements and notes are designed to provide our citizens, employees, creditors and regulatory agencies with an overview of the City's finances. If you have any questions or need additional information, you may contact:

Gayla Webb, Recorder
City of Townsend, Tennessee
123 Tiger Drive
Townsend, TN 37882
Telephone 865-445-6886

CITY OF TOWNSEND, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2023

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 790,501
Due from other governments	28,319
Taxes receivable	198,610
Prepaid expenses	20,726
Net pension asset	13,943
Capital assets not being depreciated	437,438
Capital assets being depreciated, net of accumulated depreciation	<u>1,193,847</u>
	2,683,384
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	<u>159,400</u>
	<u><u>\$ 2,842,784</u></u>

See the accompanying notes to the financial statements.

Governmental
Activities

LIABILITIES

Accounts payable	\$ 18,575
Accrued payroll	8,587
Accrued compensated absences	18,259
Current portion of long-term debt	38,000
Long-term debt, net of current portion	<u>124,000</u>

207,421

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pension	16,904
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NET POSITION

Net investment in capital assets	1,469,285
Restricted:	
Street improvement	200,468
Drug enforcement	4,266
Pension	13,943
Unrestricted	<u>930,498</u>

2,618,460

\$ 2,842,784

CITY OF TOWNSEND, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 667,894	\$ 38,460	\$ 47,285	\$ 26,862
Public safety	532,126	100,045	0	0
Public welfare	185,686	0	0	0
Streets and highways	17,744	0	20,229	0
Debt service	3,327	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 1,406,777</u>	<u>\$ 138,505</u>	<u>\$ 67,514</u>	<u>\$ 26,862</u>
General Revenue:				
Taxes:				
Local sales tax				
Wholesale beer taxes				
Wholesale liquor taxes				
Franchise taxes				
In-lieu of tax payments				
Intergovernmental				
Investment earnings				
Miscellaneous				
Total general revenue				

CHANGE IN NET POSITION

NET POSITION AT THE BEGINNING OF THE YEAR,
as restated

NET POSITION AT THE END OF THE YEAR

See the accompanying notes to the financial statements.

Net (Expense)
Revenue and
Change In
Net Position

\$ (555,287)
(432,081)
(185,686)
2,485
(3,327)

(1,173,896)

933,113

110,312

8,038

16,212

6,613

129,737

1,536

5,851

1,211,412

37,516

2,580,944

\$ 2,618,460

CITY OF TOWNSEND, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2023

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
ASSETS				
Cash	\$ 589,035	\$ 197,201	\$ 4,266	\$ 790,501
Due from other governments	25,052	3,267	0	28,319
Prepaid expenses	20,726	0	0	20,726
Taxes receivable	<u>198,610</u>	<u>0</u>	<u>0</u>	<u>198,610</u>
	<u>\$ 833,423</u>	<u>\$ 200,468</u>	<u>\$ 4,266</u>	<u>\$ 1,038,157</u>
LIABILITIES				
Accounts payable	\$ 18,575	\$ 0	\$ 0	\$ 18,575
Accrued payroll	8,587	0	0	8,587
Accrued compensated absences	<u>18,259</u>	<u>0</u>	<u>0</u>	<u>18,259</u>
	45,421	0	0	45,421
FUND BALANCES				
Restricted	0	200,468	4,266	204,734
Nonspendable	20,726	0	0	20,726
Assigned	20,000	0	0	20,000
Unassigned	<u>747,276</u>	<u>0</u>	<u>0</u>	<u>747,276</u>
	<u>788,002</u>	<u>200,468</u>	<u>4,266</u>	<u>992,736</u>
	<u>\$ 833,423</u>	<u>\$ 200,468</u>	<u>\$ 4,266</u>	<u>\$ 1,038,157</u>

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2023

Total Fund Balance - Governmental Funds	\$ 992,736
Capital assets used in governmental activities are reported in the statement of net position; however, they are not current financial resources and therefore are not reported in the governmental funds balance sheet.	1,631,285
Net pension assets and liabilities, and the related deferred outflows and deferred inflows are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	
Net pension asset	13,943
Deferred outflows of resources	159,400
Deferred inflows of resources	(16,904)
Long-term debt is not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(162,000)</u>
Net Position of Governmental Activities	<u>\$ 2,618,460</u>

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

Year Ended June 30, 2023

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
REVENUE				
Taxes:				
Local sales tax	\$ 933,113	\$ 0	\$ 0	\$ 933,113
Wholesale beer tax	110,312	0	0	110,312
Wholesale liquor tax	8,038	0	0	8,038
Franchise tax	16,212	0	0	16,212
In-lieu of tax payments	6,613	0	0	6,613
Intergovernmental	204,892	19,221	0	224,113
Fines and forfeitures	100,045	0	0	100,045
Licenses, permits and fees	38,460	0	0	38,460
Investment earnings	1,536	0	0	1,536
Miscellaneous	4,851	0	1,000	5,851
	<u>1,424,072</u>	<u>19,221</u>	<u>1,000</u>	<u>1,444,293</u>
TOTAL REVENUE	1,424,072	19,221	1,000	1,444,293
EXPENDITURES				
Current:				
General government	651,478	0	0	651,478
Public safety	485,863	0	2,819	488,682
Higways and streets	0	17,744	0	17,744
Public works	147,672	0	0	147,672
Debt service	41,330	0	0	41,330
Capital outlay	127,791	0	0	127,791
	<u>1,454,134</u>	<u>17,744</u>	<u>2,819</u>	<u>1,474,697</u>
TOTAL EXPENDITURES	1,454,134	17,744	2,819	1,474,697
NET CHANGES IN FUND BALANCES	(30,062)	1,477	(1,819)	(30,404)

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(continued)

Year Ended June 30, 2023

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
FUND BALANCES AT THE BEGINNING OF THE YEAR, as restated	<u>818,064</u>	<u>198,990</u>	<u>6,085</u>	<u>1,023,139</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 788,002</u>	<u>\$ 200,468</u>	<u>\$ 4,266</u>	<u>\$ 992,736</u>

CITY OF TOWNSEND, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2023

Net Changes in Fund Balances - Governmental Funds	\$ (30,404)
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:	
Acquisition of capital assets	127,791
Depreciation expense	(114,249)
Repayment of long-term debt and liabilities is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities.	38,003
Pension expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental fund financial statements.	(25,637)
Retirement contributions made after the actuarial measurement date are an expenditures in the governmental funds, but increase deferred outflows for governmental activities	<u>42,011</u>
Change in Net Position of Governmental Activities	<u><u>\$ 37,516</u></u>

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND**

Year Ended June 30, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Taxes:				
Local sales tax	\$ 858,051	\$ 926,507	\$ 933,113	\$ 6,606
Wholesale beer tax	123,231	112,650	110,312	(2,338)
Wholesale liquor tax	8,794	8,153	8,038	(115)
Franchise tax	16,950	16,950	16,212	(738)
In-Lieu of tax payments	5,711	5,932	6,613	681
	1,012,737	1,070,192	1,074,288	4,096
Intergovernmental:				
State income tax	0	1,427	0	(1,427)
State beer tax	266	270	137	(133)
State sales tax	61,669	64,784	65,435	651
State mixed drink tax	42,050	59,815	63,185	3,370
Sport betting revenue	512	648	981	333
Other grants and contributions	9,000	5,607	5,607	0
City streets and transportation	979	1,008	1,008	0
ARPA grant	0	68,541	68,541	0
	114,476	202,100	204,892	2,792
Fines and forfeitures	104,463	100,191	100,045	(146)
Licenses and permits:				
Business license	180	225	300	75
Beer license	1,750	1,250	2,000	750
Building permits	24,300	27,773	27,213	(560)
Mobile vendor permit	3,240	7,511	7,801	290
Sign permit	689	409	496	87
Tubing permit	600	1,250	650	(600)
	30,759	38,418	38,460	42

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**
GENERAL FUND
(continued)

Year Ended June 30, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
Other revenue:				
Miscellaneous	1,710	3,555	4,851	1,296
Interest	215	551	1,536	985
	1,925	4,106	6,387	2,281
TOTAL REVENUE	1,264,360	1,415,007	1,424,072	9,065
EXPENDITURES				
General government:				
Mayor and commissioner salaries	3,000	3,000	3,000	0
Municipal judge salary	6,000	3,250	3,250	0
Salaries	168,480	194,791	200,073	5,282
Health insurance	210,768	216,609	232,083	15,474
Retirement	48,260	51,113	51,843	730
Workers' compensation	14,300	12,809	12,809	0
Unemployment insurance	316	309	322	13
General liability insurance	28,435	36,425	36,896	471
Life insurance	3,600	2,921	2,497	(424)
Employee training	5,099	5,978	3,946	(2,032)
Office supplies and postage	8,400	5,649	6,053	404
Utilities	16,252	16,404	14,842	(1,562)
Share of mixed drink tax	21,025	30,078	27,575	(2,503)
Legal fees	12,000	12,913	11,310	(1,603)
Auditing and accounting	4,500	4,500	4,500	0
Planning and zoning services	8,711	8,429	8,275	(154)
Dues and services	1,859	1,945	1,679	(266)
Election	1,500	1,500	1,500	0
Information technology fees	5,745	18,509	18,407	(102)
Repair and maintenance	5,400	7,906	9,036	1,130

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**

GENERAL FUND

(continued)

Year Ended June 30, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
General government(continued):				
Miscellaneous expense	866	687	598	(89)
Service charges	960	994	988	(6)
	<u>575,476</u>	<u>636,719</u>	<u>651,478</u>	<u>14,759</u>
Public safety:				
Salaries	310,433	308,301	311,433	3,132
Phone	5,040	4,913	5,169	256
Employee training	2,850	2,276	3,473	1,197
Gasoline	38,400	33,287	28,764	(4,523)
Vehicle repair and maintenance	5,400	10,339	15,120	4,781
City court expenses	27,360	23,791	22,652	(1,139)
E911 contract	6,946	6,946	6,946	0
Uniforms	3,600	4,518	5,521	1,003
Operating supplies	9,564	10,402	11,502	1,100
Firearm supplies	1,283	6,707	6,707	0
Fire department donation	50,000	68,000	68,000	0
Miscellaneous	425	500	575	75
	<u>461,301</u>	<u>479,980</u>	<u>485,863</u>	<u>5,883</u>
Public works:				
Salaries	85,155	93,098	94,582	1,484
Utilities	13,371	18,570	15,565	(3,005)
Janitorial supplies	3,545	3,852	3,693	(159)
Repair and maintenance	21,800	19,801	18,306	(1,495)
	<u>123,871</u>	<u>135,321</u>	<u>132,146</u>	<u>(3,175)</u>

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**

GENERAL FUND

(continued)

Year Ended June 30, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
Parks, health, education and welfare:				
Utilities	802	360	361	1
Repairs and maintenance	7,485	6,860	6,212	(648)
Advertising	3,400	1,050	1,050	0
Donations	4,000	4,000	4,000	0
Christmas decorations	4,000	3,903	3,903	0
	<u>19,687</u>	<u>16,173</u>	<u>15,526</u>	<u>(647)</u>
Debt service:				
Principal	38,000	38,000	38,003	3
Principal and interest	3,330	3,330	3,327	(3)
	<u>41,330</u>	<u>41,330</u>	<u>41,330</u>	<u>0</u>
Capital outlay:				
General government	0	27,873	26,862	(1,011)
Public safety	40,680	37,917	66,993	29,076
Public works	0	19,500	33,935	14,435
	<u>40,680</u>	<u>85,290</u>	<u>127,791</u>	<u>42,501</u>
TOTAL EXPENDITURES	<u>1,262,345</u>	<u>1,394,813</u>	<u>1,454,134</u>	<u>59,321</u>
NET CHANGES IN FUND BALANCE	2,015	20,194	(30,062)	(50,256)
FUND BALANCE AT THE BEGINNING OF THE YEAR, as restated	<u>0</u>	<u>0</u>	<u>818,064</u>	<u>818,064</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 2,015</u>	<u>\$ 20,194</u>	<u>\$ 788,002</u>	<u>\$ 767,808</u>

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
STATE STREET AID FUND**

Year Ended June 30, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Intergovernmental:				
State gasoline and motor fuel tax	\$ 19,709	\$ 19,756	\$ 19,221	\$ (535)
EXPENDITURES				
Operating supplies	19,709	0	0	0
Street paving	0	27,258	17,744	(9,514)
	<u>19,709</u>	<u>27,258</u>	<u>17,744</u>	<u>(9,514)</u>
NET CHANGES IN FUND BALANCE	0	(7,502)	1,477	8,979
FUND BALANCE AT THE BEGINNING OF THE YEAR, as restated	<u>0</u>	<u>7,502</u>	<u>198,990</u>	<u>191,488</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 200,468</u>	<u>\$ 200,468</u>

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
DRUG FUND**

Year Ended June 30, 2023

	<u>Budget</u>			Variance Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
REVENUE				
Contributions and donations	\$ 1,000	\$ 1,000	\$ 1,000	\$ 0
EXPENDITURES				
Operating supplies	0	2,174	2,174	0
Law enforcement equipment	<u>0</u>	<u>645</u>	<u>645</u>	<u>0</u>
	<u>0</u>	<u>2,819</u>	<u>2,819</u>	<u>0</u>
NET CHANGES IN FUND BALANCE	1,000	(1,819)	(1,819)	0
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>1,819</u>	<u>6,085</u>	<u>4,266</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 1,000</u>	<u>\$ 0</u>	<u>\$ 4,266</u>	<u>\$ 4,266</u>

See the accompanying notes to the financial statements.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023

NOTE A - DESCRIPTION OF ORGANIZATION

City of Townsend, Tennessee (the City) was incorporated was chartered in 1921. The City operates under a Board of Commissioners and Mayor-Council form of government and provides the following services as authorized by its charter: public safety, highways and streets, culture, recreation, public improvements, planning and zoning, and general administrative services.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City, for financial reporting purposes, includes all funds relevant to the operations of City of Townsend, Tennessee. The financial statements presented herein do not include agencies that have been formed under applicable state laws, or separate and distinct units of government apart from the City. As of June 30, 2023 and for the year then ended, the City had no discretely presented component units which were required to be included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the City. As a general rule, the effect of interfund activities has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, 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 of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures and expenditures related to claims and judgments, are recorded only when the payment is due.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *state street aid fund* is used to account for the City's share of motor fuel tax revenue that is legally restricted to the maintenance of streets within the City's boundaries.

The *drug fund* is used to account for revenues (primarily drug related fines) and costs associated with drug investigation and control and officers' training and purchases of equipment.

The City had no proprietary funds, internal service funds or fiduciary funds as of or for the year ended June 30, 2023.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Net Investment in Capital Assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Net investment in capital assets at June 30, 2023 has been calculated as follows:

Governmental activities:

Capital assets	\$ 2,440,635
Accumulated depreciation	(809,350)
Principal balance on long-term debt	<u>(162,000)</u>
	<u>\$ 1,469,285</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the City pursuant to those stipulations or that expire by the passage of time. Net position of the state street aid fund is classified as restricted net position because its use is limited to street improvements. Net position of the drug fund is classified as restricted net position because its use is limited to drug enforcement or education programs. Governmental funds also report net position restricted for pension. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted

This category includes net position that is not subject to externally imposed stipulations and that does not meet the definition of "Restricted" or "Net Investment in Capital Assets." Unrestricted net position may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balances

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for prepaid expenses or inventory.

Restricted Fund Balances

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balances

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Board of Commissioners commits resources for specific purposes by passing ordinances.

Assigned Fund Balances

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Board of Commissioners. The City had \$20,000 assigned to replace signage around the City at June 30, 2023.

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the general fund is the only fund of the City that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

The City would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Budgets and Budgetary Accounting

The Board of Commissioners is required to adopt, by ordinance, total budget appropriations by line item for all funds. The City's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP). All budget amendments must be approved by the Board of Commissioners. Unused appropriations lapse at the end of the year.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 30 years.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Compensated Absences

It is the policy of the City to grant full-time employees forty hours of vacation leave after the first ninety days of employment. Employees having between three and ten years of employment are entitled to eighty hours of vacation leave. Employees having eleven or more years of employment are entitled to one hundred and twenty hours of vacation leave. Employees having ten or more years of employment are entitled to three weeks' vacation. Vacation is a vested benefit and is paid out to the employee upon termination or retirement.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

NOTE C - CASH AND INVESTMENTS

Cash represents money on deposit in various banks.

State of Tennessee law authorizes the City to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (LGIP). The LGIP contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All cash balances at June 30, 2023 were entirely insured through either the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

NOTE D - CAPITAL ASSETS

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

	<u>Balance</u> <u>7/1/22</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/23</u>
Governmental Activities:				
<u>Capital assets not</u>				
<u>being depreciated</u>				
Land	\$ 437,438	\$ 0	\$ 0	\$ 437,438
<u>Capital assets being depreciated</u>				
Improvements	237,093	0	0	237,093
Buildings	1,120,736	26,862	0	1,147,598
Vehicles	207,373	35,074	0	242,446
Machinery and equipment	<u>326,179</u>	<u>65,855</u>	<u>(15,974)</u>	<u>376,060</u>
	1,891,382	127,791	(15,974)	2,003,197
<u>Accumulated depreciation</u>				
Improvements	(188,946)	(9,179)	0	(198,125)
Buildings	(145,715)	(44,587)	0	(190,302)
Vehicles	(111,317)	(38,362)	0	(149,679)
Machinery and equipment	<u>(265,097)</u>	<u>(22,121)</u>	<u>15,974</u>	<u>(271,244)</u>
	<u>(711,075)</u>	<u>(114,249)</u>	<u>15,974</u>	<u>(809,350)</u>
	<u>\$ 1,617,744</u>	<u>\$ 13,542</u>	<u>\$ 0</u>	<u>\$ 1,631,285</u>

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Depreciation expense is charged to the various governmental functions as follows:

General government	\$ 32,790
Public safety	43,445
Public works	28,924
Recreation	<u>9,091</u>
	<u>\$ 114,249</u>

NOTE E - PENSION PLAN

Plan Description

Employees of the City are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than .5%. A 1% COLA is granted if the CPI change is between .5% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>10</u>
	<u>16</u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The City makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2023 employer contributions for the City were \$42,011 based on a rate of 7.59% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability(Asset)

The City's net pension liability(asset) was measured as of June 30, 2022, and the total pension liability used to calculate net pension liability(asset) was determined by an actuarial valuation as of that date.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Actuarial Assumptions

The total pension liability as of June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.125%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2022 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation by 2.25%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	4.88%	31.00%
Developed market international equity	5.37	14.00
Emerging market international equity	6.09	4.00
Private equity and strategic lending	6.57	20.00
U.S. fixed income	1.20	20.00
Real estate	4.38	10.00
Short-term securities	0.00	<u>1.00</u>
		<u>100.00%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive 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.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Changes in Net Pension Liability(Asset)

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability(Asset) <u>(a) – (b)</u>
Changes for the year ended June 30, 2022:			
Increase(decrease):			
Service cost	\$ 42,693	\$ 0	\$ 42,693
Interest	55,339	0	55,339
Differences between expected and actual experience	59,183	0	59,183
Contributions - employer	0	32,766	(32,766)
Contributions - employees	0	21,401	(21,401)
Net investment income	0	(36,663)	36,663
Benefit payments, including refunds of employee contributions	(29,888)	(29,888)	0
Administrative expense	<u>0</u>	<u>(920)</u>	<u>920</u>
Net changes for the year ended June 30, 2022	127,327	(13,304)	140,631
Balances at June 30, 2021	<u>792,093</u>	<u>946,667</u>	<u>(154,574)</u>
Balances at June 30, 2022	<u>\$ 919,420</u>	<u>\$ 933,363</u>	<u>\$ (13,943)</u>

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Sensitivity of the Net Pension Liability(Asset) to Changes in the Discount Rate

The following presents the net pension liability(asset) of the City calculated using the discount rate of 6.75%, as well as what the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease <u>5.75%</u>	Current Discount Rate <u>6.75%</u>	1% Increase <u>7.75%</u>
Net pension liability(asset)	\$ 118,679	\$ (13,943)	\$ (122,875)

Pension Expense

For the year ended June 30, 2023, the City recognized pension expense of \$25,637.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 80,447	\$ 16,904
Net difference between projected and actual earnings on pension plan investments	3,912	0
Changes in assumptions	33,030	0
Contributions subsequent to the measurement date of June 30, 2022	<u>42,011</u>	<u>not applicable</u>
Totals	<u>\$ 159,400</u>	<u>\$ 16,904</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2022,” will be recognized as a reduction (increase) to net pension liability(asset) in the following measurement period.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30:</u>	
2024	\$ 15,058
2025	18,023
2026	5,367
2027	31,722
2028	11,452
Thereafter	18,850

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

NOTE F – LONG-TERM DEBT

Long-term debt at June 30, 2023 consisted of the following:

General Obligation Capital Outlay Refunding Note, Series 2021, interest rate of 3.76% maturing in 2026, principal payments ranging from \$38,000 to \$42,000 due annually	\$ 162,000
Less current maturities	<u>(38,000)</u>
	<u>\$ 124,000</u>

The taxing authority of the City are pledged for the repayment of the principal and interest maturities of the General Obligation Capital Outlay Refunding Note.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

Maturities of long-term debt as of June 30, 2023 are as follows:

Governmental Activities:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2024	\$ 38,000	\$ 2,631	\$ 40,631
2025	40,000	1,914	41,914
2026	42,000	1,159	43,159
2027	<u>42,000</u>	<u>387</u>	<u>42,387</u>
	<u>\$ 162,000</u>	<u>\$ 6,091</u>	<u>\$ 168,091</u>

Changes in long-term debt for the year ended June 30, 2023 were as follows:

	<u>Balance 7/1/22</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/23</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
General Obligation Bond, Series 2020	\$ 200,000	\$ 0	\$ 38,000	\$ 162,000	\$ 38,000

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Risk Management Pool (the Pool) and pays an annual premium to the Pool for its general insurance coverage. The City carries commercial insurance for all other risks of loss, including destruction of property and employee dishonesty bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows the Pool to make additional assessments or refund surplus revenue to the City. It is not possible to estimate the amount of such additional assessments or refunds, if any.

NOTE H – RETIREMENT PLAN

During the year ended June 30, 2020, the City began participating in a 401(k) defined contribution plan administered by the State of Tennessee. Employees of the City are immediately eligible but are not required to participate in the defined contribution plan. The City matches up to 3% of the employee's compensation to the defined contribution plan. The City contributed \$10,678 for the year ended June 30, 2023.

NOTE I – EXPENDITURES EXCEEDED APPROPRIATIONS

During the year ended June 30, 2023, expenditures exceeded appropriations in the general fund by \$59,321. Expenditures that exceed appropriations are a violation of state statutes.

CITY OF TOWNSEND, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2023

NOTE J – RESTATEMENT

Fund balance and net position at June 30, 2022 has been restated to correct recorded cash, tax revenue and accrued compensated absence balances which were not reported correctly:

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Governmental Activities</u>
Balance at June 30, 2022, as originally reported	\$ 795,626	\$ 197,346	\$ 2,545,672
Correct recorded cash balances	19,158	0	19,158
Record tax revenue	10,927	1,644	12,571
Correct accrued compensated absences	<u>(7,647)</u>	<u>0</u>	<u>3,543</u>
Balance at June 30, 2022, as restated	<u>\$ 818,064</u>	<u>\$ 198,990</u>	<u>\$ 2,580,944</u>

As a result of the restatement, the change in fund balance for the year ended June 30, 2022 should have been \$4,924 higher than originally reported and the change in net position for governmental activities for the year ended June 30, 2022 should have been \$16,114 higher than originally reported.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOWNSEND, TENNESSEE

CHANGES IN NET PENSION LIABILITY(ASSET)

June 30, 2023

	Measurement Date at June 30,		
	2022	2021	2020
<u>Total pension liability</u>			
Service cost	\$ 42,693	\$ 31,079	\$ 30,987
Interest	55,339	52,539	48,852
Changes in benefit terms	0	0	0
Differences between actual and expected experience	59,183	(5,654)	8,475
Changes of assumptions	0	38,087	0
Benefit payments, including refunds of employee contributions	(29,888)	(35,113)	(39,991)
Net change in total pension liability	127,327	80,938	48,323
Total pension liability - beginning	792,093	711,155	662,832
Total pension liability - ending (a)	919,420	792,093	711,155
<u>Plan fiduciary net position</u>			
Contributions - employer	32,766	27,630	47,070
Contributions - employee	21,401	18,134	17,703
Net investment income	(36,663)	193,112	34,572
Benefit payments, including refunds of employee contributions	(29,888)	(35,113)	(39,991)
Administrative expense	(920)	(715)	(664)
Net change in plan fiduciary net position	(13,304)	203,048	58,690
Plan fiduciary net position - beginning	946,667	743,619	684,929
Plan fiduciary net position - ending (b)	933,363	946,667	743,619
Net pension liability(asset) - ending (a) - (b)	\$ (13,943)	\$ (154,574)	\$ (32,464)

See the accompanying independent accountants' audit report.

		Measurement Date at June 30,					
2019	2018	2017	2016	2015	2014		
\$ 30,536	\$ 24,596	\$ 18,652	\$ 17,913	\$ 14,206	\$ 15,603		
49,075	43,492	35,191	33,818	31,239	29,961		
0	36,718	0	0	0	0		
(29,871)	16,306	79,051	(21,700)	(8,378)	(15,850)		
0	0	17,863	0	0	(16,197)		
(66,545)	(33,543)	(18,498)	(6,424)	(6,360)	0		
(16,805)	87,569	132,259	23,607	30,707	13,517		
679,637	592,068	459,809	436,202	405,495	391,978		
662,832	679,637	592,068	459,809	436,202	405,495		
42,538	41,489	29,577	24,531	20,537	23,040		
14,532	14,261	11,878	9,852	8,248	8,910		
47,816	48,783	57,587	12,454	13,285	58,828		
(66,545)	(33,543)	(18,498)	(6,424)	(6,360)	(16,197)		
(669)	(665)	(609)	(378)	(213)	(183)		
37,672	70,325	79,935	40,035	35,497	74,398		
647,257	576,932	496,997	456,962	421,465	347,067		
684,929	647,257	576,932	496,997	456,962	421,465		
\$ (22,097)	\$ 32,380	\$ 15,136	\$ (37,188)	\$ (20,760)	\$ (15,970)		

CITY OF TOWNSEND, TENNESSEE

CHANGES IN NET PENSION LIABILITY(ASSET)

(continued)

June 30, 2023

	Measurement Date at June 30,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Plan fiduciary net position as a percentage of total net pension liability	101.52%	119.51%	104.56%
Covered employee payroll	\$ 428,026	\$ 418,554	\$ 362,686
Net pension liability(asset) as a percentage of covered employee payroll	(3.26)%	36.93%	(8.95)%

Notes to Changes in Net Pension Liability(Asset)

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

Changes of Assumptions

In 2021 amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, and mortality improvements. In 2017 amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

See the accompanying independent accountants' audit report.

	Measurement Date at June 30,					
	2019	2018	2017	2016	2015	2014
	103.33%	95.24%	97.44%	108.09%	104.76%	103.94%
\$	290,634	\$ 285,229	\$ 237,566	\$ 197,032	\$ 164,958	\$ 178,208
	(7.60)%	11.35%	6.37%	(18.87)%	(12.59)%	(8.96)%

CITY OF TOWNSEND, TENNESSEE

PENSION CONTRIBUTIONS

June 30, 2023

	2023	Year Ended June 30,		2020
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Actuarially determined contribution	\$ 42,011	\$ 32,766	\$ 27,630	\$ 24,917
Contributions in relation to the actuarially determined contribution	<u>(42,011)</u>	<u>(32,766)</u>	<u>(27,630)</u>	<u>(47,070)</u>
Contribution deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (22,153)</u>
Covered employee payroll	\$ 553,729	\$ 428,026	\$ 362,686	\$ 322,927
Contributions as a percentage of covered employee payroll	7.59%	7.66%	7.62%	14.58%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

Notes to Pension Contributions

Valuation date: Actuarially determined contribution rates for the year ended June 30, 2023 were calculated based on the June 30, 2021 actuarial valuation.

Methods and assumptions used to determined contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20% corridor to market value
Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.125%

See the accompanying independent accountants' audit report.

	Year Ended June 30,					
	2019	2018	2017	2016	2015	2014
	\$ 22,717	\$ 20,209	\$ 28,674	\$ 24,531	\$ 20,537	\$ 23,040
	(42,538)	(41,489)	(29,577)	(24,531)	(20,537)	(23,040)
	\$ (19,821)	\$ (21,280)	\$ (903)	\$ 0	\$ 0	\$ 0
	\$ 290,634	\$ 285,229	\$ 237,566	\$ 197,032	\$ 165,059	\$ 178,208
	14.64%	14.55%	12.45%	12.45%	12.45%	12.93%

Changes of Assumptions

In 2021 the following assumptions were changed: decreased inflation rate from 2.50% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living from 2.25% to 2.125%; and modified mortality assumptions. In 2017 the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

SUPPLEMENTARY INFORMATION

CITY OF TOWNSEND, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

June 30, 2023

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
General Obligation Capital Outlay Refunding Note, Series 2021			
Year Ending <u>June 30:</u>			
2024	\$ 38,000	\$ 2,631	\$ 40,631
2025	40,000	1,914	41,914
2026	42,000	1,159	43,159
2027	42,000	387	42,387
	<u>\$ 162,000</u>	<u>\$ 6,091</u>	<u>\$ 168,091</u>

See the accompanying independent accountants' audit report.

CITY OF TOWNSEND, TENNESSEE

CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2023

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>
General Obligation Capital Outlay Refunding Note, Series 2021	\$ 236,340	1.840%	4/9/2021

See the accompanying independent accountant's audit report.

<u>Last Maturity Date</u>	<u>Outstanding 7/1/2022</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding 6/30/2023</u>
12/1/2026	\$ 200,000	\$ 0	\$ 38,000	\$ 0	\$ 162,000

CITY OF TOWNSEND, TENNESSEE

EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

<u>Federal Grantor/ Pass-Through Grantor/ Program Name</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Treasury/ Tennessee Department of Finance and Administration/ Coronavirus State and Local Fiscal Recovery Funds	21.027	1505-0271	\$ 68,541

BASIS OF PRESENTATION

This schedule summarizes the expenditures of City of Townsend, Tennessee under programs of the federal government for the year ended June 30, 2023. This schedule is presented using the accrual basis of accounting. Because this schedule presents only a selected portion of the operations of City of Townsend, Tennessee, it is not intended and does not present the net position or changes in net position of City of Townsend, Tennessee.

See the accompanying independent accountants' audit report.

OTHER INFORMATION

CITY OF TOWNSEND, TENNESSEE

PRINCIPAL OFFICIALS

June 30, 2023

Don Prater, Mayor
Rindi Martin, Vice-Mayor
Kelsey Satterfield, Commissioner
Becky Headrick, Commissioner
Ted Godfrey, Commissioner
Danny Williamson, City Manager
Gayla Webb, City Recorder, CMFO

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
City of Townsend, Tennessee
Townsend, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the governmental activities and each major fund of City of Townsend, Tennessee as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise City of Townsend, Tennessee's basic financial statements, and have issued our report thereon dated April 17, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Townsend, Tennessee's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Townsend, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Townsend, Tennessee's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City of Townsend, Tennessee's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Townsend, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Townsend, Tennessee's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Townsend, Tennessee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mitchell Emert + Hill". The signature is written in a cursive, flowing style.

April 17, 2024

CITY OF TOWNSEND, TENNESSEE

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2023

There were no prior year findings reported.