



TOWN OF MOUNT AIRY, MARYLAND

BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
JUNE 30, 2019



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Mount Airy, Maryland
Mount Airy, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mount Airy, Maryland (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Mount Airy, Maryland as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule - general fund, schedules of the Town's proportionate share of the net pension liability, Town contributions, and changes in the Town's total other postemployment benefits (OPEB) liability and related ratios on pages 3 through 12 and 54 through 57, respectively, be presented to supplement the basic financial statements. Such 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 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.



Westminster, Maryland
October 9, 2019

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

The following discussion and analysis of the financial performance of the Town of Mount Airy provides an overview of the Town's financial activities for the year ended June 30, 2019. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the Town of Mount Airy exceeded its total liabilities at the close of Fiscal Year 2019 by \$59,317,511 (total net position). Of this amount, \$28,747,081 was for governmental activities and \$30,570,430 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$10,844,815; \$5,036,697 for governmental activities and \$5,808,118 for business-type activities. This information can be found in the Statement of Net Position, directly following Management's Discussion and Analysis.
- In reviewing the Statement of Activities, you will see that the net position of governmental activities (the General Fund) decreased by \$205,957, and business-type activities (the Water and Sewer Fund) decreased by \$403,363, resulting in a \$609,320 decrease in the Town's total net position from the previous fiscal year.
- The Balance Sheet is a report that gives a snapshot of the total financial picture of the Town's Governmental Fund. As of June 30, 2019, the total liabilities and fund balances for governmental funds were \$7,400,442. This is an increase of \$227,360 from Fiscal Year 2018.
- At the close of Fiscal Year 2019, the Town's governmental fund reported an ending fund balance of \$6,884,146, an increase of \$213,501 from Fiscal Year 2018. This information may be reviewed on the Statement of Revenues, Expenditures and Changes in Fund Balance.
- The Town of Mount Airy is financially strong, with funds on deposit in, certificates of deposit, checking accounts and savings accounts totaling more than \$13 million. You can find this information in the Notes to Financial Statements, Note 2 – Deposits. Total deposits and investments decreased by \$458,543 from Fiscal Year 2018. This decrease can be attributed to a withdrawal from the Water System reserve account to pay for improvements made to Water Tower #1. The Town has kept the tax rate steady since Fiscal Year 2011, with a slight drop beginning in Fiscal Year 2018, and the homestead tax credit has remained at a 0% cap since Fiscal Year 2000, all while keeping services at the same or increased levels. Our goal is, and will continue to be, to keep the Town financially strong without increasing taxes or reducing services.
- The Town received a \$5,635 grant from the Maryland Department of Natural Resources for the Watkins Park Backboard project.
- Work was completed on the fit-out of the space to house The Mount Airy Police Department (MAPD) early in Fiscal Year 2019. This work included everything from plumbing, wiring, insulation, drywall and flooring to furniture, network equipment and kitchen appliances. One additional officer was hired in FY 2019, bringing the force to a total of ten officers, including the chief. A drug arrest led to the seizure of \$22,100 in U.S. currency and because the defendant forfeited the money, the Police Department was able to keep the money. The funds were put in a separate checking account and can only be used for departmental expenses that increase or supplement the annual budget.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Unaudited

- The Water and Sewer Fund ended Fiscal Year 2019 with a \$416,421 operating loss, as reported on the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund. The depreciation expense, which affects the bottom line, was \$1,283,450.
- The Town's Water and Sewer Fund long-term debt balance was \$4,949,084 by year end, a net decrease of \$554,795 from Fiscal Year 2018. This information can be reviewed in the Notes to Basic Financial Statements, Note 4 – Long-Term Liabilities. The Water Quality Loan of 1998 was paid off in Fiscal Year 2019. This was a \$3,523,087 loan that was used to upgrade the Waste Water Treatment Plant and was financed over 20 years.
- The Town received a Bay Restoration Fund Grant in the amount of \$36,000 for Enhanced Nutrient Removal (ENR) operating and maintenance expenses. This grant is provided to help pay for the chemicals needed to remove phosphorous and nitrogen emitted into effluent water which eventually makes its way into the Chesapeake Bay.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the Town's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position reports information of all the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Town is improving or deteriorating.

The Statement of Activities lists governmental activities and business-type activities by department reporting expenses, program revenue, and net revenue (or expense) for each department. Then general revenues are added in to show how the Town's net position changed during the fiscal year.

Both the Statement of Net Position and the Statement of Activities distinguish functions of the Town that are governmental activities, which are those activities principally supported by taxes and revenues from other governments, and functions of the Town that are business-type activities, which are meant to cover operating costs with service fees. The governmental activities of the Town include general government, public safety, waste collection, streets and roads, parks and recreation, planning and zoning and economic development. The business-type activities of the Town include water and sewer service.

Fund Financial Statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's funds separately. The Town's two funds, governmental and proprietary, use different accounting approaches.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

- Governmental funds - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation after the fund financial statements. The Town's Governmental Fund is the General Fund.
- Proprietary funds - Services that the Town provides, for which it charges customers, are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities using the full accrual accounting method. The Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. The Town's Proprietary Fund is the Water and Sewer Fund.

Notes to the financial statements provide additional information that is essential to obtaining a full understanding of the data provided in the government-wide and fund financial statements.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2019 and for the previous year ended, which is provided for comparison purposes. A summary of the Town's Statement of Net Position is as follows:

	Fiscal Year 2019			Fiscal Year 2018		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current and Other Assets	\$ 7,400,442	\$ 6,800,769	\$ 14,201,211	\$ 7,173,082	\$ 7,395,961	\$ 14,569,043
Capital Assets	\$ 23,688,283	\$ 29,680,644	\$ 53,368,927	\$ 24,027,341	\$ 30,181,197	\$ 54,208,538
Total Assets	\$ 31,088,725	\$ 36,481,413	\$ 67,570,138	\$ 31,200,423	\$ 37,577,158	\$ 68,777,581
Deferred Outflows of Resources	\$ 387,162	\$ 168,085	\$ 555,247	\$ 231,032	\$ 116,135	\$ 347,167
Liabilities						
Current Liabilities	\$ 516,296	\$ 459,489	\$ 975,785	\$ 510,263	\$ 870,398	\$ 1,380,661
Long-Term Liabilities	\$ 1,961,242	\$ 5,518,055	\$ 7,479,297	\$ 1,715,932	\$ 5,747,176	\$ 7,463,108
Total Liabilities	\$ 2,477,538	\$ 5,977,544	\$ 8,455,082	\$ 2,226,195	\$ 6,617,574	\$ 8,843,769
Deferred Inflows of Resources	\$ 251,268	\$ 101,524	\$ 352,792	\$ 252,222	\$ 101,926	\$ 354,148
Net Position						
Net Investment in Capital Assets	\$ 23,688,283	\$ 24,762,312	\$ 48,450,595	\$ 24,027,341	\$ 24,704,300	\$ 48,731,641
Restricted	\$ 22,101	\$ -	\$ 22,101			
Unrestricted	\$ 5,036,697	\$ 5,808,118	\$ 10,844,815	\$ 4,925,697	\$ 6,269,493	\$ 11,195,190
	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831

The Town's total net position decreased by 1% (\$59,317,511 compared to \$59,926,831).

Total assets decreased by 2% (\$67,570,138 compared to \$68,777,581), the largest portion of which is comprised of capital assets. These capital assets include land, easements, buildings, infrastructure, equipment, vehicles, and construction in progress. The current and other assets include cash and cash equivalents, investments, taxes receivable, accounts receivable, interest receivable, inventory, and intergovernmental receivables.

The Town's total liabilities decreased by 4% (\$8,455,082 compared to \$8,843,769). This decrease from the previous fiscal year was largely due to current liabilities. Current liabilities include accounts payable and accrued expenses, refundable deposits, and bond interest payable. The largest portion of the Town's total liabilities is from long-term debt in business-type activities in which improvements to the infrastructure of the Water and Sewer Systems have been made.

Pensions and other postemployment benefits, reported on the Statement of Net Position as deferred outflows of resources and deferred inflows of resources, can be thought of as promises of future benefits to workers in return for labor today. State and local governments must recognize their pension liability in their financial statements. Other postemployment benefits are benefits, other than pensions, that are offered to employees after retirement such as a Medicare supplement plan. The accrued liability for other postemployment benefits is the liability for those benefits that have already been accrued for past and current, eligible retired employees.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

A summary of the Town's Statement of Activities for the current and prior fiscal year is as follows:

	Fiscal Year 2019			Fiscal Year 2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue						
Program Revenues						
Charges for Services	\$ 213,880	\$ 2,687,629	\$ 2,901,509	\$ 105,778	\$ 2,594,948	\$ 2,700,726
Operating Grants and Contributions	\$ 561,913	\$ 36,000	\$ 597,913	\$ 549,661	\$ 36,000	\$ 585,661
Capital Grants and Contributions	\$ 71,966		\$ 71,966	\$ 57,908		\$ 57,908
General Revenues						
Taxes						
Income Taxes	\$ 1,973,978		\$ 1,973,978	\$ 1,792,666		\$ 1,792,666
Real Property Taxes	\$ 1,859,660		\$ 1,859,660	\$ 1,815,808		\$ 1,815,808
Personal Property Tax	\$ 144,773		\$ 144,773	\$ 135,093		\$ 135,093
Grants, Contributions, and Franchise Fees						
not Restricted to Specific Programs	\$ 911,869		\$ 911,869	\$ 881,722		\$ 881,722
Connection Charges		\$ 23,800	\$ 23,800		\$ 57,800	\$ 57,800
Interest Income and Rent	\$ 91,386	\$ 119,299	\$ 210,685	\$ 62,177	\$ 118,427	\$ 180,604
Miscellaneous	\$ 22,452		\$ 22,452	\$ 52,087		\$ 52,087
Total Revenues	\$ 5,851,877	\$ 2,866,728	\$ 8,718,605	\$ 5,452,900	\$ 2,807,175	\$ 8,260,075
Transfers						
Total Revenues and Transfers	\$ 5,851,877	\$ 2,866,728	\$ 8,718,605	\$ 5,452,900	\$ 2,807,175	\$ 8,260,075
Expenses						
General Government	\$ 1,170,215		\$ 1,170,215	\$ 1,091,643		\$ 1,091,643
Planning and Zoning	\$ 452,426		\$ 452,426	\$ 447,510		\$ 447,510
Public Safety	\$ 1,616,716		\$ 1,616,716	\$ 1,603,879		\$ 1,603,879
Public Works	\$ 2,278,415		\$ 2,278,415	\$ 2,260,202		\$ 2,260,202
Parks and Recreation	\$ 474,874		\$ 474,874	\$ 426,127		\$ 426,127
Economic Development	\$ 65,188		\$ 65,188	\$ 62,873		\$ 62,873
Water and Sewer Services		\$ 3,270,091	\$ 3,270,091		\$ 3,313,374	\$ 3,313,374
	\$ 6,057,834	\$ 3,270,091	\$ 9,327,925	\$ 5,892,234	\$ 3,313,374	\$ 9,205,608
Changes in Net Position	\$ (205,957)	\$ (403,363)	\$ (609,320)	\$ (439,334)	\$ (506,199)	\$ (945,533)
Net Position at Beginning of Year	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831	\$ 29,392,372	\$ 31,479,992	\$ 60,872,364
Net Position - End of Year	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831

Governmental activities

For the fiscal year ended June 30, 2019, revenues from governmental activities totaled \$5,851,877, which is 67% of the total revenue received for the Town as a whole. The majority of governmental revenue came from income taxes (34%), and real property taxes (32%).

Expenses from governmental activities totaled \$6,057,834. The largest component of expenses, \$2,278,415 (38%), was from Public Works. Public Safety came in next highest at \$1,616,716 (27%).

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

Business-type activities

Water and Sewer Service charges made up 94% of total business-type revenue, with the next highest being interest income and rent at 4%.

Both governmental activities and business-type activities showed decreases in the net position at the end of Fiscal Year 2019. Revenues for both funds increased from the previous fiscal year. Expenses increased slightly for the General Fund by about 3%, and the Water and Sewer Fund showed a reduction in expenses by about 1%. Revenues tend to stay steady, increasing slightly over time. Expenses can vary widely from year-to-year depending upon the projects that are planned, and any extra maintenance and repairs that are completed to the Town's infrastructure.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

In reviewing the Balance Sheet – Governmental Funds, as of the end of Fiscal Year 2019, the Town's governmental funds reported combined ending fund balance of \$6,884,146, of which \$1,603,282, or 23%, is unassigned. \$4,988,826, or 72%, is assigned to provide funding for capital improvements, land acquisition, office and building improvements, park improvements, police department expenses, sidewalk and road improvements, and truck and equipment replacement. Much of this money has been collected through developer fees and surplus deposits throughout the years. Committed fund balances total \$202,725, which consists of Parks Fee-in-lieu and Center Street Improvements. \$22,101 of the Town's funds are restricted; this is money in the Police forfeiture fund, and lastly \$67,212 is listed as non-spendable funds and represents inventory.

Business-type Funds

The Statement of Net Position – Proprietary Funds reports the unrestricted funds for the Water and Sewer Fund totaling \$5,808,118. You can find detailed information about the Town's fund balances for both the General Fund and the Water and Sewer Fund in the Notes to Basic Financial Statements, Note 5 – Net Position and Fund Balances.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended eight times during the year as approved by the Town Council. Some of these amendments were for projects or purchases that weren't completed in the previous fiscal year, and all but one of the amendments were for capital projects. Budget amendments for the General Fund capital improvements included: the Twin Arch Crossing basketball court construction and fencing, the Watkins Park backboard project, and emergency improvements to the West Ridgeville Boulevard storm drain and embankment. The Water and Sewer Fund capital budget amendments were for the elevated water storage tank #1 rehabilitation and the purchase of a sewer camera. There was one budget amendment for operating expenses for the General Fund and that was to fund a special election that took place after Councilperson Scott Strong resigned in July of 2018 due to accepting a wonderful job opportunity in Texas.

Schedule 1, in the required supplementary information section of this report, contains a chart that shows the original budget, the final budget, the actual, and the variance to budget. Overall the General Fund took in \$1,190,634 less in revenues than expected and spent \$2,851,446 less than expected. The shortfall in revenue is attributed to park grants for capital projects because some large projects, such as Rails to Trails, are taking longer than expected to move forward. The expenditures came in significantly under budget for the same reason.

The highest variance in revenues was intergovernmental, which received \$1,084,555 less than budgeted. As explained above, this is largely from the park grants that were not received because the projects associated with them did not move forward as planned in the budget year. Other revenues that came in with a notable variance were Taxes with \$232,502 less than budgeted, Charges for Services with \$66,241 more than expected, and Interest Income at \$44,586 more than expected.

The Rental Income listed in this chart comes from the Mount Airy Pharmacy located at 1 North Main Street. When the Town purchased the Train Station in Fiscal Year 2017 it also became landlord to the existing tenant, the Mount Airy Pharmacy, which has been a landmark in the downtown area for many years. The Pharmacy pays monthly rent, as well as a percentage of exterior property landscaping and snow removal expenses.

The highest variance in expenditures was Capital Outlays that came in \$2,530,447 less than budgeted. This was due to timing issues on projects that took longer than expected to design, bid-out, and begin construction.

Other expenditures that came in with a notable variance were Police with \$191,313 less than budgeted; Planning and Zoning with \$49,021 less than expected; and Parks and Recreation with \$41,809 less than expected. Underspending the budget is sometimes the result of timing issues for projects or purchases that didn't move forward as quickly as expected, or it is determined that a project or purchase needs more study or planning before moving forward. Above all, the main reason expenditures come in under budget is because money is not spent for any purpose unless it is necessary; purchases aren't made based on the budget, they are made based on necessity.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019
Unaudited

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Mount Airy's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$53,368,927 (net of accumulated depreciation). Of this amount, \$23,688,283 is governmental activities, and \$29,680,644 is business-type activities. These assets include construction in progress, land, easements, storm water management facilities, buildings, roads, sidewalks, storm drains, park facilities, machinery and equipment, vehicles, water and sewer infrastructure, and the Waste Water Treatment Plant (WWTP). More detail can be found in the Notes to Basic Financial Statements, Note 3 – Capital Assets and Depreciation.

Capital purchases that were put into service and projects that were completed during the fiscal year include the following:

General Fund

- The Train Station Renovation was completed. This project began in Fiscal Year 2017 and cost a total of \$378,105.
- Phase IV of the Department of Public Works (DPW) Facility Rehab was put into service. This project began in Fiscal Year 2013 and included retaining walls, rehabilitating existing buildings, landscaping, lighting, repaving the parking lot, adding paved areas, and updating the office and breakrooms. The office and breakroom portion of the project has not moved forward for several fiscal years, and there have been no expenses for this project since Fiscal Year 2017. It was decided to close Phase IV without these improvements with the intention of beginning a new phase for this work sometime in the future. The total cost of this phase of the DPW Project was \$168,331.
- The speaker system on Main Street was extended at a cost of \$30,107.
- The police station fit-out project was completed. The total cost over two fiscal years was \$447,155.
- The police department hired its tenth officer for which a laptop and a personal radio that was purchased the previous fiscal year was put into service. These items totaled \$8,915.
- In the Roads Department
 - o The Annual Road Repaving project consisted of repaving a section of West Ridgeville Boulevard. The total cost of this project was \$108,738.
 - o Storm drain and embankment improvements were made at West Ridgeville Boulevard at a total cost of \$219,854.
 - o \$5,350 was spent to install fencing at the Trestle Street Storm Water Management Pond.
 - o Equipment purchased included a salt spreader for \$6,006 and a solar speed/radar sign for \$3,302.
 - o Vehicle purchases included two pickup trucks and two dump trucks totaling \$286,028.
- In the Parks Department
 - o A storage shed was purchased to store parks and recreation equipment for \$5,000.
 - o A new backboard was constructed at Watkins Park for \$6,040.
 - o The street hockey court at Prospect Park was repaved at a cost of \$14,640. This court now serves a dual purpose as pickle ball lines have been added.
 - o Two projects were completed at Twin Arch Crossing Park: a park entrance sign at a cost of \$6,190, and a basketball court at a cost of \$80,481.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Unaudited

Water and Sewer Fund

- Three pickup trucks at a total cost of \$127,834
- A sewer camera at \$71,309
- A sludge pump at the WWTP for \$19,680
- Five sewer pumps for sewer pumping stations at a total cost of \$28,132
- Fencing was installed around Water Tower #3 at a cost of \$9,200
- A pump was installed at Water Station #5 for \$3,546
- Two VFDs were installed at Water Station #1 at a total cost of \$10,283
- The Elevated Water Storage Tank #1 Rehabilitation project was completed at a total cost of \$554,104

Contributed Capital (Land, facilities, easements, or other capital assets given to the Town)

- An easement to access a public pedestrian trail in Brittany Manor at Twin Arch Village valued at \$11,632 was deeded to the Town from Twin Arch Associates Family Limited Liability Partnership.
- The Town accepted a deed for land from Twin Arch Associates Family Limited Liability Partnership that includes two areas of parkland valued at \$54,699. One of the areas is used as a soccer field and the Town constructed a basketball court in the other area.

Debt

At year end, the Town's Water and Sewer Department had \$4,918,332 in outstanding debt, compared to \$5,471,368 the previous year. This amount consists of bonds issued for Water System infrastructure improvements. They are the Infrastructure Bonds of 2012 Refunding, and the Infrastructure Bonds of 2012. The Water Quality Loan of 1998 that was used to upgrade the WWTP was paid off in Fiscal Year 2019.

Economic Factors and Next Year's Budgets and Rates

The Tax Rate for Fiscal Year 2020 will remain the same as Fiscal Year 2019 at .1662 (cents) per \$100 of assessed value. Additionally, the Homestead Tax Cap will remain at 0%. The State of Maryland has established the Homestead Property Tax Credit to help homeowners deal with large assessment increases on their principal residence. The Homestead Credit limits the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less each year. With the Town's cap of 0%, qualified homeowners receive a credit on their real estate tax bills for the portion of their municipal tax bill attributed to assessment increases.

Highway User Revenues are expected to increase beginning in Fiscal Year 2020 and by Fiscal Year 2024 be restored to 90% of the original funding. The Town experienced tremendous cuts in Highway User Revenue and State Police Grants from the State of Maryland during the Fiscal Year 2010 budget cycle which necessitated cutting many planned expenses to make up the difference. Many other municipal governments had no choice but to increase taxes to cover expenses. The State has restored some of what was originally cut, but it has been a slow process. Careful planning for the future financial health of the Town will continue to be the focus of the Mayor and Town Council.

The Town has been mandated by the State of Maryland to make improvements to storm water management. A decree by the Environmental Protection Agency (EPA) called for mandatory reductions in nitrogen, phosphorus, and sediment that damage the Chesapeake Bay and are primarily found in drainage run-off and fertilizers. Maryland, along with four other states and the District of Columbia, must comply with new environmental standards which involve projects related to storm water management. The State of Maryland enacted a "storm water management fee" in 2012, known as the Rain Tax, on 10 of its 24 local jurisdictions

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Unaudited

within the state, including Carroll County and Frederick County. This mandated "rain tax" has been repealed, but the project requirement has not. It is up to each county to determine how to fund the mandated improvements to storm water management. Since the Town of Mount Airy resides in both Frederick and Carroll Counties it will be required to do projects in both counties. Frederick County is offering no financial assistance to municipalities within the county. Carroll County has set aside money, by diverting funds from other projects, and has set up a fund to help municipalities with 80% of the cost of mandated storm water management projects. These improvements will cost the Town of Mount Airy nearly \$2 million over the next few years. Carroll County is also managing the Town's projects in both counties at no cost to the Town.

Many capital project ideas are being considered for next year and beyond. Exciting projects may include the rehabilitation or rebuilding the Flat Iron Building, increasing parking spaces in the downtown area, and expanding Rails to Trails to name a few. Careful consideration as to the benefit of these projects to the citizens of the Town will be a main component in deciding which projects move forward into the budgeting phase. As of June 30, 2019, the Town is committed to construction projects for: paving of \$439,164; sidewalk and curbs of \$251,036; and Summit Ridge Park pavilion for \$105,111.

The Town is fortunate to have significant reserve funds that have grown over the years and have funded many capital projects. One of the main sources of income to the reserve accounts in the past has been permit fees. As the Town builds out existing developments in the approved pipeline of projects, deposits from that source of income will be reduced. There is no immediate danger of this revenue source ending for the reserve accounts, in fact Fiscal Year 2020 is expected to be a "bumper" year for permit revenue with the Brittany Manor subdivision. New projects are coming along that show much promise. Wildwood Park Senior Housing Section VII is under final review by the Town and Carroll County, and Greentree and the office park slated for the Harrison/Leishear property are in the preliminary concept phase. Careful planning will be the key to determine how the reserves will be funded and used in the future, and how to fund the ongoing capital projects for which these funds have historically been used. Considerations will include the safe level of funds to keep for emergencies, or "rainy day" funds, other potential sources of revenue, if any, and funding future capital projects.

The Water and Sewer Fund has remained self-sufficient for the last eight fiscal years following a decade of significant contributions from the General Fund to help fund operating and capital expenses. Careful attention will be paid to ensure that the Water and Sewer Fund stays self-sufficient and that user fees provide all money necessary for the operating and capital budgets in future years. Large capital projects have been financed so that adequate balances remain in the Town's reserve accounts.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mayor Patrick Rockinberg at 110 South Main Street, Mount Airy, Maryland 21771-0050.

BASIC FINANCIAL STATEMENTS

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,848,831	\$ 2,275,797	\$ 4,124,628
Cash and Cash Equivalents - Restricted	87,663	57,007	144,670
Certificates of Deposit	4,475,338	2,880,351	7,355,689
Accounts Receivable	68,073	598,176	666,249
Taxes Receivable	271,409	-	271,409
Due from Other Governments	62,741	-	62,741
Inventory	67,212	-	67,212
Unbilled Services	-	88,340	88,340
TOTAL CURRENT ASSETS	6,881,267	5,899,671	12,780,938
NON-CURRENT ASSETS			
Certificates of Deposit	519,175	901,098	1,420,273
Property and Equipment			
Construction in Progress	1,143,629	282,093	1,425,722
Land and Land Rights	2,092,370	1,438,848	3,531,218
Buildings and Improvements	5,582,790	22,866,820	28,449,610
Equipment	2,909,616	665,736	3,575,352
Infrastructure	34,663,954	23,972,145	58,636,099
Vehicles	1,058,510	463,352	1,521,862
	47,450,869	49,688,994	97,139,863
Less: Accumulated Depreciation	23,762,586	20,008,350	43,770,936
Net Property and Equipment	23,688,283	29,680,644	53,368,927
TOTAL NON-CURRENT ASSETS	24,207,458	30,581,742	54,789,200
TOTAL ASSETS	31,088,725	36,481,413	67,570,138
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts from Pensions	380,863	167,851	548,714
Deferred Amounts from Other			
Postemployment Benefits	6,299	234	6,533
TOTAL DEFERRED OUTFLOWS OF RESOURCES	387,162	168,085	555,247
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 31,475,887	\$ 36,649,498	\$ 68,125,385

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 386,642	\$ 46,085	\$ 432,727
Accrued Payroll and Related Benefits	59,160	10,603	69,763
Accrued Interest Payable	-	24,353	24,353
Current Portion of Bonds Payable (Net of Premiums)	-	321,441	321,441
Payable from Restricted Assets Due to Other Governments	-	57,007	57,007
Refundable Deposits	65,562	-	65,562
Unearned Revenues	4,932	-	4,932
TOTAL CURRENT LIABILITIES	516,296	459,489	975,785
NON-CURRENT LIABILITIES			
Accrued Compensated Absences	104,182	30,752	134,934
Net Pension Liability	936,008	439,890	1,375,898
Total Other Postemployment Benefits Liability	921,052	450,522	1,371,574
Bonds Payable (Net of Premiums)	-	4,596,891	4,596,891
TOTAL NON-CURRENT LIABILITIES	1,961,242	5,518,055	7,479,297
TOTAL LIABILITIES	2,477,538	5,977,544	8,455,082
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts from Pensions	115,525	52,991	168,516
Deferred Amounts from Other Postemployment Benefits	135,743	48,533	184,276
TOTAL DEFERRED INFLOWS OF RESOURCES	251,268	101,524	352,792
NET POSITION			
Net Investment in Capital Assets Restricted	23,688,283	24,762,312	48,450,595
Unrestricted	22,101	-	22,101
	5,036,697	5,808,118	10,844,815
TOTAL NET POSITION	28,747,081	30,570,430	59,317,511
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 31,475,887	\$ 36,649,498	\$ 68,125,385

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 1,170,215	\$ 165,172	\$ 3,328	\$ -	\$ (1,001,715)	\$ -	\$ (1,001,715)
Planning and Zoning	452,426	14,308	-	-	(438,118)	-	(438,118)
Public Safety	1,616,716	-	155,888	-	(1,460,828)	-	(1,460,828)
Public Works	2,278,415	16,174	397,467	-	(1,864,774)	-	(1,864,774)
Parks and Recreation	474,874	18,226	-	71,966	(384,682)	-	(384,682)
Economic Development	65,188	-	5,230	-	(59,958)	-	(59,958)
Total Governmental Activities	6,057,834	213,880	561,913	71,966	(5,210,075)	-	(5,210,075)
Business-Type Activities							
Water and Sewer Services	3,270,091	2,687,629	36,000	-	-	(546,462)	(546,462)
Total Business-Type Activities	3,270,091	2,687,629	36,000	-	-	(546,462)	(546,462)
TOTAL PRIMARY GOVERNMENT	\$ 9,327,925	\$ 2,901,509	\$ 597,913	\$ 71,966	(5,210,075)	(546,462)	(5,756,537)
GENERAL REVENUES							
Taxes							
					1,973,978	-	1,973,978
					1,859,660	-	1,859,660
					144,773	-	144,773
Grants, Contributions, and Franchise Fees Not Restricted to Specific Programs							
					911,869	-	911,869
					-	23,800	23,800
					91,386	119,299	210,685
					22,452	-	22,452
TOTAL GENERAL REVENUES					5,004,118	143,099	5,147,217
CHANGES IN NET POSITION							
					(205,957)	(403,363)	(609,320)
					28,953,038	30,973,793	59,926,831
NET POSITION - END OF YEAR					\$ 28,747,081	\$ 30,570,430	\$ 59,317,511

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 1,848,831	\$ 1,848,831
Cash and Cash Equivalents - Restricted	87,663	87,663
Certificates of Deposit	4,994,513	4,994,513
Accounts Receivable	68,073	68,073
Taxes Receivable	271,409	271,409
Due from Other Governments	62,741	62,741
Inventory	67,212	67,212
TOTAL ASSETS	\$ 7,400,442	\$ 7,400,442
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 386,642	\$ 386,642
Accrued Payroll and Related Benefits	59,160	59,160
Payable from Restricted Assets		
Refundable Deposits	65,562	65,562
Unearned Revenues	4,932	4,932
TOTAL LIABILITIES	516,296	516,296
FUND BALANCES		
Nonspendable	67,212	67,212
Restricted	22,101	22,101
Committed	202,725	202,725
Assigned	4,988,826	4,988,826
Unassigned	1,603,282	1,603,282
TOTAL FUND BALANCES	6,884,146	6,884,146
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,400,442	\$ 7,400,442

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	6,884,146
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.</p>		23,688,283
<p>Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.</p>		(670,670)
<p>Total other postemployment benefits liability and related deferred amounts that are not payable in the current period and, therefore, are reported as employee benefits in the period during which the benefit occurs in the fund financial statements.</p>		(1,050,496)
<p>Accrued compensated absences are not payable in the current period and, therefore, are reported as wages in the period during which the absence occurs in the fund financial statements.</p>		(104,182)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>28,747,081</u>

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Taxes	\$ 3,978,411	\$ 3,978,411
Licenses and Permits	142,700	142,700
Intergovernmental	1,345,276	1,345,276
Charges for Services	179,241	179,241
Fines and Forfeitures	1,350	1,350
Rental Income	16,800	16,800
Interest Income	74,586	74,586
Miscellaneous	47,182	47,182
TOTAL REVENUES	<u>5,785,546</u>	<u>5,785,546</u>
EXPENDITURES		
General Government	860,195	860,195
Planning and Zoning	349,579	349,579
Public Safety		
Police	1,276,317	1,276,317
Volunteer Fire Company	184,451	184,451
Public Works		
Highways and Streets	548,818	548,818
Solid Waste Collection	482,975	482,975
Parks and Recreation	287,929	287,929
Economic Development	64,177	64,177
Miscellaneous	403,889	403,889
Capital Outlays	1,143,403	1,143,403
TOTAL EXPENDITURES	<u>5,601,733</u>	<u>5,601,733</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>183,813</u>	<u>183,813</u>
OTHER FINANCING SOURCES		
Proceeds from Sale of Capital Assets	29,688	29,688
TOTAL OTHER FINANCING SOURCES	<u>29,688</u>	<u>29,688</u>
NET CHANGES IN FUND BALANCES	213,501	213,501
Fund Balances - Beginning of Year	6,670,645	6,670,645
FUND BALANCES - END OF YEAR	<u>\$ 6,884,146</u>	<u>\$ 6,884,146</u>

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 213,501
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation

Add: Capital Outlays	1,143,403
Less: Depreciation Expense	(1,529,153)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.	(19,639)
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Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenue in the governmental funds.	66,331
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In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Accrued Compensated Absences	(18,201)
Deferred Outflows of Resources Relating to Pensions	157,009
Deferred Outflows of Resources Relating to Other Postemployment Benefits	(879)
Net Pension Liability	(171,464)
Total Other Postemployment Benefits Liability	(47,819)
Deferred Inflows of Resources Relating to Pensions	2,245
Deferred Inflows of Resources Relating to Other Postemployment Benefits	(1,291)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (205,957)
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TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	Water and Sewer Fund	Total Proprietary Funds
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,275,797	\$ 2,275,797
Cash and Cash Equivalents - Restricted	57,007	57,007
Certificates of Deposit	2,880,351	2,880,351
Accounts Receivable	598,176	598,176
Unbilled Services	88,340	88,340
TOTAL CURRENT ASSETS	5,899,671	5,899,671
NON-CURRENT ASSETS		
Certificates of Deposit	901,098	901,098
Property and Equipment		
Construction in Progress	282,093	282,093
Land and Land Rights	1,438,848	1,438,848
Buildings and Improvements	22,866,820	22,866,820
Equipment	665,736	665,736
Infrastructure	23,972,145	23,972,145
Vehicles	463,352	463,352
	49,688,994	49,688,994
Less: Accumulated Depreciation	20,008,350	20,008,350
Net Property and Equipment	29,680,644	29,680,644
TOTAL NON-CURRENT ASSETS	30,581,742	30,581,742
TOTAL ASSETS	36,481,413	36,481,413
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts from Pensions	167,851	167,851
Deferred Amounts from Other Postemployment Benefits	234	234
TOTAL DEFERRED OUTFLOWS OF RESOURCES	168,085	168,085
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 36,649,498	\$ 36,649,498

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 46,085	\$ 46,085
Accrued Payroll and Related Benefits	10,603	10,603
Accrued Interest Payable	24,353	24,353
Current Portion of Bonds Payable (Net of Premiums)	321,441	321,441
Payable from Restricted Assets		
Due to Other Governments	57,007	57,007
TOTAL CURRENT LIABILITIES	<u>459,489</u>	<u>459,489</u>
NON-CURRENT LIABILITIES		
Accrued Compensated Absences	30,752	30,752
Net Pension Liability	439,890	439,890
Total Other Postemployment Benefits Liability	450,522	450,522
Bonds Payable (Net of Premiums)	4,596,891	4,596,891
TOTAL NON-CURRENT LIABILITIES	<u>5,518,055</u>	<u>5,518,055</u>
TOTAL LIABILITIES	<u>5,977,544</u>	<u>5,977,544</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts from Pensions	52,991	52,991
Deferred Amounts from Other Postemployment Benefits	48,533	48,533
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>101,524</u>	<u>101,524</u>
NET POSITION		
Net Investment in Capital Assets	24,762,312	24,762,312
Unrestricted	5,808,118	5,808,118
TOTAL NET POSITION	<u>30,570,430</u>	<u>30,570,430</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 36,649,498</u>	<u>\$ 36,649,498</u>

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Water and Sewer Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for Services	\$ 2,499,808	\$ 2,499,808
Other Revenues	187,821	187,821
TOTAL OPERATING REVENUES	2,687,629	2,687,629
OPERATING EXPENSES		
Depreciation	1,283,450	1,283,450
Insurance	44,716	44,716
Other Administrative Expenses	34,192	34,192
Payroll Taxes and Fringe Benefits	232,040	232,040
Repairs and Maintenance	477,649	477,649
Salaries and Wages	511,082	511,082
Supplies and Materials	208,775	208,775
Utilities	312,146	312,146
TOTAL OPERATING EXPENSES	3,104,050	3,104,050
OPERATING LOSS	(416,421)	(416,421)
NON-OPERATING REVENUES		
(EXPENSES)		
Connection Charges	23,800	23,800
Intergovernmental	36,000	36,000
Interest Income	72,959	72,959
Loss on Disposal of Assets	(12,101)	(12,101)
Rental Income	46,340	46,340
Interest Expense and Fiscal Charges	(153,940)	(153,940)
TOTAL NON-OPERATING REVENUES	13,058	13,058
(EXPENSES)	13,058	13,058
CHANGES IN NET POSITION	(403,363)	(403,363)
Net Position - Beginning of Year	30,973,793	30,973,793
NET POSITION - END OF YEAR	\$ 30,570,430	\$ 30,570,430

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Water and Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows		
Cash Received from Customers	\$ 2,717,174	\$ 2,717,174
Rental Income Received	46,340	46,340
	2,763,514	2,763,514
Outflows		
Cash Paid to Suppliers	1,103,845	1,103,845
Cash Paid to Employees	702,783	702,783
	1,806,628	1,806,628
NET CASH PROVIDED BY OPERATING ACTIVITIES	956,886	956,886
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Inflows		
Cash Received from Grants	36,000	36,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	36,000	36,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Inflows		
Connection Fees Received	23,800	23,800
Outflows		
Interest Paid	167,709	167,709
Purchase of Capital Assets	934,547	934,547
Payments on Long-Term Debt	553,036	553,036
	1,655,292	1,655,292
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,631,492)	(1,631,492)
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows		
Interest Received	72,959	72,959
Outflows		
Purchase of Certificate of Deposit	65,509	65,509
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,450	7,450
NET DECREASE IN CASH AND CASH EQUIVALENTS	(631,156)	(631,156)
Cash and Cash Equivalents - Beginning of Year	2,963,960	2,963,960
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,332,804	\$ 2,332,804

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Water and Sewer Fund	Total Proprietary Funds
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,275,797	\$ 2,275,797
Cash and Cash Equivalents - Restricted	57,007	57,007
	\$ 2,332,804	\$ 2,332,804
CASH AND CASH EQUIVALENTS - END OF YEAR		
	\$ 2,332,804	\$ 2,332,804
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (416,421)	\$ (416,421)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,283,450	1,283,450
Rental Income	46,340	46,340
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	27,595	27,595
Unbilled Services	1,950	1,950
Deferred Amounts from Pensions	(56,534)	(56,534)
Deferred Amounts from Other Postemployment Benefits	4,584	4,584
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Expenses	(25,272)	(25,272)
Accrued Payroll and Related Benefits	397	397
Due to Other Governments	(1,095)	(1,095)
Accrued Compensated Absences	3,770	3,770
Net Pension Liability	69,666	69,666
Total Other Postemployment Benefits Liability	18,858	18,858
Deferred Amounts from Pensions	(912)	(912)
Deferred Amounts from Other Postemployment Benefits	510	510
	\$ 956,886	\$ 956,886
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 956,886	\$ 956,886
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Trade-in Allowances for Purchases of Equipment	\$ 16,809	\$ 16,809
	\$ 16,809	\$ 16,809

See Notes to Financial Statements

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of Mount Airy, Maryland (the “Town”) was incorporated in 1894. The Town operates under a Council - Mayor supervised form of government and provides the following services: general and administrative, planning and zoning, public safety and enforcement, streets and roads, sanitation, parks and recreation, economic development, and water and sewer services to its residents.

The Town’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units of the Town.

New Accounting Pronouncements Adopted

The following summarizes a GASB Statement implemented by the Town during the year ended June 30, 2019 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements - The objective of this Statement is to improve financial statement disclosures related to debt, including direct borrowings and direct placements, and it clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement were effective for periods beginning after June 15, 2018, and were implemented by the Town as of July 1, 2018, with no effect on financial statement presentation and disclosure.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund (reporting the Town's major funds) financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's general administrative, planning and zoning, public safety, public works, parks and recreation, and economic development services are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full-accrual, economic-resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources, as well as long-term debt and obligations and deferred inflows of resources. The Town's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost per functional category (public works, recreation and parks, etc.), which are otherwise being supported by general government revenues (property and income taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function or business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other general revenues not restricted to specific program functions are reported instead as general revenues.

The net costs (by function or program) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc.). The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Town utilizes various criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the Town are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets and deferred inflows of resources are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred outflows of resources are assigned to the fund from which they will be paid.

The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance.

The following is a description of the Town's major governmental fund:

General Fund - The General Fund is the primary operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income (loss), changes in net position, financial position, and cash flows. The applicable accounting principles generally accepted in the United States of America are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues for the Town's proprietary funds are charges for water services and sewer services. Operating expenses for the Town's proprietary funds include personnel services, contracted services, utilities, supplies and materials, repairs and maintenance, administrative and general, insurance, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The Town's proprietary fund is classified as an enterprise fund. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The following is a description of the Town's major enterprise fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are partially financed through user charges.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as unearned revenue or deferred inflows of resources by the recipient.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Cash and Cash Equivalents

The Town considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

Unbilled Services

Unbilled customer service receivables for water consumption and related sewer charges are based upon the estimated quantity of water used during the current year but not billed until next fiscal year.

Inventory

Materials and supplies are carried at cost using the first-in, first-out method and are subsequently charged to expenditures when consumed.

Capital Assets and Depreciation

Capital assets used in governmental fund type operations are accounted for in the government-wide financial statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition value on the date donated. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are capitalized by the Town if they have a value of \$3,000 or more for a single item, with an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line, full-year method over the following estimated useful lives:

Buildings	10 - 50 years
Furniture, Machinery and Equipment	5 - 15 years
Improvements	10 - 20 years
Roads, Sidewalks, and Storm Drains	20 - 40 years
Vehicles	5 - 10 years
Water Distribution and Sewer Systems	40 - 50 years

Government-Wide Statements

In the government-wide financial statements, capital assets used in operations are accounted for as property and equipment. The Town elected to retroactively report all general infrastructure assets, including roads, bridges, and other infrastructure assets, at historical cost in a prior year. The Town has elected not to retroactively report intangible assets, including capital assets identified as having indefinite useful lives or being internally generated, prior to July 1, 2009. All intangible assets acquired subsequent to July 1, 2009 are reported at historical cost.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation of all exhaustible capital assets is recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net position.

Additions are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred outflows and inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to future periods and will not be recognized as an outflow (expense/expenditure) or inflow (revenue) of resources until that time. Deferrals related to pension and other postemployment benefits are disclosed in their respective notes below.

Accrued Compensated Absences

The Town permits employees to accumulate unused vacation time to a maximum of 160 hours, earned equally from each pay based on the employee's length of service. Upon termination from employment, an employee will be paid for annual vacation leave accumulated to the date of separation up to 160 hours, plus any accumulated annual vacation leave earned up to the time of termination during the calendar year. Paid sick leave is accrued through December 31, 2012. Upon termination from employment, an employee will be paid their accrued sick leave at one-half of their current pay rate. Sick leave after December 31, 2012 is accrued and used by employees, but is not paid upon termination from employment. Compensatory time is permitted to be accrued to a maximum of 40 hours, all of which will be paid to employees in full upon termination of employment. The salary-related payments representing the employer's share of Social Security and Medicare taxes have been accrued. The vested annual leave is expensed as incurred in the appropriate funds.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Unearned Revenues

Revenues under reimbursable grant agreements are recognized in the period in which the qualified expenditures are made. Grant agreement funding received in advance and unexpended as of June 30, 2019 is reported as unearned revenues.

Bond Premiums and Issuance Costs

In the government-wide and proprietary funds financial statements, bond premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Unamortized bond premiums are netted against bonds payable for presentation. Bond issuance costs, excluding amounts prepaid for bond insurance, are expensed as incurred.

Net Position and Fund Balances

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt and other liabilities that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category represents the net position of the Town that is not restricted for any project or other purpose. However, these funds may be constrained for specific projects or purposes in the fund financial statements.

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance - This category represents amounts that are not in spendable form (such as inventory and long-term receivables) or are required to be maintained intact.

Restricted Fund Balance - This category represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. For committed fund balance, the Town's highest level of decision-making authority is the Mayor and Council. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is an ordinance.

Assigned Fund Balance - This category represents amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. For assigned fund balance, the Mayor and Council are authorized to assign amounts to a specific purpose. The authorization policy is a formal motion.

Unassigned Fund Balance - This category represents amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned fund balances are available for use, it is the Town's policy to use fund balances in the following order: 1) committed, 2) assigned, and 3) unassigned.

Budgets and Budgetary Analysis

The Town adopts an annual budget for the General and Water and Sewer Funds on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at the end of the budget year to the extent they have not been expended or lawfully encumbered. Budget amendments require approval of the Mayor and Council, and there were several budget amendments approved by the Mayor and Council during the year ended June 30, 2019. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (the "System"), and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, the disclosure of contingencies, and the reported revenues and expenditures/expenses. Actual results could vary from the estimates that were used.

New Governmental Accounting Standards Board (GASB) Pronouncements

The GASB issued several pronouncements prior to the year ended June 30, 2019 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

GASB Statement No. 87, *Leases*, will be effective for the Town as of July 1, 2020. The objective of this statement is to improve accounting and financial reporting for leases by governments, by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The implementation of this statement is expected to have significant effect on the Town's financial statements in the year of implementation; however, the effects of said implementation are not yet quantifiable.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, will be effective for the Town as of July 1, 2019. The objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Management expects that implementation will have no effect on the financial statements presentation or disclosure.

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the Town as of July 1, 2021. The objective of this statement is to better meet the information needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events. Management expects that implementation will have no effect on the financial statements presentation or disclosure.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Deposits

The deposits held as of June 30, 2019 were as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Cash on Hand			\$ 300
Demand Deposits	-0% - 0.40%		4,268,998
Certificates of Deposit	1.44% - 2.05%	9/26/2019 – 6/29/2021	<u>8,775,962</u>
			<u>\$ 13,045,260</u>

Reconciliation to Statement of Net Position:

Current Assets	
Cash and Cash Equivalents	
Unrestricted	\$ 4,124,628
Restricted	<u>144,670</u>
Total Cash and Cash Equivalents	<u>4,269,298</u>
Certificates of Deposit	<u>7,355,689</u>
Total Current Assets	<u>11,624,987</u>
Non-Current Assets	
Certificates of Deposit	<u>1,420,273</u>
Total Current and Non-Current Assets	<u>\$ 13,045,260</u>

Restricted cash and cash equivalents as of June 30, 2019 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Cash and Cash Equivalents		
Bay Restoration Collections	\$ -	\$ 57,007
Planning and Zoning Escrow and Other Deposits	65,562	-
Police Asset Forfeiture	<u>22,101</u>	<u>-</u>
	<u>\$ 87,663</u>	<u>\$ 57,007</u>

The Town's formal investment policy follows the Maryland State Finance and Procurement Code Ann. § 6-222 (the "Code"). The Code authorizes the Town to invest in obligations of the United States and related agencies, repurchase agreements of United States obligations, certain bankers' acceptances, bonds, and commercial paper with the highest letter and numerical rating by at least one nationally recognized statistical rating organization, money market mutual funds operated in accordance with Rule 2A-7 of the ICA of 1940, and any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP).

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Custodial Credit Risks

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$13,226,653 as of June 30, 2019, \$10,032,886 of which was exposed to custodial credit risk and was uninsured. This amount was fully collateralized by securities pledged and held by a financial institution, not in the Town's name.

Interest Rate and Credit Risks

The investment policy of the Town specifies that the majority of investments be on a short-term basis; however, a portion of the portfolio can contain investments with longer maturities, up to two years. Maturities of certificates of deposit held at June 30, 2019 are provided in the schedule above. Certificates of deposit with maturities in excess of two years allow for a one-time penalty-free withdrawal per account before maturity.

The Town's formal investment policy does not address investment credit risk.

Investments Concentration of Credit Risk

The Town's formal investment policy limits the amount of concentration in the following investments: 100% in U.S. Treasury Obligations, U.S. Government Agency and U.S. Government-sponsored instrumentalities, and Collateralized Certificates of Deposit (Only Maryland Commercial Banks), and 50% in Local Government Investment Trust. As of June 30, 2019, the Town had no concentration of credit risk.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 3. Capital Assets and Depreciation

A summary of governmental activities follows:

	Balance July 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2019</u>
Governmental Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 1,774,467	\$ 451,111	\$ -	\$ (1,081,949)	\$ 1,143,629
Land and Land Rights	<u>2,026,039</u>	<u>66,331</u>	-	-	<u>2,092,370</u>
Total Non-Depreciable Assets	...3,800,506	...517,442:	...(1,081,949)	...3,235,999
Depreciable Assets					
Buildings and Improvements	4,584,200	10,178	-	988,412	5,582,790
Equipment	2,891,432	142,903	137,497	12,778	2,909,616
Infrastructure	34,330,012	333,942	-	-	34,663,954
Vehicles	<u>1,000,458</u>	<u>205,269</u>	<u>227,976</u>	<u>80,759</u>	<u>1,058,510</u>
Total Depreciable Assets	...42,806,102	...692,292	...365,473	...1,081,949	...44,214,870
Total Capital Assets	...46,606,608	...1,209,734	...365,473:	...47,450,869
Accumulated Depreciation					
Buildings and Improvements	997,864	107,334	-	-	1,105,198
Equipment	1,274,887	174,921	117,858	-	1,331,950
Infrastructure	19,839,518	1,116,463	-	-	20,955,981
Vehicles	<u>466,998</u>	<u>130,435</u>	<u>227,976</u>	-	<u>369,457</u>
Total Accumulated Depreciation	...22,579,267	...1,529,153	...345,834:	...23,762,586
Total Capital Assets, Net	<u>\$ 24,027,341</u>	<u>\$ (319,419)</u>	<u>\$ 19,639</u>	<u>\$ -</u>	<u>\$ 23,688,283</u>

Depreciation expense for the year ended June 30, 2019 charged to governmental activities was as follows:

General Government	\$ 101,144
Public Safety	140,167
Public Works	1,204,561
Parks and Recreation	82,270
Economic Development	<u>1,011</u>
	<u>\$ 1,529,153</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Accumulated costs attributable to governmental activities projects included in construction in progress as of June 30, 2019 are as follows:

Caboose Pavilion	\$ 43,479
Council Room Reconfiguration	133,730
East/West Park Playground	1,691
Flat Iron Building	154,071
Police Equipment	8,692
Rails to Trails	254,139
Shed	5,345
Sidewalk Project - South Main Street	100,923
Storm Water Management	387,852
Summit Ridge Park Pavilion	327
Watkins Park Inclusive Playground	12,805
Windy Ridge Park	<u>40,575</u>
	<u>\$ 1,143,629</u>

A summary of business-type activities follows:

	Balance July 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2019</u>
Business-Type Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 322,875	\$ 173,984	\$ 28,500	\$ (186,266)	\$ 282,093
Land and Land Rights	<u>1,438,848</u>	-	-	-	<u>1,438,848</u>
Total Non-Depreciable Assets	<u>1,761,723</u>	<u>173,984</u>	<u>28,500</u>	<u>(186,266)</u>	<u>1,720,941</u>
Depreciable Assets					
Buildings and Improvements	22,829,406	47,813	10,399	-	22,866,820
Equipment	621,283	46,545	26,856	24,764	665,736
Infrastructure	23,395,012	454,154	-	122,979	23,972,145
Vehicles	<u>475,024</u>	<u>89,311</u>	<u>139,506</u>	<u>38,523</u>	<u>463,352</u>
Total Depreciable Assets	<u>47,320,725</u>	<u>637,823</u>	<u>176,761</u>	<u>186,266</u>	<u>47,968,053</u>
Total Capital Assets	<u>49,082,448</u>	<u>811,807</u>	<u>205,261</u>	<u>-</u>	<u>49,688,994</u>
Accumulated Depreciation					
Buildings and Improvements	9,641,180	576,829	10,399	-	10,207,610
Equipment	459,667	33,715	26,446	-	466,936
Infrastructure	8,407,241	648,902	-	-	9,056,143
Vehicles	<u>393,163</u>	<u>24,004</u>	<u>139,506</u>	<u>-</u>	<u>277,661</u>
Total Accumulated Depreciation	<u>18,901,251</u>	<u>1,283,450</u>	<u>176,351</u>	<u>-</u>	<u>20,008,351</u>
Total Capital Assets, Net	<u>\$ 30,181,197</u>	<u>\$ (471,643)</u>	<u>\$ 28,910</u>	<u>\$ -</u>	<u>\$ 29,680,644</u>

Depreciation expense for the year ended June 30, 2019 charged to business-type activities for the Water and Sewer Fund totaled \$1,283,450.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Accumulated costs attributable to business-type activities projects included in construction in progress as of June 30, 2019 are as follows:

Elevated Storage Tank #2 Rehabilitation	\$	3,500
Harrison/Leishear Well		12,102
Inflow and Infiltration		260,374
Sewer System Generator		216
Sewer System WILO Mixer		<u>5,901</u>
		<u>\$ 282,093</u>

Note 4. Long-Term Liabilities

Bonds Payable as of June 30, 2019 consists of the following:

CDA - Infrastructure Bonds 2012

\$5,339,431 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$243,400 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 1.96% to 3.42% \$ 3,720,500

CDA - Infrastructure Bonds 2012 Refunding

\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$75,000 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 1.96% to 3.42% 1,158,300

Total Bonds Payable \$ 4,878,800

All bonds payable are secured by the credit and taxing power of the Town.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

<u>Type of Long-Term Liability</u>	Balance July 1, 2018	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2019	Due Within One Year
Governmental Activities					
Accrued Compensated Absences	\$ 85,981	\$ 18,201	\$ -	\$ 104,182	\$ -
Total Governmental Activities	<u>\$ 85,981</u>	<u>\$ 18,201</u>	<u>\$ -</u>	<u>\$ 104,182</u>	<u>\$ -</u>
Business-Type Activities					
Bonds and Loan Payable					
CDA - Infrastructure Bonds 2012	\$ 3,960,500	\$ -	\$ 240,000	\$ 3,720,500	\$ 243,400
CDA - Infrastructure Bonds 2012 Refunding	1,233,800	-	75,500	1,158,300	75,000
Water Quality Loan 1998	<u>234,495</u>	<u>-</u>	<u>234,495</u>	<u>-</u>	<u>-</u>
	5,428,795	-	549,995	4,878,800	318,400
Bond Premiums	<u>42,573</u>	<u>-</u>	<u>3,041</u>	<u>39,532</u>	<u>3,041</u>
Total Bonds and Loan Payable	5,471,368	-	553,036	4,918,332	321,441
Accounts Payable	5,529	-	5,529	-	-
Accrued Compensated Absences	<u>26,982</u>	<u>3,770</u>	<u>-</u>	<u>30,752</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 5,503,879</u>	<u>\$ 3,770</u>	<u>\$ 558,565</u>	<u>\$ 4,949,084</u>	<u>\$ 321,441</u>

Accrued compensated absences in governmental activities are liquidated from general revenues in the General Fund. Other long-term liabilities in business-type activities are liquidated from general revenues in the Water and Sewer Fund.

Interest and related costs incurred for business-type activities for the year ended June 30, 2019 was \$153,940, all of which was expensed.

The principal and interest requirements to maturity of the bonds payable are as follows:

Years Ending <u>June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 318,400	\$ 143,485
2021	328,300	137,245
2022	333,800	129,759
2023	342,000	121,314
2024	350,500	112,593
2025 - 2029	1,905,300	413,184
2030 - 2032	<u>1,300,500</u>	<u>89,913</u>
	<u>\$ 4,878,800</u>	<u>\$ 1,147,493</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 5. Net Position and Fund Balances

Nonspendable fund balance in the General Fund as of June 30, 2019 is limited to inventory totaling \$67,212.

Restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2019 is limited to police asset forfeitures totaling \$22,101. These funds must be spent in accordance with guidelines imposed by the budget of the Office of the State’s Attorney for Frederick County, Maryland.

The following is a summary of General Fund committed fund balances as of June 30, 2019:

Center Street Improvements	\$ 69,630
Parks Fee-in-lieu	<u>133,095</u>
	<u>\$ 202,725</u>

The following is a summary of General Fund assigned fund balances as of June 30, 2019:

Capital Improvements	\$ 3,256,944
Future Land Acquisition	354,843
Office and Building Improvements	55,681
Park Reserve	310,544
Police	5,745
Sidewalk Improvements	6,661
Street and Road Repair	869,885
Truck and Equipment Replacement	<u>128,523</u>
	<u>\$ 4,988,826</u>

Net position in the Water and Sewer Fund is unrestricted. Designations of portions of the unrestricted net position are established to indicate tentative plans for financial resource utilization in future periods. The unrestricted net position of the proprietary fund at June 30, 2019 is as follows:

Designated	
Water System Expansion	\$ 429,114
Well System Expansion	1,218,206
Well System Capital Improvement	528,321
Sewerage System Reserve	9,262
Treatment Plant Expansion	<u>3,296,996</u>
Total Designated	5,481,899
Undesignated	<u>.....326,219</u>
	<u>\$ 5,808,118</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Property Taxes

From the effective date of the budget, the amount stated thereon as the amount to be raised by property taxes shall constitute a determination of the amount of the tax levies in the corresponding tax year. The Town's real property taxes are levied each July 1st on the assessed value listed as of July 1st for all real property located in the Town, and shall be overdue and in arrears on October 1st where they will accrue two-thirds of one percent interest per month unpaid. The Town also has the ability to place liens against the properties. Business personal property taxes are due within 30 days of billing, which occurs as assessment information is received by the State. Property taxes are reported net of discounts. A list of all property in which the Town taxes have not been paid as of January 1st shall be provided to the official of Carroll County or Frederick County responsible for the sale of tax delinquent property as provided by Maryland law. The tax rates for real and business personal property for the year ended June 30, 2019 were \$0.1662 and \$0.41, respectively, per \$100 assessed property value.

Note 7. Lease Agreements

The Town has entered into communication tower lease agreements, which are expected to provide the following future minimum receipts in the Water and Sewer Fund for the years ending June 30:

2020	\$ 47,849
2021	27,109
2022	25,907
2023	<u>24,399</u>
	<u>\$ 125,264</u>

All lease agreements have various consecutive renewal options at the lessee's discretion, and the future minimum receipts noted above are limited to the current renewal periods under the relating non-cancelable agreements. The current renewal periods expire between July 2020 and May 2023. Lease revenues generated for the year ended June 30, 2019 were \$46,340, all of which were recognized in the Water and Sewer Fund.

During January 2017, the Town purchased a property and obtained the assignment of an existing lease for a portion of the property being leased to a private business, with a lease term through April 30, 2019. The Town entered into a new three-year lease for this property during May 2019 at \$1,400 per month. Lease revenue generated for this property for the year ended June 30, 2019 was \$16,800, all of which was recognized in the General Fund. The cost of the leased property, presented in Buildings and Improvements, was \$38,311 with accumulated depreciation of \$1,788 as of June 30, 2019.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

This lease is expected to provide the following future minimum receipts in the General Fund for the years ending June 30:

2020	\$ 16,800
2021	16,800
2022	<u>14,000</u>
	<u>\$ 47,600</u>

Note 8. Operating Leases

The Town leases a building for the police department, with monthly lease payments of \$3,984, expiring April 2021. The Town has the option to renew the lease six times for six month extensions each. Rent expense recognized for the year ended June 30, 2019 under this agreement was \$47,808.

The Town also rents multiple copiers and other office equipment with monthly payments ranging from \$172 to \$537 per month, expiring between January 2020 and February 2023. Rent expense under these agreements was \$13,619 for the year ended June 30, 2019.

Future minimum operating lease payments for the years ending June 30 are as follows:

2020	\$ 61,556
2021	44,297
2022	5,519
2023	<u>3,679</u>
	<u>\$ 115,051</u>

Note 9. Pension Plans

The Town is a participating employer in the Maryland State Retirement and Pension System (the "System") - Employees' Pension System and the Maryland State Retirement and Pension System - Law Enforcement Officers' Pension System. Both are defined benefit pension plans (the "Plan").

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

General Information about the Pension Plans

Employees' Pension System

Plan Description - Town employees that work a minimum of 500 regular hours, excluding overtime, are provided with pensions through the Maryland State Retirement and Pension System, a cost-sharing multiple-employer defined benefit pension plan administered by the State Retirement Agency (the "Agency"). Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at:
https://sra.maryland.gov/sites/main/files/file-attachments/srps-cafr_2018-web.pdf

Benefits Provided - The plan provides retirement allowances and other benefits to participants and their beneficiaries. All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. The plan provides retirement, disability, and death benefits.

For individuals who are members of the pension systems on or before June 30, 2011, retirement benefits equal 1.2% of average final compensation (AFC) for the three highest consecutive years as an employee multiplied by the number of years of creditable service accrued prior to July 1, 1998 plus 1.8% of the (AFC) for the three highest consecutive years as an employee multiplied by the number of years of creditable service accrued on or after July 1, 1998. Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances: 1) age 62, and five years of eligibility service; 2) age 63, and four years of eligibility service; 3) age 64, and three years of eligibility service; or 4) age 65 or older, and two years of eligibility service. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility of service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members is 42%.

For individuals who are members of the pension systems on or after July 1, 2011, retirement benefits equal 1.5% of (AFC) for the five highest consecutive years as an employee multiplied by the number of years of creditable service accrued on or after July 1, 2011. Members are eligible for full service pension allowances when their combined age and eligibility service equals at least 90 years or they attain age 65 after 10 years of eligibility service. Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility of service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members is 30%.

All plan employees are eligible for accidental disability benefits regardless of length of service as long as the accident occurred in the course of their job performance. Accidental disability benefits are equal to the sum of an annuity determined as the actuarial value of the members'

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

accumulated contributions and $\frac{2}{3}$ (66.7%) of their AFC. Five years of service is required for ordinary disability benefits. Ordinary disability benefits are equal to the full service pension allowance if the member is at least age 62 on the date of retirement. Otherwise, the benefit is equal to the full service pension benefit computed as though the member had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

To be eligible for death benefits, the member must have either accumulated one year of eligibility service prior to the date of death or died in the line of duty. Death benefits equal the member's annual earnable compensation on the date of death plus accumulated contributions and interest. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance.

Contributions - Members are required to contribute 7% of their wages under the Plan. The Town is required to make a contribution which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. The Town's required contribution rate for the year ended June 30, 2019 was 9% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$164,356 for the year ended June 30, 2019.

Law Enforcement Officers' Pension System (LEOPS)

Plan Description - Effective July 1, 2018, the Town was accepted into the Maryland State Retirement and Pension System's Law Enforcement Officers' Pension System (LEOPS), a defined contribution pension plan (the "LEOPS Plan"). All sworn police officers of the Town currently participating in the Employees' Pension System were transferred to the LEOPS Plan as of July 1, 2018. The Town is expected to receive a credit of approximately \$831,639 from the LEOPS Plan to transfer these employees, which will be amortized in level installments over a 25-year term.

Law enforcement officers are provided with pensions through the Maryland State Retirement and Pension System municipal pool, a cost-sharing multiple-employer defined benefit pension plan administered by the Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at:

https://sra.maryland.gov/sites/main/files/file-attachments/srps-cafr_2018-web.pdf

Benefits Provided - The LEOPS plan provides retirement, disability, and death benefits. Retirement benefits equal 2.3% of average final compensation (AFC) for the first 30 years of creditable service, plus 1.0% of AFC for each additional year. Full service pension allowances

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

equal 2.0% of AFC for the five highest consecutive years as an employee, up to a maximum benefit of 65% of AFC (32.5 years of credit). LEOPS Plan members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement. LEOPS Plan members are not eligible for early service retirement allowances.

LEOPS Plan members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service. Ordinary disability retirement allowances for LEOPS Plan members subject to retirement plan provisions equal the greater of the normal service retirement allowance or 25% of AFC. Ordinary disability retirement allowances for LEOPS Plan members subject to pension plan provisions equal the full service pension allowance if the member is at least age 50 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 50 without any change in the rate of earnable compensation.

LEOPS Plan members are eligible for accidental disability benefits regardless of length of service as long as the accident occurred in the course of their job performance. Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and $\frac{2}{3}$ (66.7%) of AFC. Allowances may not exceed the members' AFC.

LEOPS Plan members accumulating at least one but less than two years of eligibility service are eligible for ordinary death benefits equaling the members' annual earnable compensation at the time of death plus accumulated contributions. To be eligible for special death benefits, LEOPS Plan members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty. The special death benefit provided upon death for LEOPS Plan members in service equals 50% of the applicable ordinary disability allowance.

Contributions - LEOPS Plan members are required to contribute 7.00% of their wages under the Plan. The Town is required to make a contribution which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. For the year ended June 30, 2019, the Town was not required to contribute to the LEOPS Plan as contributions are based on the prior fiscal year's covered payroll. The Town is expected to make its first LEOPS Plan employer contribution in December 2019.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Town reported a liability of \$1,375,898 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on the Town's share of contributions to the pension plan relative to the contributions of all participating employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.0066%, which was an increase of 0.0014% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$205,814. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 97,887
Changes of assumptions	36,018	-
Net difference between projected and actual earnings on pension plan investments	44,804	-
Changes in Town's proportionate share of contributions	303,536	70,629
Town contributions subsequent to the measurement date	<u>164,356</u>	<u>-</u>
	<u>\$ 548,714</u>	<u>\$ 168,516</u>

\$164,356 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2020	\$ 93,569
2021	62,538
2022	782
2023	24,588
2024	<u>34,365</u>
	<u>\$ 215,842</u>

No liabilities, deferred outflows of resources, or deferred inflows, or expense has been reported related to the LEOPS Plan as of and for the year ended June 30, 2019 due to the measurement date occurring before the Town joined the LEOPS Plan.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60% general, 3.10% wage
Salary Increases	3.10% to 9.10%, including wage inflation
Investment Rate of Return	7.45%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 (two-dimensional) mortality improvement scale.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study of the System for the period 2010-2014 after the completion of the June 30, 2014 valuations. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates, and rates of salary increase were adopted by the Board for first use in the actuarial valuation as of June 30, 2015. New economic assumptions were adopted by the Board for the June 30, 2018 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.80%
Private Equity	13%	6.70%
Rate Sensitive	19%	1.10%
Credit Opportunity	9%	3.60%
Real Assets	14%	4.80%
Absolute Return	<u>8%</u>	3.20%
	<u>100%</u>	

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Discount Rate - A single discount rate of 7.45% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.45%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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 discount rate used for the June 30, 2017 valuation was 7.50%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.45%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>Asset Class</u>	1% Decrease to <u>6.45%</u>	Current Discount <u>Rate (7.45%)</u>	1% Increase to <u>8.45%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 1,981,760	\$ 1,375,898	\$ 873,069

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Agency financial report.

Note 10. Other Postemployment Benefits Plan (OPEB)

General Information about the OPEB Plan

Plan Description and Benefits Provided - The Town has a single-employer health insurance postretirement benefit plan. For employees hired prior to January 1, 2013, the plan provides retiree medical coverage for life for eligible participants. The coverage consists of a Medicare Supplemental Medical plan and Medicare D Rx plan. This coverage is free for the retiree. Employees electing no health coverage and Medicare D Rx plan at time of retirement may be enrolled in a healthcare reimbursement account at no cost to the retiree.

Spouses of retired employees are also covered. However, the retiree pays the difference between the cost of individual coverage and the cost of husband and wife coverage.

To be eligible for this retiree medical plan:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

- Employees hired before June 30, 2009: the active participant must retire after age 65 with 20 or more years of service, or if under age 65, after 30 or more years of service.
- Employees hired after July 1, 2009 and before January 1, 2013: the active participant must retire after age 65 with 30 or more years of service.
- The plan is closed to employees hired on or after January 1, 2013.

For employees who retired prior to March 1, 2003, the plan provides retiree medical coverage for life for participant. In addition special consideration is given for prescription and medical reimbursements.

Membership of the plan consisted of 16 participants, 11 of which are active plan members, 4 are retirees receiving benefits, and 1 inactive plan member entitled to but not yet receiving benefits as of June 30, 2019.

The plan is unfunded, with premium reimbursement payments made by the Town directly to the retirees on a pay-as-you-go basis. For the year ended June 30, 2019, the Town reimbursed premium costs of \$6,533 to the retirees. There are no retiree contributions to the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Total OPEB Liability

The Town's total OPEB liability of \$1,371,574 was measured at June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions and Other Inputs - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Salary Increases	3.15% to 9.15%, including inflation
Healthcare Cost Trend Rates	Initially 5.50% gradually decreasing to 4.20% in 2030
Retirees' Coverage Election	100%

The discount rate of 3.62% for the June 30, 2018 roll forward was based on the municipal bond index as of June 30, 2018.

Mortality rates were based on the RP-2014 mortality tables with MP-2014 mortality improvement scale.

Subsequent to the June 30, 2018 measurement date, the Town amended the plan to allow employees hired before June 30, 2009 that are under the age of 65 to be eligible for coverage if they have at least 30 years of service.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 1,304,897
Changes for the Year:	
Service Cost	52,633
Interest	46,336
Experience Gains	(8,969)
Changes in Assumptions or Other Inputs	(11,092)
Benefit Payments	<u>(12,231)</u>
Net Changes	<u>66,677</u>
Balance at June 30, 2019	<u>\$ 1,371,574</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% for June 30, 2018 to 3.62% for June 30, 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate:

	1% Decrease to <u>2.62%</u>	Current Discount Rate (3.62%)	1% Increase to <u>4.62%</u>
Total OPEB Liability	\$ 1,686,165	\$ 1,371,574	\$ 1,127,763

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (see actuarial assumptions and other inputs for healthcare cost trend rates):

	1% Decrease to <u>3.20%</u>	Current Healthcare Cost Trend Rates (4.20%)	1% Increase to <u>5.20%</u>
Total OPEB Liability	\$ 1,090,676	\$ 1,371,574	\$ 1,755,713

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$80,474. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 8,222
Changes of assumptions or other inputs	-	176,054
Town contributions subsequent to the measurement date	<u>6,533</u>	<u>-</u>
	<u>\$ 6,533</u>	<u>\$ 184,276</u>

\$6,533 reported as deferred outflows of resources related to OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as reductions in OPEB expense as follows for the years ending June 30:

2020	\$	18,260
2021		18,260
2022		18,260
2023		18,260
2024		18,260
Thereafter		<u>92,976</u>
		<u>\$ 184,276</u>

Note 11. Deferred Compensation Plan

The Town offers a defined contribution plan created in accordance with IRC Section 457(b). The plan permits all full-time employees to defer a portion of their salary until future years. The employee's contribution is fully vested at the contribution date. Employees can defer the lesser of \$19,000, and up to an additional \$6,000 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. Town contributions to the 457(b) plan were \$7,346 for the year ended June 30, 2019.

All amounts of compensation deferred under the plan and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The plan administrator, The International City Management Association Retirement Corporation, is the trustee of the investments.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 12. Commitments and Contingencies

The Town participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government. As of June 30, 2019, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the Town believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the Town.

The Town is committed under the following contracts for projects as of June 30, 2019:

<u>Project</u>	<u>Type of Project</u>	<u>Contract Amount</u>	<u>Amount of Contract Not Incurred at June 30, 2019</u>
Paving	Construction	<u>\$ 547,902</u>	<u>\$ 439,164</u>
Sidewalk and Curbs	Construction	<u>\$ 290,000</u>	<u>\$ 251,036</u>
Summit Ridge Park Pavilion	Construction	<u>\$ 105,111</u>	<u>\$ 105,111</u>

Subsequent to June 30, 2019, the Town entered into the following new contracts for construction projects:

<u>Project</u>	<u>Contract Amount</u>
Elevated Tank #2 Rehab	<u>\$ 557,825</u>
Feasibility Study for Permanent Police Station	<u>\$ 31,500</u>
Water Main Replacement for Center Street	<u>\$ 136,375</u>

A community association agreed to donate land to the Town for the Rails to Trails project, provided the Town repair or reconstruct a storm water management facility located on the property. The Town was awarded a grant from the State Highway Administration Recreational Trails Program for the construction of the trail and storm water management to assist with construction costs.

Under Federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a storm water management fee program to fund projects to direct nitrogen away from streams that feed into the Chesapeake Bay. This program will be implemented through a National Pollutant Discharge Elimination System (NPDES) permit for Carroll County, Maryland (County). As of October 2014, the Town along with 7 other municipalities entered into a cost-sharing of stormwater mitigation project

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

with the County to comply with NPDES requirements. The annual amount for each municipality was calculated based on \$25,000 per impervious acre based on total number of impervious acres are required to be restored/mitigated by the permit over the 5-year period of this project. From the Town's share of this project, the Town is required to pay 20% and the County is covering the remaining 80%. For the year ended June 30, 2019, the Town's portion of these costs were \$78,255, which are included as construction in progress as further disclosed in Note 3. An additional 5% increase will be applied annually to these estimated costs per the agreement. The Town made their final committed payment under this agreement subsequent to year end in the amount of \$82,168.

Note 13. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a member in the Local Government Insurance Trust (LGIT), a public entity risk pool that is owned and directed by local governments (participants) that subscribe to its insurance coverages. LGIT provides the Town's general, automobile, employee, health, police, and public officials' legal liability insurance coverage. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT's operations. The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The Town also participates in an excess liability pool, which has maximum coverage of \$2,000,000. Premiums are charged to the Town, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2019, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note 14. Concentrations and Economic Dependencies

The Town provides various services to its residents. The Town is located in Carroll and Frederick Counties in Maryland. Credit is granted to its residents for taxes, water and sewer bills. The Town may place a lien on any property associated with unpaid taxes and water and sewer services; therefore, an allowance for uncollectible amounts is not considered necessary.

Note 15. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 9, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MOUNT AIRY, MARYLAND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 4,210,913	\$ 4,210,913	\$ 3,978,411	\$ (232,502)
Licenses and Permits	158,136	158,136	142,700	(15,436)
Intergovernmental	2,424,196	2,429,831	1,345,276	(1,084,555)
Charges for Services	113,000	113,000	179,241	66,241
Fines and Forfeitures	7,500	7,500	1,350	(6,150)
Rental Income	16,800	16,800	16,800	-
Interest Income	30,000	30,000	74,586	44,586
Miscellaneous	10,000	10,000	47,182	37,182
TOTAL REVENUES	<u>6,970,545</u>	<u>6,976,180</u>	<u>5,785,546</u>	<u>(1,190,634)</u>
EXPENDITURES				
General Government	875,495	879,702	860,195	19,507
Planning and Zoning	398,600	398,600	349,579	49,021
Public Safety				
Police	1,467,630	1,467,630	1,276,317	191,313
Volunteer Fire Company	184,451	184,451	184,451	-
Public Works				
Highways and Streets	554,300	554,300	548,818	5,482
Solid Waste Collection	490,317	490,317	482,975	7,342
Parks and Recreation	329,738	329,738	287,929	41,809
Economic Development	66,361	66,361	64,177	2,184
Miscellaneous	408,230	408,230	403,889	4,341
Capital Outlays	3,393,125	3,673,850	1,143,403	2,530,447
TOTAL EXPENDITURES	<u>8,168,247</u>	<u>8,453,179</u>	<u>5,601,733</u>	<u>2,851,446</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,197,702)</u>	<u>(1,476,999)</u>	<u>183,813</u>	<u>1,660,812</u>
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	-	-	29,688	29,688
TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>29,688</u>	<u>29,688</u>
NET CHANGES IN FUND BALANCES	<u>(1,197,702)</u>	<u>(1,476,999)</u>	<u>213,501</u>	<u>1,690,500</u>
Fund Balances - Beginning of Year	6,670,645	6,670,645	6,670,645	-
FUND BALANCES - END OF YEAR	<u>\$ 5,472,943</u>	<u>\$ 5,193,646</u>	<u>\$ 6,884,146</u>	<u>\$ 1,690,500</u>

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 5 FISCAL YEARS *

UNAUDITED

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0066%	0.0052%	0.0056%	0.0058%	0.0050%
Town's proportionate share of the net pension liability	\$ 1,375,898	\$ 1,134,768	\$ 1,332,726	\$ 1,206,943	\$ 886,407
Town's covered payroll	\$ 1,527,621	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076	\$ 1,163,955
Town's proportionate share of the net pension liability as a percentage of its covered payroll	90.07%	85.24%	103.31%	95.94%	76.15%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

* The amounts presented were determined as of the end of the prior fiscal year. This schedule will eventually cover the ten most-recent fiscal years; however, this is the information available as of the implementation of GASB No. 68.

NOTES TO SCHEDULE:

Changes of Assumptions - In addition to the significant assumptions and noted changes listed below, in 2016 adjustments were also made to COLA, withdrawal and disability rates, and rates of salary increases.

	2019	2018	2017	2016	2015
Mortality Table	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment Return	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	2.65%	2.70%	2.70%	2.90%

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF TOWN CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST 10 FISCAL YEARS
UNAUDITED

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 164,356	\$ 130,765	\$ 108,765	\$ 110,039	\$ 122,411	\$ 116,396	\$ 100,528	\$ 130,176	\$ 222,972	\$ 175,731
Contributions in relation to the contractually required contribution	(164,356)	(130,765)	(108,765)	(110,039)	(122,411)	(116,396)	(100,528)	(130,176)	(222,972)	(175,731)
Contribution deficiency (excess)	<u>\$ -</u>									
Town's covered payroll	\$ 1,826,173	\$ 1,527,621	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076	\$ 1,163,955	\$ 1,118,230	\$ 1,189,901	\$ 1,189,940	\$ 1,135,977
Contributions as a percentage of covered payroll	9.0%	8.6%	8.2%	8.5%	9.7%	10.0%	9.0%	10.9%	18.7%	15.5%

TOWN OF MOUNT AIRY, MARYLAND

Schedule "4"

**SCHEDULE OF CHANGES IN THE TOWN'S TOTAL OTHER POSTEMPLOYMENT BENEFITS
(OPEB) LIABILITY AND RELATED RATIOS**

LAST 2 FISCAL YEARS *

UNAUDITED

	2019	2018
TOTAL OPEB LIABILITY		
Service Cost	\$ 52,633	\$ 50,814
Interest	46,336	40,561
Experience Gains	(8,969)	-
Changes of Assumptions or Other Inputs	(11,092)	(199,064)
Benefit Payments	(12,231)	(21,200)
NET CHANGE IN TOTAL OPEB LIABILITY	66,677	(128,889)
Total OPEB Liability - Beginning of Year	1,304,897	1,433,786
TOTAL OPEB LIABILITY - END OF YEAR	\$ 1,371,574	\$ 1,304,897
COVERED-EMPLOYEE PAYROLL	\$ 873,724	\$ 877,763
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	156.98%	148.66%

* The amounts presented were determined as of the end of the prior fiscal year. This schedule will eventually cover the ten most-recent fiscal years; however, this is the information available as of the implementation year of GASB No. 75.

NOTES TO SCHEDULE:

Changes of Assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2019	3.62%
2018	3.58%
2017	2.85%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay future OPEB obligations.