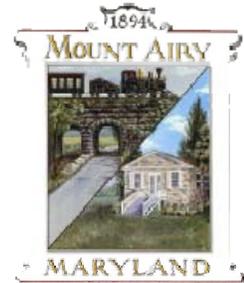


TOWN OF MOUNT AIRY, MARYLAND
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017



**CPAs &
BUSINESS
ADVISORS**

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TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
REQUIRED SUPPLEMENTARY INFORMATION	
• Management's Discussion and Analysis (Unaudited)	3 - 12
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
• Statement of Net Position	13 - 14
• Statement of Activities	15
Fund Financial Statements	
• Balance Sheet - Governmental Funds	16
• Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	17
• Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	19
• Statement of Net Position - Proprietary Funds	20 - 21
• Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	22
• Statement of Cash Flows - Proprietary Funds	23 - 24
Notes to Basic Financial Statements	25 - 56
REQUIRED SUPPLEMENTARY INFORMATION	
• <i>Schedule "1"</i> - Budgetary Comparison Schedule - General Fund (Unaudited)	57
• <i>Schedule "2"</i> - Schedule of the Town's Proportionate Share of the Net Pension Liability (Unaudited)	58
• <i>Schedule "3"</i> - Schedule of Town Contributions (Unaudited)	59
• <i>Schedule "4"</i> - Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Plan (Unaudited)	60



INDEPENDENT AUDITORS' REPORT

October 31, 2017

To The Mayor and Council of Mount Airy
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, 2017, 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 auditor considers 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 the 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, 2017, 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.

Correction of Error

As described in Note 17 to the financial statements, the beginning general fund balance and governmental activities net position has been restated to correct an error related to income taxes receivable not being recorded. Our opinion is not modified with respect to this matter.

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 funding progress - other postemployment benefits (OPEB) plan on pages 3 through 19 and 63 through 66, 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.

RLH CPAs & Business Advisors, LLC

Westminster, Maryland

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
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, 2017. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Mount Airy exceeded its liabilities at the close of Fiscal Year 2017 by \$61,482,442 (total net position). Of this amount, \$29,805,746 was for governmental activities and \$31,676,696 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$5,590,289 for governmental activities and \$6,765,728 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 increased by \$701,308, and business-type activities increased by \$533,082, resulting in a \$1,234,390 increase 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, 2017, the total liabilities and fund balances for governmental funds were \$8,087,808. This is an increase of \$400,313 from Fiscal Year 2016.
- At the close of Fiscal Year 2017, the Town's governmental fund reported an ending fund balance of \$6,814,179, a decrease of \$393,278 from Fiscal Year 2016. 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 investment accounts, certificates of deposit, checking accounts and savings accounts totaling more than \$14.5 million. You can find this information in the Notes to Financial Statements, Note 2 – Deposits. Total deposits and investments increased \$96,509 from Fiscal Year 2016. The Town has kept the tax rate steady since Fiscal Year 2011 and the homestead tax credit at a 0% cap since Fiscal Year 2000 with no changes in services to residents. Many other municipalities in our region increased taxes over the last several years. Our goal is, and will continue to be, to keep the Town financially strong without increasing taxes or reducing services.
- Two properties in the downtown area were purchased in Fiscal Year 2017: the Train Station at 1 North Main Street, and a small parcel of land with a shed located adjacent to the Municipal Parking Lot. The Train Station will be renovated in Fiscal Year 2018 to house the Mount Airy Historical Society's museum and may have future potential use such as flexible community space, or incubator space for new businesses. It also provides the Town with additional parking spaces and outdoor space for events. The shed property is currently being used for storage, and gives us more flexibility in the future for downtown land use.
- The Town received a \$1,185 grant from the Carroll County Health Department that was used to place "No Smoking" signs in Town parks. A Community Legacy Grant was received in the amount of \$1,113 for the Downtown Façade Program. Additionally a grant in the amount of \$8,775 was received from the Maryland Historical Trust for exterior improvements made at the Train Station.

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

June 30, 2017

Unaudited

- Progress continued towards forming the Town's first Police Department. A police chief was hired early in the fiscal year, the budget was amended as needed to build the force, and by the end of the fiscal year two additional officers were hired, a K-9 police dog was added to the force, and numerous equipment and capital purchases were made. A space was found on Center Street to house the Mount Airy Police Department (MAPD), a four year lease was signed, and construction began on the interior fit-out of the space.
- The Water and Sewer Fund ended Fiscal Year 2017 with a \$366,906 operating loss, as reported on the Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Fund. The depreciation expense, which effects the bottom line, was \$1,278,196.
- The Town's Water and Sewer Fund long-term debt balance was \$6,039,428 by year end, a net decrease of \$453,510 from Fiscal Year 2016. This information can be reviewed in the Notes to Financial Statements, Note 4 – Long-Term Liabilities.
- 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 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 list 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.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
Unaudited

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.

- 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, 2017
Unaudited

GOVERNMENT WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2017 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 2017			Fiscal Year 2016		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current & Other Assets	\$ 8,087,808	\$ 7,697,472	\$ 15,785,280	\$ 7,847,961	\$ 7,624,297	\$ 15,472,258
Capital Assets	\$ 24,231,555	\$ 30,928,571	\$ 55,160,126	\$ 23,113,865	\$ 30,835,174	\$ 53,949,039
Total Assets	\$ 32,319,363	\$ 38,626,043	\$ 70,945,406	\$ 30,961,826	\$ 38,459,471	\$ 69,421,297
Deferred Outflows from Pensions	\$ 256,055	\$ 132,555	\$ 388,610	\$ 187,850	\$ 98,527	\$ 286,377
Liabilities						
Current Liabilities	\$ 1,235,428	\$ 876,168	\$ 2,111,596	\$ 640,504	\$ 246,719	\$ 887,223
Long-Term Liabilities	\$ 1,496,994	\$ 6,190,372	\$ 7,687,366	\$ 1,338,307	\$ 7,121,708	\$ 8,460,015
Total Liabilities	\$ 2,732,422	\$ 7,066,540	\$ 9,798,962	\$ 1,978,811	\$ 7,368,427	\$ 9,347,238
Deferred Inflows from Pensions	\$ 37,250	\$ 15,362	\$ 52,612	\$ 66,427	\$ 45,957	\$ 112,384
Net Position						
Net Investment in Capital Assets	\$ 24,215,457	\$ 24,910,968	\$ 49,126,425	\$ 23,274,331	\$ 24,342,236	\$ 47,616,567
Unrestricted	\$ 5,590,289	\$ 6,765,728	\$ 12,356,017	\$ 5,830,107	\$ 6,801,378	\$ 12,631,485
	\$ 29,805,746	\$ 31,676,696	\$ 61,482,442	\$ 29,104,438	\$ 31,143,614	\$ 60,248,052

The Town's total net position increased by 2% (\$61,482,442 compared to \$60,248,052).

Total assets increased by 2% (\$70,945,406 compared to \$69,421,297), 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 & other assets include cash and cash equivalents, investments, taxes receivable, accounts receivable, interest and dividends receivable, money due from other funds and intergovernmental receivables.

The Town's total liabilities increased by 5% (\$9,798,962 compared to \$9,347,238). This increase was largely due to accounts payable and accrued expenses having large amounts in Fiscal Year 2017 due to capital projects. 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 & Sewer Systems have been made. Current liabilities include accounts payable and accrued expenses, refundable deposits, and note and bond interest payable. Pensions and other post-employment benefits, under liabilities, can be thought of as promises of future benefits to workers in return for labor today. The net pension liability is the amount by which the total pension liability exceeds the pension plan's net assets. State and local governments must recognize their pension liability by reporting the "net pension liability" in their financial statements. Other post-employment benefits are benefits, other than pensions, offered to employees at retirement. The Town does not offer other post-employment benefits to anyone hired on or after January 1, 2013. The accrued liability for other post-employment 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, 2017
Unaudited

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

	Fiscal Year 2017			Fiscal Year 2016		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Revenue						
Program Revenues						
Charges for Services	\$ 100,451	\$ 2,655,764	\$ 2,756,215	\$ 65,842	\$ 2,564,223	\$ 2,630,065
Operating Grants and Contributions	\$ 493,204	\$ 36,000	\$ 529,204	\$ 506,462	\$ 36,000	\$ 542,462
Capital Grants and Contributions	\$ 617,154	\$ 993,558	\$ 1,610,712	\$ 367,330	\$ 69,695	\$ 437,025
General Revenues			\$ -			
Taxes						
Income Taxes	\$ 2,235,440		\$ 2,235,440	\$ 1,733,676		\$ 1,733,676
Real Property Taxes	\$ 1,795,949		\$ 1,795,949	\$ 1,753,486		\$ 1,753,486
Personal Property Tax	\$ 128,349		\$ 128,349	\$ 120,148		\$ 120,148
Grants, Contributions, and Franchise Fees not Restricted to Specific Programs	\$ 830,195		\$ 830,195	\$ 808,940		\$ 808,940
Interest Income and Rent	\$ 40,954	\$ 108,895	\$ 149,849	\$ 21,089	\$ 50,154	\$ 71,243
Miscellaneous	\$ 1,298		\$ 1,298	\$ 2,510		\$ 2,510
Total Revenues	\$ 6,242,994	\$ 3,794,217	\$ 10,037,211	\$ 5,379,483	\$ 2,720,072	\$ 8,099,555
Transfers				\$ 18,900	\$ (18,900)	
Total Revenues and Transfers	\$ 6,242,994	\$ 3,794,217	\$ 10,037,211	\$ 5,398,383	\$ 2,701,172	\$ 8,099,555
Expenses						
General Government	\$ 1,095,375		\$ 1,095,375	\$ 1,115,010		\$ 1,115,010
Planning & Zoning	\$ 363,306		\$ 363,306	\$ 395,964		\$ 395,964
Public Safety	\$ 1,579,961		\$ 1,579,961	\$ 1,086,215		\$ 1,086,215
Public Works	\$ 2,101,810		\$ 2,101,810	\$ 2,384,137		\$ 2,384,137
Parks and Recreation	\$ 355,648		\$ 355,648	\$ 377,316		\$ 377,316
Economic Development	\$ 45,586		\$ 45,586	\$ 21,210		\$ 21,210
Water & Sewer Services	-	\$ 3,261,135	\$ 3,261,135	-	\$ 2,942,978	\$ 2,942,978
	\$ 5,541,686	\$ 3,261,135	\$ 8,802,821	\$ 5,379,852	\$ 2,942,978	\$ 8,322,830
Changes in Net Position	\$ 701,308	\$ 533,082	\$ 1,234,390	\$ 18,531	\$ (241,806)	\$ (223,275)
Net Position at Beginning of Year, Restated to include prior years income tax receivable	\$ 29,104,438	\$ 31,143,614	\$ 60,248,052	\$ 29,085,907	\$ 31,385,420	\$ 60,471,327
Net Position at End of Year	\$ 29,805,746	\$ 31,676,696	\$ 61,482,442	\$ 29,104,438	\$ 31,143,614	\$ 60,248,052

Governmental activities

For the fiscal year ended June 30, 2017, revenues from governmental activities totaled \$6,242,994, which is 62% of the total revenue received for the Town as a whole. The majority of governmental revenue came from income taxes (36%), and real property taxes (29%).

Expenses from governmental activities totaled \$5,541,686. The largest component of expenses, \$2,101,810 (38%), was from Public Works. Public Safety came in next highest at \$1,579,961 (29%).

Business-type activities

Water and Sewer Service charges made up 70% of business-type revenue, with Capital Grants and Contributions coming in second at 26%.

Both governmental activities and business-type activities showed gains in the net position at the end of Fiscal Year 2017.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
Unaudited

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.

As of the end of Fiscal Year 2017, the Town's governmental funds reported combined ending fund balance of \$6,814,179, as presented on the balance sheet for governmental fund, of which \$1,241,924, or 18% is unassigned. \$5,290,299, or 78%, 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 \$200,012, which consists of Parks Fee-in-lieu and Center Street Improvements. Lastly \$81,744 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 total \$6,765,728. Of this \$5,574,279 is designated for water expansion, well system expansion and improvements, sewer system improvements and treatment plant expansion. \$1,191,449 of the unrestricted funds are undesignated. You can find the detailed information on the Water and Sewer Fund unrestricted funds under Note 5.

Two useful measures of liquidity are: 1) the portion of unassigned fund balance to total expenditures, and 2) the total fund balance to total expenditures; at June 30, 2017, the General Fund showed 21% and 113% respectively, and the Water and Sewer Fund showed 37% and 208% respectively.

Another useful liquidity measurement is the current ratio. The concept behind this ratio is to ascertain whether the Town's short-term assets are readily available to pay off its short term liabilities. In theory, this ratio measures whether or not the Town has enough resources to pay its bills over the next 12 months. At the end of the fiscal year the General Fund's current ratio is 5.11, meaning that for every dollar in current liabilities, there is \$5.11 in current assets. The Water and Sewer Fund's current ratio is 4.62.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
Unaudited

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended numerous times during the year as approved by the Town Council. A large majority of the amendments were due to police department expenses. The original budget included allocations to get the police department started, knowing that when a chief was hired important factors would be decided such as how many officers would be hired, the type of capital equipment that would be needed, and where the department would be located. Budget amendments were approved as these decisions were made throughout the year.

Schedule "1" contains a chart that shows the original budget, the final budget, the actual, and the variance. Overall the General Fund took in \$910,655 more in revenues than expected, and spent \$1,281,206 less than expected.

The highest variance in revenues was Taxes which received \$838,538 more than budgeted. The majority of this variance, \$817,816 (or 98%) is due to income taxes. During the year the Town received an additional \$369,815 from the State of Maryland for errors that had been made in the calculation of the Town's portion of income taxes for previous fiscal years. The miscalculation also led to underestimating the amount for income tax revenue in the budget for Fiscal Year 2017.

Other revenues that came in with a notable variance were Intergovernmental with \$56,175 more than budgeted, Miscellaneous with \$25,336 more than expected, and Interest Income at \$15,534 more than expected. Charges for services came in \$31,033 under budget. The Town did not receive the expected amount for building permits during the fiscal year.

A new source of revenue is Rental Income. When the Town purchased the Train Station at 1 North Main Street 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 Police that came in \$560,556 less than budgeted. This was due to timing issues involving hiring officers and finding a space to house the department. Many locations in Town were considered and the Town ultimately decided on an unfinished office space on Center Street that was centrally located, but needed a complete interior fit-out. Construction began for the interior fit-out in Fiscal Year 2017, and will finish up in Fiscal Year 2018.

Other expenditures that came in with a notable variance were Capital Outlays with \$461,875 less spent than budgeted, Public Works with \$123,283 less than expected, and General Government spending \$64,645 less than expected. Underspensing the budget is sometimes the result of timing issues for projects that didn't move forward as quickly as expected, or it is determined that a project 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, 2017
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, 2017, totals \$55,160,126 (net of accumulated depreciation). These assets include land, easements, storm water management facilities, buildings, roads, sidewalks, storm drains, park facilities, machinery and equipment, vehicles, water and sewer infrastructure, the Waste Water Treatment Plant (WWTP), and even a K-9 police dog.

Capital purchases and projects that were completed during the year include the following:

General Fund

- Land and shed purchase at 1 Park Avenue, adjacent to the Municipal Parking Lot, at a total cost of \$70,426
- Land and building at 1 North Main Street, known as the Train Station, at a total cost of \$537,694
- Caboose Restoration at a total cost of \$98,790, of which the Community Fund of Carroll County contributed \$13,178. Mackenzie, the caboose, is located at 8 North Main Street.
- An ATV Polaris Ranger 570 at a cost of \$10,527 was purchased to make traversing Main Street and other community areas faster and more efficient during Town events.
- A Chevy Silverado 2500 with a snow plow at a cost of \$40,120
- The Annual Paving Project at a cost of \$122,640 for resurfacing of sections of Buffalo Road and Village Gate
- A pathway was constructed at Vest Pocket Park for \$5800
- The basketball court rehabilitation project at East/West Park was completed at a total cost of \$36,459. This project was near completion at the end of Fiscal Year 2016, and finished up in Fiscal Year 2017
- The pathway at Wildwood Park was replaced at a cost of \$32,120
- An EXMARK mower was purchased for the Parks Department for \$12,111
- The Prospect Park Rehabilitation Project began in Fiscal Year 2016 and was completed in Fiscal Year 2017 at a total cost of \$88,649, most of which was spent in Fiscal Year 2016
- The Police Department purchased eight vehicles and up-fitted each car with equipment, graphics, and police accessories. Three of the police vehicles were assigned to officers and put into service in Fiscal Year 2017. Two of the vehicles were unmarked at a cost of \$45,002 each, and the third unit was a K-9 vehicle at a cost of \$52,165. The Police Department also purchased equipment which included ruggedized laptops, car radios, car camera systems, and personal radios. Three of each type of equipment was put into service in Fiscal Year 2017 at a total cost of \$19,279 per officer. Finally, a Belgian Malinois police dog named Stryker was acquired for \$15,000 as the Town's first K-9 Officer. Stryker is a dual purpose, or cross trained, police K-9. He is trained and certified in narcotics detection (he detects Cocaine, Heroin, Crack, MDMA, Methamphetamine and LSD) as well as patrol. On patrol he is trained and certified in controlled aggression (i.e. apprehension of dangerous suspects, tracking of fleeing suspects, handler protection, building search and article search).

Water & Sewer Fund

- The Sewer Department capital purchases for equipment included four sewer pumps at \$7,275 each for Sewer Pumping Station # 1, and several items for the WWTP including a filter housing for the blower at \$5,359, a blower at a cost of \$8,494, a return sludge pump for \$6,006, a water pump at a cost of \$6,337, a sludge press feed pump costing \$14,008, a rapid digester for \$4,773, a security camera system at a cost of \$4,957, and a spectrophotometer at \$10,310.
-

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

June 30, 2017

Unaudited

- Sewer Department Capital Projects consisted of paving the gravel access road from the WWTP entrance to the gate of the plant at a cost of \$49,000, and the annual Inflow & Infiltration (I&I) project at a cost of \$46,763.
- Water Department capital purchases for equipment included control panels at a cost of \$36,569 for Water Station #2, Water Tower #2 and 3, and Well #6, and well pumps totaling \$13,154 at Water Stations #2 and 4.
- The Water Department Capital Project for Fiscal Year 2017 was the completion of the Water Station #2 Rehabilitation. This project began in Fiscal Year 2014 and cost a total of \$1,471,456.

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

- Land at the Sterling Glen subdivision was deeded to the Town by Roberts Property, LLC. Included with the land was a storm water management facility and Sewer Pumping Station #11. The total value of the land and improvements was \$1,249,656.
- Three easements were deeded to the Town by Rail Road Properties, LLC. In the rail yard parking area one easement was for Rails to Trails and another was for ingress and egress in the Train Station parking lot. Across the street at the Caboose site the Town received an easement to access the caboose. Although the Town does not own the land a value is place on the easements for financial reporting purposes. The total value of the three easements was recorded at \$292,395.

Debt

At year end, the Town's Water and Sewer Department had \$6,012,044 in outstanding debt, compared to \$6,492,938 the previous year. This amount consists of notes and bonds issued for Water and Sewer infrastructure improvements. They are the MDE WWTP Loan, the Infrastructure Bonds of 2012 Refunding, and the Infrastructure Bonds of 2012.

Economic Factors and Next Year's Budgets and Rates

The economy in Mount Airy is growing slowly. The real property tax rate has remained steady since Fiscal Year 2011, and Mount Airy continues to have the lowest tax rate of all municipalities in the State of Maryland with a comparable population. The Town experienced tremendous cuts in Highway User Revenue and State Police Grants from the State of Maryland in Fiscal Year 2010, after which many other municipal governments had no choice but to increase taxes to make up the difference. The State has restored some of what was originally cut, however we are still well below the amounts received pre-2010 for Highway User Revenue. Careful planning for the future financial health of the Town will continue to be the focus of the Mayor and Town Council.

The Town used the Constant Yield Tax Rate for Fiscal Year 2018, and was pleased to provide property owners with a tax decrease. The Constant Yield Tax Rate (CYTR) determines the tax rate needed to provide the same amount of revenue as the previous fiscal year. By using the CYTR the Town does not receive additional revenue from increases in assessments from property sales, or new development.

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) which identified 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 these 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 ten of its twenty-four local jurisdictions within the state, including Carroll County and Frederick County. This

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

June 30, 2017

Unaudited

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 at least \$1,000,000 on the Frederick County side of town, and \$374,000 on the Carroll County side of town. Carroll County is also managing the Town 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, expanding Rails to Trails, and rehabilitating the interior of the Train Station, 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.

The Town is fortunate to have significant reserve funds that have grown over the years and have funded many capital projects. The total reserve balance increased by approximately \$70,000 during Fiscal Year 2017. One of the main sources of income to these 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; it could take up to ten years to build out the current pipeline, and new projects are coming along that show much promise, such as the office park slated for the Harrison/Leishear property. Future residential developments include Brittany Manor and the final section of Wildwood Park senior housing. 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 six fiscal years, following a decade of significant contributions from the General Fund to help with 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, such as the Main Street Water Main Replacement Project and Water Station #2 Rehabilitation, 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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 2,340,410	\$ 3,310,472	\$ 5,650,882
Cash and Cash Equivalents - Restricted	337,895	57,212	395,107
Certificates of Deposit	3,097,950	-	3,097,950
Accounts Receivable	64,403	585,610	650,013
Taxes Receivable	270,181	-	270,181
Grants Receivable	63,074	-	63,074
Due from Other Governments	51,465	-	51,465
Inventory	81,744	-	81,744
Unbilled Services	-	92,594	92,594
TOTAL CURRENT ASSETS	6,307,122	4,045,888	10,353,010
NON-CURRENT ASSETS			
Certificates of Deposit	1,780,686	3,651,584	5,432,270
Property and Equipment			
Construction in Progress	1,471,411	193,758	1,665,169
Land and Land Rights	1,977,439	1,438,848	3,416,287
Buildings and Improvements	4,506,126	22,642,163	27,148,289
Equipment	2,644,075	604,960	3,249,035
Infrastructure	34,067,727	23,572,212	57,639,939
Vehicles	650,055	475,024	1,125,079
	45,316,833	48,926,965	94,243,798
Less: Accumulated Depreciation	21,085,278	17,998,394	39,083,672
Net Property and Equipment	24,231,555	30,928,571	55,160,126
TOTAL NON-CURRENT ASSETS	26,012,241	34,580,155	60,592,396
	32,319,363	38,626,043	70,945,406
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts from Pensions	256,055	132,555	388,610
TOTAL DEFERRED OUTFLOWS OF RESOURCES	256,055	132,555	388,610

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	874,003	224,588	1,098,591
Accrued Payroll and Related Benefits	23,530	10,601	34,131
Accrued Interest Payable	-	41,965	41,965
Accrued Compensated Absences	-	1,125	1,125
Current Portion of Bonds and Loan Payable (Net of Premiums)	-	540,677	540,677
Payable from Restricted Assets Due to Other Governments	-	57,212	57,212
Refundable Deposits	337,895	-	337,895
TOTAL CURRENT LIABILITIES	1,235,428	876,168	2,111,596
NON-CURRENT LIABILITIES			
Accrued Compensated Absences	49,573	20,700	70,273
Net Pension Liability	898,421	434,305	1,332,726
Accrued Other Postemployment Benefits	549,000	264,000	813,000
Bonds and Loan Payable (Net of Premiums)	-	5,471,367	5,471,367
TOTAL NON-CURRENT LIABILITIES	1,496,994	6,190,372	7,687,366
TOTAL LIABILITIES	2,732,422	7,066,540	9,798,962
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts from Pensions	37,250	15,362	52,612
TOTAL DEFERRED INFLOWS OF RESOURCES	37,250	15,362	52,612
NET POSITION			
Net Investment in Capital Assets	24,215,457	24,910,968	49,126,425
Unrestricted	5,590,289	6,765,728	12,356,017
TOTAL NET POSITION	\$ 29,805,746	\$ 31,676,696	\$ 61,482,442

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

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	\$ 1,095,375	\$ 56,218	\$ 8,775	\$ -	\$ (1,030,382)	\$ -	\$ (1,030,382)
Planning and Zoning	363,306	15,746	-	-	(347,560)	-	(347,560)
Public Safety	1,579,961	750	138,516	-	(1,440,695)	-	(1,440,695)
Public Works	2,101,810	10,892	344,800	347,282	(1,398,836)	-	(1,398,836)
Parks and Recreation	355,648	16,845	-	269,872	(68,931)	-	(68,931)
Economic Development	45,586	-	1,113	-	(44,473)	-	(44,473)
Total Governmental Activities	5,541,686	100,451	493,204	617,154	(4,330,877)	-	(4,330,877)
Business-Type Activities							
Water and Sewer Services	3,261,135	2,655,764	36,000	993,558	-	424,187	424,187
Total Business-Type Activities	3,261,135	2,655,764	36,000	993,558	-	424,187	424,187
TOTAL PRIMARY GOVERNMENT	\$ 8,802,821	\$ 2,756,215	\$ 529,204	\$ 1,610,712	(4,330,877)	424,187	(3,906,690)
GENERAL REVENUES							
Taxes							
Income Taxes					2,235,440	-	2,235,440
Real Estate Taxes					1,795,949	-	1,795,949
Personal Property Taxes					128,349	-	128,349
Grants, Contributions, and Franchise Fees Not Restricted to Specific Programs							
Interest Income and Rents					830,195	-	830,195
Miscellaneous					40,954	108,895	149,849
					1,298	-	1,298
TOTAL GENERAL REVENUES					5,032,185	108,895	5,141,080
CHANGES IN NET POSITION							
Net Position - Beginning of Year, As Restated					701,308	533,082	1,234,390
					29,104,438	31,143,614	60,248,052
NET POSITION - END OF YEAR					\$ 29,805,746	\$ 31,676,696	\$ 61,482,442

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Cash and Cash Equivalents	\$ 2,340,410	\$ 2,340,410
Cash and Cash Equivalents - Restricted	337,895	337,895
Certificates of Deposit	4,878,636	4,878,636
Accounts Receivable	64,403	64,403
Taxes Receivable	270,181	270,181
Grants Receivable	63,074	63,074
Due from Other Governments	51,465	51,465
Inventory	81,744	81,744
TOTAL ASSETS	8,087,808	8,087,808
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 8,087,808	\$ 8,087,808
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 857,905	\$ 857,905
Accrued Payroll and Related Benefits	23,530	23,530
Payable from Restricted Assets		
Refundable Deposits	337,895	337,895
TOTAL LIABILITIES	1,219,330	1,219,330
DEFERRED INFLOWS OF RESOURCES		
Unavailable Grant Revenues	54,299	54,299
TOTAL DEFERRED INFLOWS OF RESOURCES	54,299	54,299
FUND BALANCES		
Nonspendable	81,744	81,744
Committed	200,012	200,012
Assigned	5,290,499	5,290,499
Unassigned	1,241,924	1,241,924
TOTAL FUND BALANCES	6,814,179	6,814,179
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,087,808	\$ 8,087,808

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 6,814,179
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	(679,616)
Certain receivables are offset by unavailable revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of deferred inflows of resources related to these receivables.	54,299
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	24,231,555
Accrued other postemployment benefits 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.	(549,000)
Long-term 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.	(49,573)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(16,098)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 29,805,746

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 4,159,738	\$ 4,159,738
Licenses and Permits	168,640	168,640
Intergovernmental	1,175,395	1,175,395
Charges for Services	43,717	43,717
Fines and Forfeitures	8,245	8,245
Rental Income	5,420	5,420
Interest Income	35,534	35,534
Miscellaneous	30,336	30,336
TOTAL REVENUES	5,627,025	5,627,025
EXPENDITURES		
General Government	808,546	808,546
Planning and Zoning	287,914	287,914
Public Safety		
Police	1,348,089	1,348,089
Volunteer Fire Company	177,500	177,500
Public Works		
Highways and Streets	380,871	380,871
Solid Waste Collection	443,896	443,896
Parks and Recreation	223,155	223,155
Economic Development	45,586	45,586
Miscellaneous	353,234	353,234
Capital Outlays	1,951,512	1,951,512
TOTAL EXPENDITURES	6,020,303	6,020,303
NET CHANGES IN FUND BALANCES	(393,278)	(393,278)
Fund Balances - Beginning of Year, As Restated	7,207,457	7,207,457
FUND BALANCES - END OF YEAR	\$ 6,814,179	\$ 6,814,179

See Accompanying Notes

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, 2017

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (393,278)**

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 expense.

Add: Capital Outlays	1,951,512
Less: Depreciation Expense	(1,411,589)

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.	561,670
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In the statement of activities, revenues are recognized when they are earned and received. In the governmental funds, revenues are recognized as income if they are available to satisfy current obligations. This is the amount of the change in deferred inflows of resources in the governmental funds which is recognized as revenue in the statement of activities.	54,299
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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	(49,573)
Accrued Other Postemployment Benefits	(27,327)
Deferred Outflows of Resources Relating to Pensions	68,205
Net Pension Liability	(81,788)
Deferred Inflows of Resources Relating to Pensions	29,177

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>701,308</u>
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See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,310,472	\$ 3,310,472
Cash and Cash Equivalents - Restricted	57,212	57,212
Certificates of Deposit	-	-
Accounts Receivable	585,610	585,610
Unbilled Services	92,594	92,594
TOTAL CURRENT ASSETS	4,045,888	4,045,888
NON-CURRENT ASSETS		
Certificates of Deposit	3,651,584	3,651,584
Property and Equipment		
Construction in Progress	193,758	193,758
Land and Land Rights	1,438,848	1,438,848
Buildings and Improvements	22,642,163	22,642,163
Equipment	604,960	604,960
Infrastructure	23,572,212	23,572,212
Vehicles	475,024	475,024
	48,926,965	48,926,965
Less: Accumulated Depreciation	17,998,394	17,998,394
Net Property and Equipment	30,928,571	30,928,571
TOTAL NON-CURRENT ASSETS	34,580,155	34,580,155
TOTAL ASSETS	38,626,043	38,626,043
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts from Pensions	132,555	132,555
TOTAL DEFERRED OUTFLOWS OF RESOURCES	132,555	132,555

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	224,588	224,588
Accrued Payroll and Related Benefits	10,601	10,601
Accrued Interest Payable	41,965	41,965
Accrued Compensated Absences	1,125	1,125
Current Portion of Bonds and Loan Payable (Net of Premiums)	540,677	540,677
Payable from Restricted Assets Due to Other Governments	57,212	57,212
TOTAL CURRENT LIABILITIES	<u>876,168</u>	<u>876,168</u>
NON-CURRENT LIABILITIES		
Accrued Compensated Absences	20,700	20,700
Net Pension Liability	434,305	434,305
Accrued Other Postemployment Benefits	264,000	264,000
Bonds and Loan Payable (Net of Premiums)	5,471,367	5,471,367
TOTAL NON-CURRENT LIABILITIES	<u>6,190,372</u>	<u>6,190,372</u>
TOTAL LIABILITIES	<u>7,066,540</u>	<u>7,066,540</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts from Pensions	15,362	15,362
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>15,362</u>	<u>15,362</u>
NET POSITION		
Net Investment in Capital Assets Unrestricted	24,910,968	24,910,968
TOTAL NET POSITION	<u><u>\$ 31,676,696</u></u>	<u><u>\$ 31,676,696</u></u>

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for Services	\$ 2,302,668	\$ 2,302,668
Intergovernmental	36,000	36,000
Other Revenues	319,096	319,096
TOTAL OPERATING REVENUES	2,657,764	2,657,764
OPERATING EXPENSES		
Depreciation	1,278,196	1,278,196
Insurance	42,014	42,014
Other Administrative Expenses	45,271	45,271
Payroll Taxes and Fringe Benefits	192,019	192,019
Repairs and Maintenance	432,660	432,660
Salaries and Wages	543,369	543,369
Supplies and Materials	188,334	188,334
Utilities	302,807	302,807
TOTAL OPERATING EXPENSES	3,024,670	3,024,670
OPERATING LOSS	(366,906)	(366,906)
NON-OPERATING REVENUES		
(EXPENSES)		
Connection Charges	34,000	34,000
Loss on Disposal of Assets	(421)	(421)
Interest Income	65,267	65,267
Rental Income	43,628	43,628
Interest Expense and Fiscal Charges	(236,044)	(236,044)
TOTAL NON-OPERATING REVENUES	(93,570)	(93,570)
(EXPENSES)	(93,570)	(93,570)
NET LOSS BEFORE		
CAPITAL CONTRIBUTIONS	(460,476)	(460,476)
Capital Contributions	993,558	993,558
CHANGES IN NET POSITION	533,082	533,082
Net Position - Beginning of Year	31,143,614	31,143,614
NET POSITION - END OF YEAR	\$ 31,676,696	\$ 31,676,696

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows		
Cash Received from Customers	\$ 2,584,903	\$ 2,584,903
Cash Received from Grants	36,000	36,000
	2,620,903	2,620,903
Outflows		
Cash Paid to Suppliers	1,030,144	1,030,144
Cash Paid to Employees	705,950	705,950
	1,736,094	1,736,094
NET CASH PROVIDED BY OPERATING ACTIVITIES	884,809	884,809
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Inflows		
Other Revenues	43,628	43,628
Outflows		
Cash Paid to Other Funds	8,944	8,944
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	34,684	34,684
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Inflows		
Connection Fees Received	34,000	34,000
Outflows		
Interest Paid	239,709	239,709
Purchase of Capital Assets	267,786	267,786
Payments on Long-Term Debt	480,894	480,894
	988,389	988,389
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(954,389)	(954,389)

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows		
Proceeds from Sale of Investments	1,058,254	1,058,254
Interest Received	113,632	113,632
	1,171,886	1,171,886
Outflows		
Purchase of Certificate of Deposit	1,169,421	1,169,421
	2,465	2,465
NET CASH PROVIDED BY INVESTING ACTIVITIES		
	(32,431)	(32,431)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents - Beginning of Year	3,400,115	3,400,115
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,367,684	\$ 3,367,684
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
CURRENT ASSETS		
Cash and Cash Equivalents	3,310,472	3,310,472
Cash and Cash Equivalents - Restricted	57,212	57,212
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,367,684	\$ 3,367,684
 NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
The Town recognized water and sewer related infrastructure contributed by developers	\$ 993,558	\$ 993,558

See Accompanying Notes

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: planning and zoning, public safety and enforcement, streets and roads, sanitation, parks and recreation, economic development, general and administrative, 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 GASB Statements implemented by the Town during the year ended June 30, 2017 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans - The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability where OPEB plans are administered through trusts. The provisions of this statement are effective for periods beginning after June 15, 2016 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

GASB Statement No. 77, *Tax Abatement Disclosures* - The objective of this statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public concerning the nature and magnitude of tax abatements. The provisions of this statement are effective for periods beginning after December 15, 2015 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans* - The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for periods beginning after December 15, 2015 and were implemented by the Town as of July 1, 2016 with no effect on the financial statements presentation or disclosure.

GASB Statement No. 79, *Certain Investment Pools and Pool Participants* - The objective of this statement is to improve accounting and financial reporting for external investment pools and their participants resulting from changes in the regulatory provisions significantly amended in 2014 by the Securities and Exchange Commission, particularly those in relation to the Investment Company Act of 1940, Rule 2a7. The provisions of this statement are effective for periods beginning after December 15, 2015 and were implemented by the Town as of July 1, 2016 with no effect on the financial statements presentation or disclosure.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this statement is to improve accounting and financial reporting by clarifying the financial statement presentation requirements for certain component units, specifically blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this statement are effective for periods beginning after June 15, 2016 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 81, *Irrevocable Split Interest Agreements* - The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance when the government is a beneficiary of the agreement. The provisions of this statement are effective for periods beginning after December 15, 2016 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for periods beginning after June 15, 2016 and were implemented by the Town as of July 1, 2016, with minimal effect on the financial statements presentation or disclosure.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs), by recognizing a liability for the government that has legal obligations to perform future asset retirement activities related to its tangible capital assets. The provisions of this statement are effective for periods beginning after June 15, 2018 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. The provisions of this statement are effective for periods beginning after December 15, 2018 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid issuance on debt that is extinguished. The provisions of this statement are effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statement presentation or disclosure.

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 are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 obligation 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.

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 equity, 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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, with an initial maturity of three months or less, are considered to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Unbilled Services

Unbilled customer service receivables for water consumption and related sewer charges are based upon 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. 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	50 years
Furniture, Machinery and Equipment	5 - 15 years
Improvements	10 - 20 years
Roads, Sidewalks, and Storm Drains	20 - 40 years
Vehicles	5 years
Water Distribution and Sewer Systems	40 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.

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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 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 vested annual leave is expensed as incurred in the appropriate funds.

Deferred and Unearned Revenue

In the governmental funds financial statements, taxes receivable that were not collected within the available period are recorded as deferred revenue in deferred inflows of resources. 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, 2017 is reported as unearned revenue.

Unavailable Revenues

Unavailable revenues are reported in governmental funds and represent revenue received more than 60 days following year end (and, therefore, unavailable to pay liabilities of the current period). Unavailable revenue received after 60 days is fully recognized as revenue in the government-wide financial statements.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted Net Position - 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 Net Position - 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.

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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

For the classification of fund balances, the Town considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balance, the Town considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

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, 2017. 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.

Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 31, 2017, the date the financial statements were available to be issued.

Note 2. Deposits

The deposits held as of June 30, 2017 were as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Cash on Hand			\$ 450
Demand Deposits	0.10% - 0.30%		6,045,539
Certificates of Deposit	0.20% - 1.98%	12/12/2017 – 6/29/2021	<u>8,530,220</u>
			<u>\$ 14,576,209</u>

Reconciliation to Statement of Net Position:

Current Assets	
Cash and Cash Equivalents	
Unrestricted	\$ 5,650,882
Restricted	<u>395,107</u>
Total Cash and Cash Equivalents	<u>6,045,989</u>
Certificates of Deposit	<u>3,097,950</u>
Total Current Assets	<u>9,143,939</u>
Non-Current Assets	
Certificates of Deposit	<u>5,432,270</u>
Total Current and Non-Current Assets	<u>\$ 14,576,209</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Restricted cash and cash equivalents as of June 30, 2017 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Cash and Cash Equivalents		
Bay Restoration Collections	\$ -	\$ 57,212
Planning and Zoning Escrow and Other Deposits	<u>337,895</u>	<u>-</u>
	<u>\$ 337,895</u>	<u>\$ 57,212</u>

Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

The Town is governed by the deposit and investment limitations of Maryland law. The Town’s formal investment policy does not limit its investment choices beyond the limitations of state law as follows:

1. An obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
2. An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
3. An obligation issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States;
4. A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer;
5. Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission (SEC) or the Treasurer;
6. With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this item;

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

7. Commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States SEC, provided that such commercial paper may not exceed 10% of the total investments made by the Treasurer under this subsection;
8. Money market mutual funds that:
 - a. are registered with the Securities and Exchange Commission under the Investment Company Act (ICA) of 1940, 15 U.S.C. § 80a-1 et seq., as amended;
 - b. are operated in accordance with Rule 2A-7 of the ICA of 1940, 17 C.F.R. § 270.2A-7, as amended; and
 - c. have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the United States SEC; and
9. Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under §§ 17-301 through 17-309 of the Local Government Article of the Code that is administered by the Office of the State Treasurer.

Custodial Credit Risks

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$14,607,431 as of June 30, 2017, \$11,483,022 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 deposits held at June 30, 2017 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 Deposits (Only Maryland Commercial Banks); and 50% in Local Government Investment Trust. As of June 30, 2017, 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>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2017</u>
Governmental Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 761,797	\$ 915,526	\$ -	\$ (205,912)	\$ 1,471,411
Land and Land Rights	<u>1,382,495</u>	<u>594,944</u>	-	-	<u>1,977,439</u>
Total Non-Depreciable Assets	...2,144,292	...1,510,470-	...(205,912)	...3,448,850
Depreciable Assets					
Buildings and Improvements	4,098,667	322,103	-	85,356	4,506,126
Equipment	2,444,508	128,250	49,239	120,556	2,644,075
Infrastructure	33,692,087	375,640	-	-	34,067,727
Vehicles	<u>457,239</u>	<u>192,816</u>	-	-	<u>650,055</u>
Total Depreciable Assets	...40,692,501	...1,018,80949,239205,912	...41,867,983
Total Capital Assets	...42,836,793	...2,529,27949,239-	...45,316,833
Accumulated Depreciation					
Buildings and Improvements	820,092	86,440	-	-	906,532
Equipment	1,043,180	122,762	49,239	-	1,116,703
Infrastructure	17,536,689	1,160,725	-	-	18,697,414
Vehicles	<u>322,967</u>	<u>41,662</u>	-	-	<u>364,629</u>
Total Accumulated Depreciation	...19,722,928	...1,411,58949,239-	...21,085,278
Total Capital Assets, Net	<u>\$ 23,113,865</u>	<u>\$ 1,117,690</u>	\$ -	\$ -	<u>\$ 24,231,555</u>

Depreciation expense for the year ended June 30, 2017 charged to governmental activities was as follows:

General Government	\$ 90,111
Health and Sanitation	530
Parks and Recreation	73,466
Public Safety	5,657
Public Works	<u>1,241,825</u>
	<u>\$ 1,411,589</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, 2017 are as follows:

Flat Iron Building	\$ 152,071
Maintenance Facility Rehabilitation	168,331
Town Monument	15,452
Train Station Improvements	35,000
Police Department Office	216,823
Police Equipment	136,624
Police Vehicles	249,325
East Ridgeville Boulevard Sidewalks	77,357
Twin Ridge Storm Water Management Facility	162,283
Rails to Trails	145,952
Caboose Projects	65,098
Summit Ridge Park Paving	6,500
Watkins Park Tennis Court Backboard	20
Windy Ridge Park	<u>40,575</u>
	<u>\$ 1,471,411</u>

A summary of business-type activities follows:

	Balance July 1, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2017</u>
Business-Type Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 1,521,589	\$ 153,758	\$ -	\$ (1,481,589)	\$ 193,758
Land and Land Rights	<u>1,438,770</u>	<u>78</u>	-	-	<u>1,438,848</u>
Total Non-Depreciable Assets	<u>2,960,359</u>	<u>153,836</u>	-	<u>(1,481,589)</u>	<u>1,632,606</u>
Depreciable Assets					
Buildings and Improvements	21,469,189	1,168,457	5,616	10,133	22,642,163
Machinery and Equipment	604,960	-	-	-	604,960
Infrastructure	22,051,033	49,723	-	1,471,456	23,572,212
Vehicles	<u>475,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,024</u>
Total Depreciable Assets	<u>44,600,206</u>	<u>1,218,180</u>	<u>5,616</u>	<u>1,481,589</u>	<u>47,294,359</u>
Total Capital Assets	<u>47,560,565</u>	<u>1,372,016</u>	<u>5,616</u>	<u>-</u>	<u>48,926,965</u>
Accumulated Depreciation					
Buildings and Improvements	8,650,989	578,059	5,193	-	9,223,855
Machinery and Equipment	397,099	33,053	-	-	430,152
Infrastructure	7,324,240	647,034	-	-	7,971,274
Vehicles	<u>353,063</u>	<u>20,050</u>	<u>-</u>	<u>-</u>	<u>373,113</u>
Total Accumulated Depreciation	<u>16,725,391</u>	<u>1,278,196</u>	<u>5,193</u>	<u>-</u>	<u>17,998,394</u>
Total Capital Assets, Net	<u>\$ 30,835,174</u>	<u>\$ 93,820</u>	<u>\$ 423</u>	<u>\$ -</u>	<u>\$ 30,928,571</u>

Depreciation expense for the year ended June 30, 2017 charged to business-type activities for the Water and Sewer Fund totaled \$1,278,196.

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, 2017 are as follows:

WWTP Effluent Temperature Reduction	\$ 28,500
ENR Filter Building	148,238
Harrison/Leishear Well	2,500
Elevated Storage Tank #1 Rehabilitation	6,568
Hand Held Meter Reader	<u>7,952</u>
	<u>\$ 193,758</u>

Note 4. Long-Term Liabilities

Bonds and Loan Payable as of June 30, 2017 consists of the following:

Bonds Payable

CDA - Infrastructure Bonds 2012

\$5,339,431 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$236,500 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 1.51% to 3.42% \$ 4,197,000

CDA - Infrastructure Bonds 2012 Refunding

\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$74,000 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 1.51% to 3.42% 1,307,800

Total Bonds Payable 5,504,800

Loan Payable

Water Quality Loan 1998

\$3,523,087 authorized and issued. Remaining principal to be repaid in annual installments through February 2019 ranging from \$227,136 to \$234,495 with semi-annual interest payments at a remaining interest rate of 3.24%. 461,630

Total Loan Payable 461,630

Total Bonds and Loan Payable \$ 5,966,430

All bonds and loan 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, 2017:

<u>Type of Debt</u>	Balance July 1, 2016	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2017	<u>Due Within One Year</u>
Governmental Activities					
Accounts Payable	\$ -	\$ 16,098	\$ -	\$ 16,098	\$ 16,098
Accrued Compensated Absences	-	<u>49,573</u>	-	<u>49,573</u>	-
Total Governmental Activities	<u>\$ -</u>	<u>\$ 65,671</u>	<u>\$ -</u>	<u>\$ 65,671</u>	<u>\$ 16,098</u>
Business-Type Activities					
Bonds and Loan Payable					
CDA - Infrastructure Bonds 2012	\$ 4,430,000	\$ -	\$ 233,000	\$ 4,197,000	\$ 236,500
CDA - Infrastructure Bonds 2012 Refunding	1,381,300	-	73,500	1,307,800	74,000
Water Quality Loan 1998	<u>681,638</u>	-	<u>220,008</u>	<u>461,630</u>	<u>227,136</u>
	6,492,938	-	526,508	5,966,430	537,636
Bond Premiums	-	<u>48,655</u>	<u>3,041</u>	<u>45,614</u>	<u>3,041</u>
Total Bonds Payable	<u>6,492,938</u>	<u>48,655</u>	<u>529,549</u>	<u>6,012,044</u>	<u>540,677</u>
Accounts Payable	-	5,559	-	5,559	5,559
Accrued Compensated Absences	-	<u>21,825</u>	-	<u>21,825</u>	<u>1,125</u>
Total Business-Type Activities	<u>\$ 6,492,938</u>	<u>\$ 76,039</u>	<u>\$ 529,549</u>	<u>\$ 6,039,428</u>	<u>\$ 547,361</u>

Accounts payable noted in the schedule above represent retainage payable of \$21,657 held on two construction projects (Police Station and ENR Filter Building), which were not completed as of June 30, 2017, as further disclosed at Note 11.

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 respective Water and Sewer Funds.

Interest and related costs incurred for business-type activities for the year ended June 30, 2017 was \$236,044, all of which was expensed.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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>
2018	\$ 537,636	\$ 168,526
2019	549,995	156,478
2020	318,400	143,485
2021	328,300	137,245
2022	333,800	129,759
2023 - 2027	1,798,800	516,944
2028 - 2032	<u>2,099,499</u>	<u>220,060</u>
	<u>\$ 5,966,430</u>	<u>\$ 1,472,497</u>

Note 5. Net Position and Fund Balances

Nonspendable fund balance in the General Fund as of June 30, 2017 is limited to inventory totaling \$81,744.

The following is a summary of General Fund committed fund balances as of June 30, 2017:

Parks fee-in-lieu	\$ 132,248
Center Street Improvements	<u>67,764</u>
	<u>\$ 200,012</u>

The following is a summary of General Fund assigned fund balances as of June 30, 2017:

Capital Improvements	\$ 3,501,289
Future Land Acquisition	342,239
Office and Building Improvements	53,782
Park Reserve	421,363
Police	13,000
Sidewalk Improvements	6,634
Street and Road Repair	826,017
Truck and Equipment Replacement	<u>126,175</u>
	<u>\$ 5,290,499</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, 2017 is as follows:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Designated	
Water System Expansion	\$ 749,091
Well System Expansion	1,182,174
Well System Capital Improvement	461,944
Sewerage System Reserve	9,225
Treatment Plant Expansion	<u>3,171,845</u>
Total Designated	<u>5,574,279</u>
Undesignated	<u>1,191,449</u>
	<u>\$ 6,765,728</u>

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 and the Town 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 on 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, 2017 were \$0.1695 and \$0.42, 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:

2018	\$ 43,131
2019	22,747
2020	23,429
2021	<u>1,957</u>
	<u>\$ 91,264</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. Lease revenues generated for the year ended June 30, 2017 were \$43,628, all of which were recognized in the Water and Sewer Fund.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Upon purchasing a property during the year ended June 30, 2017, the Town also obtained the assignment of an existing lease, for a portion of the property that is leased to a private business. The following future minimum receipts are expected to be recognized in the General fund for the years ending June 30:

2018	\$ 14,800
2019	<u>14,000</u>
	<u>\$ 28,800</u>

Lease revenue generated for the year ended June 30, 2017 was \$5,400, all of which was recognized in the General Fund.

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. Under this lease agreement, the Town will receive \$40,000 as a tenant improvement allowance to assist with leasehold improvements at the property (See Note 3). The Town did not occupy the space as of June 30, 2017, therefore no tenant improvement allowance nor rent expense was recognized for the year ended June 30, 2017.

The Town also rents multiple copiers and other office equipment with monthly payments ranging from \$50 to \$537 per month, expiring between March 2018 and July 2021. Rent expense under these agreements was \$12,402 for the year ended June 30, 2017.

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

2018	\$ 58,948
2019	57,077
2020	50,730
2021	<u>38,778</u>
	<u>\$ 205,533</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 9. Pension Plan

The Town is a participating employer in the Maryland State Retirement and Pension System (the “System”) - Employees’ Pension System, a defined-benefit municipal cost-sharing pension plan (the “Plan”).

General Information about the Pension Plan

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 municipal pool, 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:
http://www.sra.maryland.gov/Agency/Downloads/CAFR/CAFR_FullReport.pdf

Benefits Provided - The Employees’ Retirement and Pension Systems provide 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 are determined as 1.2% of average final compensation (AFC) for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of the (AFC) for the three highest consecutive years as an employee for each year 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, 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 are determined as 1.5% of (AFC) for the five highest consecutive years as an employee for each year 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%.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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' 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. This amount is provided as a lump sum except in certain circumstances where a monthly allowance option is available.

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, 2017 was 8.17% 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 \$108,765 for the year ended June 30, 2017.

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

At June 30, 2017, the Town reported a liability of \$1,332,726 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportion was 0.0056 percent, which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$90,454. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 28,407
Changes of assumptions	44,959	-
Net difference between projected and actual earnings on pension plan investments	130,735	-
Changes in Town's proportionate share of contributions	104,151	24,205
Town contributions subsequent to the measurement date	<u>108,765</u>	<u>-</u>
Total	<u>\$ 388,610</u>	<u>\$ 52,612</u>

\$108,765 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, 2018. 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:

2018	\$ 56,389
2019	56,389
2020	73,231
2021	47,677
2022	<u>(6,453)</u>
	<u>\$ 227,233</u>

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70 percent general, 3.20 percent wage
Salary Increases	3.30 percent to 9.20 percent, including inflation
Investment Rate of Return	7.55 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Combined Mortality Table for Males and Females.

The actuarial assumptions used in the June 30, 2016 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,

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

disability rates, and rates of salary increase were adopted by the Board for first use in the actuarial valuation as of June 30, 2015.

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%	6.60%
Private Equity	10%	7.40%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	<u>9%</u>	3.70%
	<u>100%</u>	

Discount Rate - A single discount rate of 7.55% 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 7.55%. 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.

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 7.55%, 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:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

<u>Asset Class</u>	1% Decrease to <u>6.55%</u>	Current Discount <u>Rate (7.55%)</u>	1% Increase to <u>8.55%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 1,830,616	\$ 1,332,726	\$ 918,409

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

A. Plan Description and Funding Policies

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 health care 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:

- Employees hired before June 30, 2009: the active participant must retire after age 65 with 20 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.

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 19 participants, 16 of which are active plan members and 3 are retirees receiving benefits, as of June 30, 2017.

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, 2017, the Town reimbursed premium costs of \$10,708 to the retirees. There are no retiree contributions to the plan.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

B. Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceed 30 years.

The following table shows the components of the Town's annual OPEB cost, the estimated actuarial amount contributed to the plan, and changes in the net OPEB obligation for the Town's governmental activities and business-type activities for the year ended June 30, 2017:

Annual Required Contribution	\$ 138,000
Interest on Net OPEB Obligation	25,000
Adjustment to Annual Required Contribution	<u>(105,034)</u>
Annual OPEB Cost	57,966
Contributions Made	<u>(20,000)</u>
Increase in Net OPEB Obligation	37,966
Net OPEB Obligation - Beginning of Year	<u>775,034</u>
Net OPEB Obligation - End of Year	<u>\$ 813,000</u>

The net OPEB obligation of \$813,000 as of June 30, 2017 has been accrued as follows:

Governmental Activities	\$ 549,000
Business-Type Activities	<u>264,000</u>
	<u>\$ 813,000</u>

The following table shows trend information for the Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation.

<u>Trend Information</u>			
Years Ended <u>June 30,</u>	Annual OPEB <u>Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2017	\$ 57,966	35%	\$ 813,000
2016	\$ 112,000	9%	\$ 775,034
2015	\$ 144,000	7%	\$ 673,326

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

C. Funded Status and Funding Progress

As of the July 1, 2015 valuation, the actuarial accrued liability for benefits was \$1,115,000, all of which was unfunded, the covered payroll (annual payroll of active employees covered by the plan) was \$888,986, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 125.42%.

D. Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Town and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

For the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Town's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 5.0% initially, gradually decreasing over time. By 2030, the rate of increase is 5.3%, and by 2050 4.8%. The rates include a 2.9% inflation assumption. The UAAL is being amortized as a level dollar of projected payroll on a closed basis over 30 years (as of July 1, 2009).

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 \$18,000, 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. The Town did not contribute to the plan for the year ended June 30, 2017.

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.

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, 2017, 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, 2017:

<u>Project</u>	<u>Type of Project</u>	<u>Contract Amount</u>	<u>Amount of Contract Not Incurred at June 30, 2017</u>
Police Department Office	Construction	<u>\$ 393,028</u>	<u>\$ 248,146</u>
ENR Filter Building	Construction	<u>\$ 381,764</u>	<u>\$ 270,582</u>

Subsequent to June 30, 2017, the Town entered into the following new contracts for construction projects:

<u>Project</u>	<u>Contract Amount</u>
Elevated Water Tank Rehabilitation	<u>\$ 434,000</u>
Train Station Improvements	<u>\$ 255,000</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

In June 2015, the Supreme Court of the United States affirmed its ruling on docket 13-485 (Maryland State Comptroller of the Treasury v. Brian Wynne) (“Wynne decision”) regarding income tax credits received by Maryland residents for taxes paid to other states. This ruling is expected to impact future income tax appropriations to the Town. Through July 29, 2016, the Comptroller of Maryland has determined that the Town’s future income tax appropriations will be reduced by \$1,054. The Town has the option to make a one-time payment of this liability by March 31, 2019, or reduce future income tax appropriations over 20 quarterly reductions, from May 2019 through February 2024.

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 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 covering the remaining 80%. For the year ended June 30, 2017, the Town’s portion of these costs were \$70,980, 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. Expected future costs the Town will be covering for this project are as follows:

2018	\$ 74,529
2019	78,255
2020	<u>82,168</u>
	<u>\$ 234,952</u>

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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017, 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. Reconciliations of Operating Loss to Net Cash Provided by Operating Activities

	<u>Water and Sewer Fund</u>
Operating Loss	\$ (366,906)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	1,278,196
(Increase) Decrease in Assets and Deferred Outflows of Resources	
Accounts Receivable	(585,082)
Unbilled Services	551,221
Deferred Amounts from Pensions	(34,028)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources	
Accounts Payable and Accrued Expenses	(20,542)
Accrued Payroll and Related Benefits	2,701
Accrued Compensated Absences	21,825
Refundable Deposits	(3,000)
Net Pension Liability	43,996
Accrued Other Postemployment Benefits	10,639
Due to Other Governments	1,484
Deferred Amounts from Pensions	<u>(15,695)</u>
Net Cash Provided by Operating Activities	<u>\$ 884,809</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 16. New Governmental Accounting Standards Board Pronouncements

The GASB issued several pronouncements prior to the year ended June 30, 2017 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the Town as of July 1, 2017. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability for all employers with OPEB plans. The implementation of this statement is expected to have significant effect on the government-wide financial statements of the Town's in the year of implementation; however, the effects of said implementation are not yet quantifiable.

GASB Statement No. 85, *Omnibus 2017*, will be effective for the Town as of July 1, 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements, including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and OPEB). 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. 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 of 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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 17. Prior Period Restatement

In the financial statements for the year ended June 30, 2016, income tax revenues were not properly recognized for the year ended June 30, 2016 based on application of “available” and earned revenue recognition criteria as discussed in Note 1. The fund balance for the general fund and net position of governmental activities as of June 30, 2016 have been restated to reflect this correction. The restatement resulted in the following change:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund Balance/Net Position as of June 30, 2016, as Originally Stated	\$ 7,046,991	\$ 28,943,972
Correction for Reporting of Income Taxes Receivable Earned and “Available”	<u>160,466</u>	<u>160,466</u>
Fund Balance/Net Position as of June 30, 2016, as Restated	<u>\$ 7,207,457</u>	<u>\$ 29,104,438</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MOUNT AIRY, MARYLAND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 3,321,200	\$ 3,321,200	\$ 4,159,738	\$ 838,538
Licenses and Permits	172,200	172,200	168,640	(3,560)
Intergovernmental	1,119,220	1,119,220	1,175,395	56,175
Charges for Services	74,750	74,750	43,717	(31,033)
Fines and Forfeitures	4,000	4,000	8,245	4,245
Rental Income	-	-	5,420	5,420
Interest Income	20,000	20,000	35,534	15,534
Miscellaneous	5,000	5,000	30,336	25,336
TOTAL REVENUES	4,716,370	4,716,370	5,627,025	910,655
EXPENDITURES				
General Government	872,551	873,191	808,546	64,645
Planning and Zoning	293,350	293,350	287,914	5,436
Public Safety				
Police	1,178,395	1,908,645	1,348,089	560,556
Volunteer Fire Company	177,500	177,500	177,500	-
Public Works				
Highways and Streets	488,300	488,300	380,871	107,429
Solid Waste Collection	459,750	459,750	443,896	15,854
Parks and Recreation	241,210	253,210	223,155	30,055
Economic Development	49,978	69,978	45,586	24,392
Miscellaneous	361,628	364,198	353,234	10,964
Capital Outlays	1,184,017	2,413,387	1,951,512	461,875
TOTAL EXPENDITURES	5,306,679	7,301,509	6,020,303	1,281,206
NET CHANGES IN FUND BALANCES	(590,309)	(2,585,139)	(393,278)	2,191,861
Fund Balances - Beginning of Year, As Restated	7,207,457	7,207,457	7,207,457	-
FUND BALANCES - END OF YEAR	\$ 6,617,148	\$ 4,622,318	\$ 6,814,179	\$ 2,191,861

TOWN OF MOUNT AIRY, MARYLAND

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 3 FISCAL YEARS *

UNAUDITED

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.0056%	0.0058%	0.0050%
Town's proportionate share of the net pension liability	\$ 1,332,726	\$ 1,206,943	\$ 886,407
Town's covered payroll	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076
Town's proportionate share of the net pension liability as a percentage of its covered payroll	100.11%	93.56%	70.46%
Plan fiduciary net position as a percentage of the total pension liability	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 - Amounts reported in 2016 reflect an adjustment of the investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates, and rates of salary increase to more closely reflect actual experience. For amounts reported in 2016 and later, the investment return assumption was 7.55%, the inflation assumption was 2.70%, and the expectation of mortality rates was based on RP-2014 Mortality Tables, rather than the 7.65%, 2.90%, and RP-2010 Mortality Tables, respectively, used to determine amounts reported prior to 2016.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 108,765	\$ 110,039	\$ 122,411	\$ 116,396	\$ 100,528	\$ 130,176	\$ 222,972	\$ 175,731	\$ 170,937	\$ 173,883
Contributions in relation to the contractually required contribution	<u>(108,765)</u>	<u>(110,039)</u>	<u>(122,411)</u>	<u>(116,396)</u>	<u>(100,528)</u>	<u>(130,176)</u>	<u>(222,972)</u>	<u>(175,731)</u>	<u>(170,937)</u>	<u>(173,883)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
Town's covered payroll	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076	\$ 1,163,955	\$ 1,118,230	\$ 1,189,901	\$ 1,189,940	\$ 1,135,977	\$ 1,161,211	\$ 1,052,182
Contributions as a percentage of covered payroll	8.2%	8.5%	9.7%	10.0%	9.0%	10.9%	18.7%	15.5%	14.7%	16.5%

TOWN OF MOUNT AIRY, MARYLAND

Schedule "4"

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

UNAUDITED

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered ((b - a) / c)</u>
July 1, 2009	\$ -	\$ 938,000	\$ 938,000	0.0%	\$ 1,076,670	87.1%
July 1, 2012	\$ -	\$ 1,063,000	\$ 1,063,000	0.0%	\$ 1,053,456	100.9%
July 1, 2015	\$ -	\$ 1,115,000	\$ 1,115,000	0.0%	\$ 888,986	125.4%