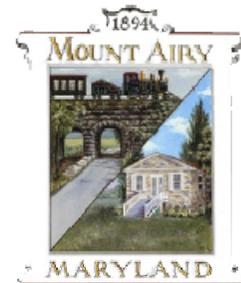


TOWN OF MOUNT AIRY, MARYLAND
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018



**CPAs &
BUSINESS
ADVISORS**

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INDEPENDENT AUDITORS' REPORT

October 19, 2018

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mount Airy, Maryland (the "Town"), as of and for the year ended June 30, 2018, 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, 2018, 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.

Change in Accounting Principle

As described in Notes 1 and 17 to the basic financial statements, the Town adopted new accounting pronouncements, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to that 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 changes in the Town's total other postemployment benefits (OPEB) liability and related ratios on pages 3 through 12 and 54 through 57, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RLH CPAs & Business Advisors, LLC

Westminster, Maryland

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
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, 2018. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the Town of Mount Airy exceeded its total liabilities at the close of Fiscal Year 2018 by \$59,926,831 (total net position). Of this amount, \$28,953,038 was for governmental activities and \$30,973,793 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$11,195,190; \$4,925,697 for governmental activities and \$6,269,493 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 decreased by \$439,334, and business-type activities decreased by \$506,199, resulting in a \$945,533 decrease in the Town's total net position from the previous fiscal year. Both funds received bonus revenue and contributed capital in Fiscal Year 2017 that caused a decrease in net position when these categories received normal amounts in Fiscal Year 2018.
- 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, 2018, the total liabilities, deferred inflows of resources, and fund balances for governmental funds were \$7,173,082. This is a decrease of \$914,726 from Fiscal Year 2017.
- At the close of Fiscal Year 2018, the Town's governmental fund reported an ending fund balance of \$6,670,645, a decrease of \$143,534 from Fiscal Year 2017. This is considered a very small change and can be attributed mostly to revenues coming in lower due to income tax revenue as further explained below, and expenses also coming in lower than the previous year. This information may be reviewed on the Statement of Revenues, Expenditures and Changes in Fund Balances.
- 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 \$13.5 million. You can find this information in the Notes to Basic Financial Statements, Note 2 – Deposits. Total deposits and investments decreased \$1,072,406 from Fiscal Year 2017. Money was used from the investment accounts to fund capital projects in Fiscal Year 2018 resulting in this decrease. One of these projects was the Train Station. The Town purchased the property in Fiscal Year 2017 and began renovations in Fiscal Year 2018. To date the Town has used \$848,773 from reserves to purchase and renovate the Train Station at 1 North Main Street. 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.
- The Town received a \$5,000 grant from Maryland Agriculture & Resource-based Industry Development Corporation (Marbidco) that was used to promote the Farmers Market. Grants totaling \$54,299 were received for improvements and playground equipment for Wildwood Park from the Maryland Department of Natural Resources and Carroll County Government.

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

June 30, 2018

Unaudited

- The Mount Airy Police Department (MAPD) officially began operations on October 1, 2017 with a chief and 5 officers. The fit-out of the space to house the department on Center Street was nearly completed which includes everything from plumbing, electric and drywall to furniture, network equipment and kitchen appliances. The project is expected to be 100% complete early Fiscal Year 2019. Three additional officers were hired in Fiscal Year 2018, bringing the force to a total of nine officers, including the chief.
- The Water and Sewer Fund ended Fiscal Year 2018 with a \$372,882 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 \$1,264,866.
- The Town's Water and Sewer Fund long-term debt balance was \$5,503,879 by year end, a net decrease of \$535,549 from Fiscal Year 2017. This information can be reviewed in the Notes to Basic 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 basic financial statements.

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

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

The Statement of Activities 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, 2018
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, 2018
Unaudited

GOVERNMENT WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2018 and for the previous year ended, which is provided for comparison purposes. The information for the year ended June 30, 2017 is restated for the retroactive implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. A summary of the Town's Statement of Net Position is as follows:

	Fiscal Year 2018			Fiscal Year 2017, As Restated		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current & Other Assets	\$ 7,173,082	\$ 7,395,961	\$ 14,569,043	\$ 8,087,808	\$ 7,697,472	\$ 15,785,280
Capital Assets	<u>\$ 24,027,341</u>	<u>\$ 30,181,197</u>	<u>\$ 54,208,538</u>	<u>\$ 24,231,555</u>	<u>\$ 30,928,571</u>	<u>\$ 55,160,126</u>
Total Assets	\$ 31,200,423	\$ 37,577,158	\$ 68,777,581	\$ 32,319,363	\$ 38,626,043	\$ 70,945,406
Deferred Outflows of Resources	\$ 231,032	\$ 116,135	\$ 347,167	\$ 261,883	\$ 137,435	\$ 399,318
Liabilities						
Current Liabilities	\$ 510,263	\$ 870,398	\$ 1,380,661	\$ 1,235,428	\$ 876,168	\$ 2,111,596
Long-Term Liabilities	<u>\$ 1,715,932</u>	<u>\$ 5,747,176</u>	<u>\$ 7,463,108</u>	<u>\$ 1,916,196</u>	<u>\$ 6,391,956</u>	<u>\$ 8,308,152</u>
Total Liabilities	\$ 2,226,195	\$ 6,617,574	\$ 8,843,769	\$ 3,151,624	\$ 7,268,124	\$ 10,419,748
Deferred Inflows of Resources	\$ 252,222	\$ 101,926	\$ 354,148	\$ 37,250	\$ 15,362	\$ 52,612
Net Position						
Net Investment in Capital Assets	\$ 24,027,341	\$ 24,704,300	\$ 48,731,641	\$ 24,215,457	\$ 24,910,968	\$ 49,126,425
Unrestricted	<u>\$ 4,925,697</u>	<u>\$ 6,269,493</u>	<u>\$ 11,195,190</u>	<u>\$ 5,176,915</u>	<u>\$ 6,569,024</u>	<u>\$ 11,745,939</u>
	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831	\$ 29,392,372	\$ 31,479,992	\$ 60,872,364

The Town's total net position decreased by 2% (\$59,926,831 compared to \$60,872,364).

Total assets decreased by 3% (\$68,777,581 compared to \$70,945,406), 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, inventory, and intergovernmental receivables.

The Town's total liabilities decreased by 15% (\$8,843,769 compared to \$10,419,748). This decrease from the previous fiscal year was largely due to current liabilities. Current liabilities include accounts payable and accrued expenses, refundable deposits, and note and bond interest payable. The largest portion of the Town's total liabilities is from long-term debt in business-type activities in which improvements to the infrastructure of the Water & Sewer Systems have been made.

Pensions and other post-employment benefits, reported on the Statement of Net Position as deferred outflows of resources and deferred inflows of resources, can be thought of as promises of future benefits to workers in return for labor today. State and local governments must recognize their pension liability in their financial statements. Other post-employment benefits are benefits, other than pensions, that are offered to employees after retirement such as a Medicare supplement plan. The Town does not offer other post-employment benefits to employees 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, 2018
Unaudited

A summary of the Town's Statement of Activities for the current and prior fiscal year (as restated, based on prior period adjustment disclosed above) is as follows:

	Fiscal Year 2018			Fiscal Year 2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue						
Program Revenues						
Charges for Services	\$ 105,778	\$ 2,594,948	\$ 2,700,726	\$ 100,451	\$ 2,655,764	\$ 2,756,215
Operating Grants and Contributions	\$ 549,661	\$ 36,000	\$ 585,661	\$ 493,204	\$ 36,000	\$ 529,204
Capital Grants and Contributions	\$ 57,908		\$ 57,908	\$ 617,154	\$ 993,558	\$ 1,610,712
General Revenues						
Taxes						
Income Taxes	\$ 1,792,666		\$ 1,792,666	\$ 2,235,440		\$ 2,235,440
Real Property Taxes	\$ 1,815,808		\$ 1,815,808	\$ 1,795,949		\$ 1,795,949
Personal Property Tax	\$ 135,093		\$ 135,093	\$ 128,349		\$ 128,349
Grants, Contributions, and Franchise Fees not Restricted to Specific Programs	\$ 881,722		\$ 881,722	\$ 830,195		\$ 830,195
Connection Charges		\$ 57,800	\$ 57,800			
Interest Income and Rent	\$ 62,177	\$ 118,427	\$ 180,604	\$ 40,954	\$ 108,895	\$ 149,849
Miscellaneous	\$ 52,087		\$ 52,087	\$ 1,298		\$ 1,298
Total Revenues	\$ 5,452,900	\$ 2,807,175	\$ 8,260,075	\$ 6,242,994	\$ 3,794,217	\$ 10,037,211
Transfers						
Total Revenues and Transfers	\$ 5,452,900	\$ 2,807,175	\$ 8,260,075	\$ 6,242,994	\$ 3,794,217	\$ 10,037,211
Expenses						
General Government	\$ 1,091,643		\$ 1,091,643	\$ 1,095,375		\$ 1,095,375
Planning & Zoning	\$ 447,510		\$ 447,510	\$ 363,306		\$ 363,306
Public Safety	\$ 1,603,879		\$ 1,603,879	\$ 1,579,961		\$ 1,579,961
Public Works	\$ 2,260,202		\$ 2,260,202	\$ 2,101,810		\$ 2,101,810
Parks and Recreation	\$ 426,127		\$ 426,127	\$ 355,648		\$ 355,648
Economic Development	\$ 62,873		\$ 62,873	\$ 45,586		\$ 45,586
Water & Sewer Services		\$ 3,313,374	\$ 3,313,374		\$ 3,261,135	\$ 3,261,135
	\$ 5,892,234	\$ 3,313,374	\$ 9,205,608	\$ 5,541,686	\$ 3,261,135	\$ 8,802,821
Changes in Net Position	\$ (439,334)	\$ (506,199)	\$ (945,533)	\$ 701,308	\$ 533,082	\$ 1,234,390
Net Position at Beginning of Year, As Restated	\$ 29,392,372	\$ 31,479,992	\$ 60,872,364	\$ 28,691,064	\$ 30,946,910	\$ 59,637,974
Net Position - End of Year	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831	\$ 29,392,372	\$ 31,479,992	\$ 60,872,364

Governmental activities

For the fiscal year ended June 30, 2018, revenues from governmental activities totaled \$5,452,900, which is 66% of the total revenue received for the Town as a whole. The majority of governmental revenue came from income taxes (33%), and real property taxes (33%).

Expenses from governmental activities totaled \$5,892,234. The largest component of expenses, \$2,260,202 (38%), was from Public Works. Public Safety came in next highest at \$1,603,879 (27%).

Business-type activities

Water and Sewer Service charges made up 92% of total business-type revenue, with the next highest being interest income and rent at 4%.

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

June 30, 2018

Unaudited

Both governmental activities and business-type activities showed decreases in the net position at the end of Fiscal Year 2018. The decrease in governmental activities is due largely to income taxes for which the Town received additional revenue in Fiscal Year 2017 from a mistake the State of Maryland had made in the calculation of money due to local governments for previous fiscal years. This caused a large, one-time increase in revenue for Fiscal Year 2017, resulting in a substantial decrease in Fiscal Year 2018 when funding went back to normal levels. The decrease in net position in business-type activities was due to unusually large Capital Grants and contributions received in Fiscal Year 2017, and none received in Fiscal Year 2018. Large capital grants and contributions are typically land and infrastructure deeded to the Town from new subdivisions after the project is completed.

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 2018, the Town's governmental funds reported combined ending fund balance of \$6,670,645, as presented on the balance sheet for governmental fund, of which \$1,525,033, or 23% is unassigned. \$4,869,345, or 73%, 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 \$201,335, which consists of Parks Fee-in-lieu and Center Street Improvements. Lastly \$74,932 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 \$6,269,493. Of this \$5,686,282 is designated for water expansion, well system expansion and improvements, sewer system improvements and treatment plant expansion. \$583,211 of the unrestricted funds are undesignated. You can find the detailed information on the Water and Sewer Fund unrestricted funds under Note 5.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
Unaudited

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended numerous time during the year as approved by the Town Council. A large majority of the amendments were for capital projects. Budget amendments for the General Fund capital improvements included: the Twin Arch Basketball Court, the Train Station Renovation, the Police Office Fit-out, the Rails to Trails East of Main Street project and the Twin Ridge Storm Water Management Facility project. Other amendments were made to the budget to recognize revenues, expenditures and cancelled projects that were unknown at the time the budget was adopted in May of 2017.

Schedule "1" contains a chart that shows the original budget, the final budget, the actual, and the variance. Overall the General Fund took in \$178,906 more in revenues than expected, and spent \$981,169 less than expected.

The highest variance in revenues was Taxes which received \$172,125 more than budgeted. Other revenues that came in with a notable variance were Intergovernmental with \$25,019 more than budgeted, Miscellaneous with \$17,365 more than expected, and Interest Income at \$26,377 more than expected. Charges for Services came in \$50,917 less than budgeted and Fines and Forfeitures came in at \$13,588 below budget.

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

The highest variance in expenditures was Capital Outlays that came in \$528,616 less than budgeted. This was due to timing issues on projects that took longer than expected to design, bid-out and begin construction.

Other expenditures that came in with a notable variance were Police with \$216,748 less than budgeted, Public Works/Highways and Streets with \$54,699 less than expected, Planning and Zoning with \$54,172 less than expected, Parks and Recreation with \$47,250 less than expected and General Government spending \$46,924 less than expected. Underspending the budget is sometimes the result of timing issues for projects or purchases that didn't move forward as quickly as expected, or it is determined that a project or purchase needs more study or planning before moving forward. Above all, the main reason expenditures come in under budget is because money is not spent for any purpose unless it is necessary; purchases aren't made based on the budget, they are made based on necessity.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
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, 2018, totals \$54,208,538 (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 that were put into service and projects that were completed during the fiscal year include the following:

General Fund

- The Town Monument Project at a total cost of \$15,439
- A new server was purchased for Town Hall at a cost of \$7,886
- The Police department put various capital assets into service which included:
 - o seven up-fitted police vehicles equipped with radios, camera systems and laptops at a total cost of \$449,098
 - o A used, unmarked Crown Victoria for \$3,100 which is being used to deliver documents to the courts in Carroll County and Frederick County and is a spare for when a police vehicle is in the repair shop.
 - o Seven personal radios at a total cost of \$32,309
 - o A security camera system for the station at a cost of \$15,875
 - o An access entry system for the station at a cost of \$11,825
 - o A base station for the police radios at a cost of \$10,407
 - o A server at a cost of \$5,111
- The Roads Department
 - o The Annual Road Repaving project consisted of patching and repaving sections of road at Buffalo Road, Village Gate Subdivision and Century Drive, as well as sections of the parking lot at the Train Station. The total cost of these projects was \$157,516.
 - o Sidewalk projects cost a total of \$104,769 and were completed at East Ridgeville Boulevard, Park Avenue, Ridge Road and the Train Station property.
 - o A Toro Walk Behind mower was purchased at a cost of \$8,200.
- The Parks Department
 - o The Caboose Site Work was completed at a total cost of \$78,074. This work included preparing and improving the land and area under and around the caboose.
 - o Paving was completed at Summit Ridge Park in the parking area at a cost of \$31,500
 - o A concrete pad was poured at Watkins Park where exercise equipment was installed. The cost of the pad was \$4,587
 - o Security cameras were installed at Watkins Park at a cost of \$4,957
- The Community Development & Planning Department purchased a 14 foot Christmas tree to be displayed at the Train Station during the Christmas season. Included with the purchase was LED lighting and ornaments. The cost was \$5,090.

Water & Sewer Fund

- A Meter Reader costing \$7,952
- A Pipe Locator at \$4,871
- A Zero-turn Mower at \$3,500
- Control Panels for water stations totaling \$54,547

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

June 30, 2018

Unaudited

- Two blowers were purchased for the Waste Water Treatment Plant (WWTP) at a cost of \$21,506
- Two pumps were purchased for the WWTP at a cost of \$12,825, as well as a Utility Water Pump at a cost of \$7,710
- The ENR Building was completed at a total cost of \$445,096. The ENR building houses the Enhanced Nutrient Removal system located at the WWTP.

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

- An easement to access the sports fields at Twin Arch Crossing Park valued at \$4,600 was deeded to the Town from Twin Arch Associates Family Limited Liability Partnership
- The Town accepted a deed for a Storm Water Management Pond from Wildwood Park Homeowners Association, Incorporated at a value of \$44,000.

Debt

At year end, the Town's Water and Sewer Department had \$5,471,368 in outstanding debt, compared to \$6,012,044 the previous year. This amount consists of notes and bonds issued for Water and Sewer infrastructure improvements. They are the Water Quality Loan of 1998, the Infrastructure Bonds of 2012 Refunding, and the Infrastructure Bonds of 2012.

Economic Factors and Next Year's Budgets and Rates

The Tax Rate for Fiscal Year 2019 will remain the same as Fiscal Year 2018 at .1662 (cents) per \$100 of assessed value. Additionally the Homestead Tax Cap will remain at 0%. To help homeowners deal with large assessment increases on their principal residence, state law has established the Homestead Property Tax Credit. The Homestead Credit limits the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less each year. With the Town's cap of 0% qualified homeowners receive a credit on their real estate tax bills for the portion of their municipal tax bill attributed to assessment increases.

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

The Town has been mandated by the State of Maryland to make improvements to storm water management. A decree by the Environmental Protection Agency (EPA) 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 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, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
Unaudited

Town of Mount Airy in excess of \$1 million over the next several years. 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, and expanding Rails to Trails to name a few. Careful consideration as to the benefit of these projects to the citizens of the Town will be a main component in deciding which projects move forward into the budgeting phase.

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

The Water and Sewer Fund has remained self-sufficient for the last seven 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 have been financed so that adequate balances remain in the Town's reserve accounts. The Water Quality Loan of 1998 will be paid off in Fiscal Year 2019. This was a \$3,523,087 loan that was used for improvements to the Waste Water Treatment Plant.

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, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,804,905	\$ 2,905,858	\$ 4,710,763
Cash and Cash Equivalents - Restricted	96,920	58,102	155,022
Certificates of Deposit	2,786,283	-	2,786,283
Accounts Receivable	63,639	625,771	689,410
Taxes Receivable	181,751	-	181,751
Due from Other Governments	28,857	-	28,857
Inventory	74,932	-	74,932
Unbilled Services	-	90,290	90,290
TOTAL CURRENT ASSETS	5,037,287	3,680,021	8,717,308
NON-CURRENT ASSETS			
Certificates of Deposit	2,135,795	3,715,940	5,851,735
Property and Equipment			
Construction in Progress	1,774,467	322,875	2,097,342
Land and Land Rights	2,026,039	1,438,848	3,464,887
Buildings and Improvements	4,584,200	22,829,406	27,413,606
Equipment	2,891,432	621,283	3,512,715
Infrastructure	34,330,012	23,395,012	57,725,024
Vehicles	1,000,458	475,024	1,475,482
	46,606,608	49,082,448	95,689,056
Less: Accumulated Depreciation	22,579,267	18,901,251	41,480,518
Net Property and Equipment	24,027,341	30,181,197	54,208,538
TOTAL NON-CURRENT ASSETS	26,163,136	33,897,137	60,060,273
TOTAL ASSETS	31,200,423	37,577,158	68,777,581
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts from Pensions	223,854	111,317	335,171
Deferred Amounts from Other			
Postemployment Benefits	7,178	4,818	11,996
TOTAL DEFERRED OUTFLOWS OF RESOURCES	231,032	116,135	347,167

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	363,912	210,906	574,818
Accrued Payroll and Related Benefits	36,673	10,206	46,879
Accrued Interest Payable	-	38,122	38,122
Accrued Compensated Absences	7,826	26	7,852
Current Portion of Bonds and Loan Payable (Net of Premiums)	-	553,036	553,036
Payable from Restricted Assets Due to Other Governments	-	58,102	58,102
Refundable Deposits	96,920	-	96,920
Unearned Revenues	4,932	-	4,932
TOTAL CURRENT LIABILITIES	510,263	870,398	1,380,661
NON-CURRENT LIABILITIES			
Accrued Compensated Absences	78,155	26,956	105,111
Net Pension Liability	764,544	370,224	1,134,768
Total Other Postemployment Benefits Liability	873,233	431,664	1,304,897
Bonds and Loan Payable (Net of Premiums)	-	4,918,332	4,918,332
TOTAL NON-CURRENT LIABILITIES	1,715,932	5,747,176	7,463,108
TOTAL LIABILITIES	2,226,195	6,617,574	8,843,769
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts from Pensions	117,770	53,903	171,673
Deferred Amounts from Other Postemployment Benefits	134,452	48,023	182,475
TOTAL DEFERRED INFLOWS OF RESOURCES	252,222	101,926	354,148
NET POSITION			
Net Investment in Capital Assets Unrestricted	24,027,341 4,925,697	24,704,300 6,269,493	48,731,641 11,195,190
TOTAL NET POSITION	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

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	\$ 1,091,643	\$ 62,127	\$ 2,215	\$ -	\$ (1,027,301)	\$ -	\$ (1,027,301)
Planning and Zoning	447,510	12,138	-	-	(435,372)	-	(435,372)
Public Safety	1,603,879	462	177,846	-	(1,425,571)	-	(1,425,571)
Public Works	2,260,202	8,200	360,580	44,000	(1,847,422)	-	(1,847,422)
Parks and Recreation	426,127	22,851	-	13,908	(389,368)	-	(389,368)
Economic Development	62,873	-	9,020	-	(53,853)	-	(53,853)
Total Governmental Activities	5,892,234	105,778	549,661	57,908	(5,178,887)	-	(5,178,887)
Business-Type Activities							
Water and Sewer Services	3,313,374	2,594,948	36,000	-	-	(682,426)	(682,426)
Total Business-Type Activities	3,313,374	2,594,948	36,000	-	-	(682,426)	(682,426)
TOTAL PRIMARY GOVERNMENT	\$ 9,205,608	\$ 2,700,726	\$ 585,661	\$ 57,908	(5,178,887)	(682,426)	(5,861,313)
GENERAL REVENUES							
Taxes							
					1,792,666	-	1,792,666
					1,815,808	-	1,815,808
					135,093	-	135,093
Grants, Contributions, and Franchise Fees Not Restricted to Specific Programs							
					881,722	-	881,722
					-	57,800	57,800
					62,177	118,427	180,604
					52,087	-	52,087
TOTAL GENERAL REVENUES					4,739,553	176,227	4,915,780
CHANGES IN NET POSITION							
					(439,334)	(506,199)	(945,533)
					29,392,372	31,479,992	60,872,364
NET POSITION - END OF YEAR					\$ 28,953,038	\$ 30,973,793	\$ 59,926,831

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Cash and Cash Equivalents	\$ 1,804,905	\$ 1,804,905
Cash and Cash Equivalents - Restricted	96,920	96,920
Certificates of Deposit	4,922,078	4,922,078
Accounts Receivable	63,639	63,639
Taxes Receivable	181,751	181,751
Due from Other Governments	28,857	28,857
Inventory	74,932	74,932
TOTAL ASSETS	<u>7,173,082</u>	<u>7,173,082</u>
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,173,082</u>	<u>\$ 7,173,082</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 363,912	\$ 363,912
Accrued Payroll and Related Benefits	36,673	36,673
Payable from Restricted Assets		
Refundable Deposits	96,920	96,920
Unearned Revenues	4,932	4,932
TOTAL LIABILITIES	<u>502,437</u>	<u>502,437</u>
DEFERRED INFLOWS OF RESOURCES		
	-	-
FUND BALANCES		
Nonspendable	74,932	74,932
Committed	201,335	201,335
Assigned	4,869,345	4,869,345
Unassigned	1,525,033	1,525,033
TOTAL FUND BALANCES	<u>6,670,645</u>	<u>6,670,645</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 7,173,082</u>	<u>\$ 7,173,082</u>

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	6,670,645
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.</p>		24,027,341
<p>Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.</p>		(658,460)
<p>Total other postemployment benefits liability and related deferred amounts that are not payable in the current period and, therefore, are reported as employee benefits in the period during which the benefit occurs in the fund financial statements.</p>		(1,000,507)
<p>Accrued compensated absences are not payable in the current period and, therefore, are reported as wages in the period during which the absence occurs in the fund financial statements.</p>		(85,981)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>28,953,038</u>

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, 2018

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 3,743,567	\$ 3,743,567
Licenses and Permits	156,225	156,225
Intergovernmental	1,352,996	1,352,996
Charges for Services	68,549	68,549
Fines and Forfeitures	3,412	3,412
Rental Income	14,800	14,800
Interest Income	47,377	47,377
Miscellaneous	62,365	62,365
TOTAL REVENUES	5,449,291	5,449,291
EXPENDITURES		
General Government	800,723	800,723
Planning and Zoning	351,078	351,078
Public Safety		
Police	1,306,307	1,306,307
Volunteer Fire Company	179,194	179,194
Public Works		
Highways and Streets	509,401	509,401
Solid Waste Collection	471,748	471,748
Parks and Recreation	264,416	264,416
Economic Development	62,535	62,535
Miscellaneous	391,834	391,834
Capital Outlays	1,255,589	1,255,589
TOTAL EXPENDITURES	5,592,825	5,592,825
NET CHANGES IN FUND BALANCES	(143,534)	(143,534)
Fund Balances - Beginning of Year	6,814,179	6,814,179
FUND BALANCES - END OF YEAR	\$ 6,670,645	\$ 6,670,645

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, 2018

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS **\$ (143,534)**

Amounts reported for governmental activities in the statement of activities are different because:

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

Add: Capital Outlays	1,255,589
Less: Depreciation Expense	(1,501,613)

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. 57,908

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)

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	(36,408)
Deferred Outflows of Resources Relating to Pensions	(32,201)
Deferred Outflows of Resources Relating to Other	
Postemployment Benefits	1,350
Net Pension Liability	133,877
Total Other Postemployment Benefits Liability	94,969
Deferred Inflows of Resources Relating to Pensions	(80,520)
Deferred Inflows of Resources Relating to Other	
Postemployment Benefits	(134,452)

CHANGES IN NET POSITION OF GOVERNMENTAL
ACTIVITIES **\$ (439,334)**

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,905,858	\$ 2,905,858
Cash and Cash Equivalents - Restricted	58,102	58,102
Accounts Receivable	625,771	625,771
Unbilled Services	90,290	90,290
TOTAL CURRENT ASSETS	<u>3,680,021</u>	<u>3,680,021</u>
NON-CURRENT ASSETS		
Certificates of Deposit	<u>3,715,940</u>	<u>3,715,940</u>
Property and Equipment		
Construction in Progress	322,875	322,875
Land and Land Rights	1,438,848	1,438,848
Buildings and Improvements	22,829,406	22,829,406
Equipment	621,283	621,283
Infrastructure	23,395,012	23,395,012
Vehicles	<u>475,024</u>	<u>475,024</u>
	49,082,448	49,082,448
Less: Accumulated Depreciation	<u>18,901,251</u>	<u>18,901,251</u>
Net Property and Equipment	<u>30,181,197</u>	<u>30,181,197</u>
TOTAL NON-CURRENT ASSETS	<u>33,897,137</u>	<u>33,897,137</u>
TOTAL ASSETS	<u>37,577,158</u>	<u>37,577,158</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts from Pensions	111,317	111,317
Deferred Amounts from Other Postemployment Benefits	4,818	4,818
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>116,135</u>	<u>116,135</u>

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	210,906	210,906
Accrued Payroll and Related Benefits	10,206	10,206
Accrued Interest Payable	38,122	38,122
Accrued Compensated Absences	26	26
Current Portion of Bonds and Loan Payable (Net of Premiums)	553,036	553,036
Payable from Restricted Assets Due to Other Governments	58,102	58,102
TOTAL CURRENT LIABILITIES	<u>870,398</u>	<u>870,398</u>
NON-CURRENT LIABILITIES		
Accrued Compensated Absences	26,956	26,956
Net Pension Liability	370,224	370,224
Accrued Other Postemployment Benefits	431,664	431,664
Bonds and Loan Payable (Net of Premiums)	4,918,332	4,918,332
TOTAL NON-CURRENT LIABILITIES	<u>5,747,176</u>	<u>5,747,176</u>
TOTAL LIABILITIES	<u>6,617,574</u>	<u>6,617,574</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts from Pensions	53,903	53,903
Deferred Amounts from Other Postemployment Benefits	48,023	48,023
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>101,926</u>	<u>101,926</u>
NET POSITION		
Net Investment in Capital Assets	24,704,300	24,704,300
Unrestricted	6,269,493	6,269,493
TOTAL NET POSITION	<u>\$ 30,973,793</u>	<u>\$ 30,973,793</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, 2018

	Water and Sewer Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for Services	\$ 2,497,018	\$ 2,497,018
Other Revenues	97,930	97,930
TOTAL OPERATING REVENUES	2,594,948	2,594,948
OPERATING EXPENSES		
Depreciation	1,264,866	1,264,866
Insurance	53,500	53,500
Other Administrative Expenses	39,381	39,381
Payroll Taxes and Fringe Benefits	207,028	207,028
Repairs and Maintenance	375,349	375,349
Salaries and Wages	552,087	552,087
Supplies and Materials	178,304	178,304
Utilities	297,315	297,315
TOTAL OPERATING EXPENSES	2,967,830	2,967,830
OPERATING LOSS	(372,882)	(372,882)
NON-OPERATING REVENUES		
(EXPENSES)		
Connection Charges	57,800	57,800
Loss on Disposal of Assets	(169,630)	(169,630)
Intergovernmental	36,000	36,000
Interest Income	71,533	71,533
Rental Income	46,894	46,894
Interest Expense and Fiscal Charges	(175,914)	(175,914)
TOTAL NON-OPERATING REVENUES	(133,317)	(133,317)
(EXPENSES)	(133,317)	(133,317)
CHANGES IN NET POSITION	(506,199)	(506,199)
Net Position - Beginning of Year, As Restated	31,479,992	31,479,992
NET POSITION - END OF YEAR	\$ 30,973,793	\$ 30,973,793

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Water and Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows		
Cash Received from Customers	\$ 2,557,091	\$ 2,557,091
Rental Income Received	46,894	46,894
	2,603,985	2,603,985
Outflows		
Cash Paid to Suppliers	939,933	939,933
Cash Paid to Employees	744,490	744,490
	1,684,423	1,684,423
NET CASH PROVIDED BY OPERATING ACTIVITIES	919,562	919,562
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Inflows		
Cash Received from Grants	36,000	36,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	36,000	36,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Inflows		
Connection Fees Received	57,800	57,800
Outflows		
Interest Paid	179,757	179,757
Purchase of Capital Assets	703,830	703,830
Payments on Long-Term Debt	540,676	540,676
	1,424,263	1,424,263
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,366,463)	(1,366,463)
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows		
Interest Received	71,533	71,533
Outflows		
Purchase of Certificate of Deposit	64,356	64,356
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,177	7,177
NET DECREASE IN CASH AND CASH EQUIVALENTS	(403,724)	(403,724)
Cash and Cash Equivalents - Beginning of Year	3,367,684	3,367,684
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,963,960	\$ 2,963,960

See Accompanying Notes

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,905,858	\$ 2,905,858
Cash and Cash Equivalents - Restricted	58,102	58,102
	\$ 2,963,960	\$ 2,963,960
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (372,882)	\$ (372,882)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,264,866	1,264,866
Rental Income	46,894	46,894
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	(40,161)	(40,161)
Unbilled Services	2,304	2,304
Deferred Amounts from Pensions	21,238	21,238
Deferred Amounts from Other Postemployment Benefits	62	62
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Expenses	3,026	3,026
Accrued Payroll and Related Benefits	(395)	(395)
Accrued Compensated Absences	5,157	5,157
Due to Other Governments	890	890
Net Pension Liability	(64,081)	(64,081)
Total Other Postemployment Benefits Liability	(33,920)	(33,920)
Deferred Amounts from Pensions	38,541	38,541
Deferred Amounts from Other Postemployment Benefits	48,023	48,023
	\$ 919,562	\$ 919,562
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 919,562	\$ 919,562

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, 2018 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) - 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 provisions of this statement are effective for periods beginning after June 15, 2017 and were implemented by the Town as of July 1, 2017, with restatement of net position for governmental activities effective June 30, 2017, as further disclosed in Note 17. This implementation resulted in significant enhancement to OPEB plan note disclosures and relating schedule of changes in the Town’s total OPEB liability and related ratios.

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GASB Statement No. 85, Omnibus 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 provisions of this statement are effective for periods beginning after June 15, 2017, and were implemented by the Town as of July 1, 2017, with minimal effect on the financial statements presentation and disclosure.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period - The objective of this statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of construction period, to be expensed in the period incurred and not capitalized as historical cost of project. The provisions of this statement are effective for periods beginning after December 15, 2019, and were early implemented by the Town as of July 1, 2017, with no effect on the financial statements 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.

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

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

Governmental Funds

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

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

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

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Proprietary Funds

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

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

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

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

Basis of Accounting

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

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

Unbilled Services

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

Inventory

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

Capital Assets and Depreciation

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

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition value on the date donated. 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:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

Deferred Outflows and Inflows of Resources

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC 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 vacation leave earned up to the time of termination during the calendar year. Paid sick leave is accrued through December 31, 2012. Upon termination from employment, an employee will be paid their accrued sick leave at one-half of their current pay rate. Sick leave after December 31, 2012 is accrued and used by employees, but is not paid upon termination from employment. Compensatory time is permitted to be accrued to a maximum of 40 hours, all of which will be paid to employees in full upon termination of employment. The vested annual leave is expensed as incurred in the appropriate funds.

Unearned Revenue

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, 2018 is reported as unearned revenue.

Bond Premiums and Issuance Costs

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

Net Position and Fund Balances

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

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

Restricted 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.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

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

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018. 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.

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 19, 2018, the date the financial statements were available to be issued.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Deposits

The deposits held as of June 30, 2018 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% - 0.30%		4,865,335
Certificates of Deposit	0.20% - 1.98%	12/12/2018 – 6/29/2021	<u>8,638,018</u>
			<u>\$ 13,503,803</u>

Reconciliation to Statement of Net Position:

Current Assets	
Cash and Cash Equivalents	
Unrestricted	\$ 4,710,763
Restricted	<u>155,022</u>
Total Cash and Cash Equivalents	<u>4,865,785</u>
Certificates of Deposit	<u>2,786,283</u>
Total Current Assets	<u>7,652,068</u>
Non-Current Assets	
Certificates of Deposit	<u>5,851,735</u>
Total Current and Non-Current Assets	<u>\$ 13,503,803</u>

Restricted cash and cash equivalents as of June 30, 2018 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Cash and Cash Equivalents		
Bay Restoration Collections	\$ -	\$ 58,102
Planning and Zoning Escrow and Other Deposits	<u>96,920</u>	<u>-</u>
	<u>\$ 96,920</u>	<u>\$ 58,102</u>

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Custodial Credit Risks

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$13,563,169 as of June 30, 2018, \$10,404,331 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, 2018 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, 2018, 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>2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2018</u>
Governmental Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 1,471,411	\$ 869,421	\$ -	\$ (566,365)	\$ 1,774,467
Land and Land Rights	<u>1,977,439</u>	<u>48,600</u>	-	-	<u>2,026,039</u>
Total Non-Depreciable Assets	... <u>3,448,850</u>	... <u>918,021</u>	.....-	...(566,365)	... <u>3,800,506</u>
Depreciable Assets					
Buildings and Improvements	4,506,126	13,334	-	64,740	4,584,200
Equipment	2,644,075	86,538	7,624	168,443	2,891,432
Infrastructure	34,067,727	178,428	-	83,857	34,330,012
Vehicles	<u>650,055</u>	<u>101,078</u>	-	<u>249,325</u>	<u>1,000,458</u>
Total Depreciable Assets	... <u>41,867,983</u>	... <u>379,378</u>	.....<u>7,624</u>	... <u>566,365</u>	... <u>42,806,102</u>
Total Capital Assets	... <u>45,316,833</u>	... <u>1,297,399</u>	.....<u>7,624</u>	.....-	...<u>46,606,608</u>
Accumulated Depreciation					
Buildings and Improvements	906,532	91,332	-	-	997,864
Equipment	1,116,703	165,808	7,624	-	1,274,887
Infrastructure	18,697,414	1,142,104	-	-	19,839,518
Vehicles	<u>364,629</u>	<u>102,369</u>	-	-	<u>466,998</u>
Total Accumulated Depreciation	... <u>21,085,278</u>	... <u>1,501,613</u>	.....<u>7,624</u>	.....-	...<u>22,579,267</u>
Total Capital Assets, Net	<u>\$ 24,231,555</u>	<u>\$ (204,214)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,027,341</u>

Depreciation expense for the year ended June 30, 2018 charged to governmental activities was as follows:

General Government	\$ 94,458
Public Safety	102,083
Public Works	1,226,750
Parks and Recreation	77,984
Economic Development	<u>338</u>
	<u>\$ 1,501,613</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, 2018 are as follows:

Caboose Pavilion	\$	358
Flat Iron Building		154,071
Maintenance Facility Rehabilitation		168,331
Police Department Office		447,155
Police Equipment		17,607
Rails to Trails		221,227
Storm Water Management		267,594
Train Station Improvements		372,927
Twin Arch Crossing Basketball Court		3,843
Vehicles		80,759
Watkins Park Tennis Court Backboard		20
Windy Ridge Park		<u>40,575</u>
		<u>\$ 1,774,467</u>

A summary of business-type activities follows:

	Balance July 1, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	Balance June 30, <u>2018</u>
Business-Type Activities					
Non-Depreciable Assets					
Construction in Progress	\$ 193,758	\$ 285,307	\$ -	\$ (156,190)	\$ 322,875
Land and Land Rights	<u>1,438,848</u>	-	-	-	<u>1,438,848</u>
Total Non-Depreciable Assets	<u>1,632,606</u>	<u>285,307</u>	-	<u>(156,190)</u>	<u>1,761,723</u>
Depreciable Assets					
Buildings and Improvements	22,642,163	338,898	299,893	148,238	22,829,406
Machinery and Equipment	604,960	8,371	-	7,952	621,283
Infrastructure	23,572,212	54,547	231,747	-	23,395,012
Vehicles	<u>475,024</u>	-	-	-	<u>475,024</u>
Total Depreciable Assets	<u>47,294,359</u>	<u>401,816</u>	<u>531,640</u>	<u>156,190</u>	<u>47,320,725</u>
Total Capital Assets	<u>48,926,965</u>	<u>687,123</u>	<u>531,640</u>	-	<u>49,082,448</u>
Accumulated Depreciation					
Buildings and Improvements	9,223,855	574,126	156,801	-	9,641,180
Machinery and Equipment	430,152	29,515	-	-	459,667
Infrastructure	7,971,274	641,175	205,208	-	8,407,241
Vehicles	<u>373,113</u>	<u>20,050</u>	-	-	<u>393,163</u>
Total Accumulated Depreciation	<u>17,998,394</u>	<u>1,264,866</u>	<u>362,009</u>	-	<u>18,901,251</u>
Total Capital Assets, Net	<u>\$ 30,928,571</u>	<u>\$ (577,743)</u>	<u>\$ 169,631</u>	\$ -	<u>\$ 30,181,197</u>

Depreciation expense for the year ended June 30, 2018 charged to business-type activities for the Water and Sewer Fund totaled \$1,264,866.

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, 2018 are as follows:

Elevated Storage Tank #1 Rehabilitation	\$ 122,979
Harrison/Leishear Well	12,102
Inflow and Infiltration	96,007
Sanitary Sewer Pump	24,764
Vehicles	38,523
WWTP Effluent Temperature Reduction	<u>28,500</u>
	<u>\$ 322,875</u>

Note 4. Long-Term Liabilities

Bonds and Loan Payable as of June 30, 2018 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 \$240,000 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 1.71% to 3.42% \$ 3,960,500

CDA - Infrastructure Bonds 2012 Refunding

\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$75,500 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 1.71% to 3.42% 1,233,800

Total Bonds Payable 5,194,300

Loan Payable

Water Quality Loan 1998

\$3,523,087 authorized and issued. Remaining principal to be repaid in an annual installment in February 2019 of \$234,495 with semi-annual interest payments at a remaining interest rate of 3.24%. 234,495

Total Loan Payable 234,495

Total Bonds and Loan Payable \$ 5,428,795

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, 2018:

<u>Type of Long-Term Liability</u>	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2018</u>	Due Within <u>One Year</u>
Governmental Activities					
Accounts Payable	\$ 16,098	\$ -	\$ 16,098	\$ -	\$ -
Accrued Compensated Absences	<u>49,573</u>	<u>36,408</u>	<u>-</u>	<u>85,981</u>	<u>7,826</u>
Total Governmental Activities	<u>\$ 65,671</u>	<u>\$ 36,408</u>	<u>\$ 16,098</u>	<u>\$ 85,981</u>	<u>\$ 7,826</u>
Business-Type Activities					
Bonds and Loan Payable					
CDA - Infrastructure Bonds 2012	\$ 4,197,000	\$ -	\$ 236,500	\$ 3,960,500	\$ 240,000
CDA - Infrastructure Bonds 2012 Refunding	1,307,800	-	74,000	1,233,800	75,500
Water Quality Loan 1998	<u>461,630</u>	<u>-</u>	<u>227,135</u>	<u>234,495</u>	<u>234,495</u>
	5,966,430	-	537,635	5,428,795	549,995
Bond Premiums	<u>45,614</u>	<u>-</u>	<u>3,041</u>	<u>42,573</u>	<u>3,041</u>
Total Bonds and Loan Payable	<u>6,012,044</u>	<u>.....</u>	<u>540,676</u>	<u>5,471,368</u>	<u>553,036</u>
Accounts Payable	5,559	5,529	5,559	5,529	5,529
Accrued Compensated Absences	<u>21,825</u>	<u>5,157</u>	<u>-</u>	<u>26,982</u>	<u>26</u>
Total Business-Type Activities	<u>\$ 6,039,428</u>	<u>\$ 10,686</u>	<u>\$ 546,235</u>	<u>\$ 5,503,879</u>	<u>\$ 558,591</u>

Accounts payable noted in the schedule above represent retainage payable of \$5,529 held on construction project for Elevated Storage Tank #1, which was not completed as of June 30, 2018, as further disclosed at Note 12.

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, 2018 was \$175,914, 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>
2019	\$ 549,995	\$ 156,478
2020	318,400	143,485
2021	328,300	137,245
2022	333,800	129,759
2023	342,000	121,314
2024 - 2028	1,850,300	467,432
2029 - 2032	<u>1,706,000</u>	<u>148,258</u>
	<u>\$ 5,428,795</u>	<u>\$ 1,303,971</u>

Note 5. Net Position and Fund Balances

Nonspendable fund balance in the General Fund as of June 30, 2018 is limited to inventory totaling \$74,932.

The following is a summary of General Fund committed fund balances as of June 30, 2018:

Center Street Improvements	\$ 68,690
Parks fee-in-lieu	<u>132,645</u>
	<u>\$ 201,335</u>

The following is a summary of General Fund assigned fund balances as of June 30, 2018:

Capital Improvements	\$ 3,188,020
Future Land Acquisition	348,740
Office and Building Improvements	54,723
Park Reserve	296,269
Police	5,745
Sidewalk Improvements	6,647
Street and Road Repair	841,861
Truck and Equipment Replacement	<u>127,340</u>
	<u>\$ 4,869,345</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018 is as follows:

Designated	
Water System Expansion	\$ 760,356
Well System Expansion	1,199,316
Well System Capital Improvement	491,190
Sewerage System Reserve	9,243
Treatment Plant Expansion	<u>3,226,177</u>
Total Designated	... <u>5,686,282</u>
Undesignated	.....<u>583,211</u>
	<u>\$ 6,269,493</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, 2018 were \$0.1662 and \$0.41, respectively, per \$100 assessed property value.

Note 7. Lease Agreements

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

2019	\$ 46,455
2020	47,849
2021	27,109
2022	25,907
2023	<u>24,399</u>
	<u>\$ 171,719</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018 were \$46,894, all of which were recognized in the Water and Sewer Fund.

On January 2017, the Town purchased a property and obtained the assignment of an existing lease for a portion of the property being leased to a private business, with lease term through April 30, 2019. The future minimum receipts of \$14,000 are expected to be recognized in the General fund for the years ending June 30, 2019. Lease revenue generated for the year ended June 30, 2018 was \$14,800, 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. Rent expense recognized for the year ended June 30, 2018 under this agreement was \$43,824.

The Town also rents multiple copiers and other office equipment with monthly payments ranging from \$172 to \$537 per month, expiring between January 2019 and July 2021. Rent expense under these agreements was \$16,788 for the year ended June 30, 2018.

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

2019	\$ 59,141
2020	52,278
2021	<u>38,778</u>
	<u>\$ 150,197</u>

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018 was 8.56% 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 \$130,765 for the year ended June 30, 2018.

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

At June 30, 2018, the Town reported a liability of \$1,134,768 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Town's proportion was 0.0052%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$105,501. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 81,150
Changes of assumptions	44,459	-
Net difference between projected and actual earnings on pension plan investments	82,709	-
Changes in Town's proportionate share of contributions	77,238	90,523
Town contributions subsequent to the measurement date	<u>130,765</u>	<u>-</u>
	<u>\$ 335,171</u>	<u>\$ 171,673</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

\$130,765 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, 2019. 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:

2019	\$ 28,267
2020	49,316
2021	18,285
2022	(43,471)
2023	<u>(19,664)</u>
	<u>\$ 32,733</u>

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.65% general, 3.15% wage
Salary Increases	3.15% to 9.15%, including wage inflation
Investment Rate of Return	7.50%, 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, 2017 valuation were based on the results of an actuarial experience study of the System for the period 2010-2014 after the completion of the June 30, 2014 valuations. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates, and rates of salary increase were adopted by the Board for first use in the actuarial valuation as of June 30, 2015. New economic assumptions were adopted by the Board for the June 30, 2017 valuation.

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

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NOTES TO BASIC FINANCIAL STATEMENTS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	<u>8%</u>	3.10%
	<u>100%</u>	

Discount Rate - A single discount rate of 7.50% 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 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate used for the June 30, 2016 valuation was 7.55%.

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 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>Asset Class</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase to 8.50%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 1,608,197	\$ 1,134,768	\$ 741,964

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits Plan (OPEB)

General Information about the OPEB Plan

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

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

Membership of the plan consisted of 16 participants, 13 of which are active plan members and 3 are retirees receiving benefits, as of June 30, 2018.

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, 2018, the Town reimbursed premium costs of \$11,996 to the retirees. There are no retiree contributions to the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Total OPEB Liability

The Town's total OPEB liability of \$1,304,897 was measured at June 30, 2017 and was determined by an actuarial valuation as of that date.

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

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Salary Increases	3.15% to 9.15%, including inflation
Discount Rate	3.58%
Healthcare Cost Trend Rates	Initially 5.40% gradually decreasing to 5.30% in 2030
Retirees' Coverage Election	100%

The discount rate was based on the municipal bond index as of July 1, 2017.

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 1,433,786
Changes for the Year:	
Service Cost	50,814
Interest	40,561
Changes in Assumptions or Other Inputs	(199,064)
Benefit Payments	<u>(21,200)</u>
Net Changes	<u>(128,889)</u>
Balance at June 30, 2018	<u>\$ 1,304,897</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85% for June 30, 2017 to 3.58% for June 30, 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

	1% Decrease to <u>2.58%</u>	Current Discount Rate (3.58%)	1% Increase to <u>4.58%</u>
Total OPEB Liability	\$ 1,607,672	\$ 1,304,897	\$ 1,070,767

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.40% decreasing to 4.30%) or 1-percentage-point higher (6.40% decreasing to 6.30%) than the current healthcare cost trend rates (see actuarial assumptions and other inputs for healthcare cost trend rates):

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NOTES TO BASIC FINANCIAL STATEMENTS

	1% Decrease (4.40% <u>decreasing to 4.30%</u>)	Current Healthcare Cost Trend Rates (5.40% <u>decreasing to 5.30%</u>)	1% Increase (6.40% <u>decreasing to 6.30%</u>)
Total OPEB Liability	\$ 1,043,285	\$ 1,304,897	\$ 1,662,300

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$64,294. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions or other inputs	\$ -	\$ 182,475
Town contributions subsequent to the measurement date	<u>11,996</u>	<u>-</u>
	<u>\$ 11,996</u>	<u>\$ 182,475</u>

\$11,996 reported as deferred outflows of resources related to OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ 16,589
2020	16,589
2021	16,589
2022	16,589
2023	16,589
Thereafter	<u>99,530</u>
	<u>\$ 182,475</u>

Note 11. Deferred Compensation Plan

The Town offers a defined contribution plan created in accordance with IRC Section 457(b). The plan permits all full-time employees to defer a portion of their salary until future years. The employee's contribution is fully vested at the contribution date. Employees can defer the lesser of \$18,500, 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, 2018, with the exception of an accrued contribution of \$6,987 for one employee who is ineligible for the Maryland State Retirement and Pension System (See Note 9).

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018, 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, 2018:

<u>Project</u>	<u>Type of Project</u>	<u>Contract Amount</u>	<u>Amount of Contract Not Incurred at June 30, 2018</u>
Inflow and Infiltration	Construction	<u>\$ 12,850</u>	<u>\$ 12,850</u>
Elevated Storage Tank #1 Rehabilitation	Construction	<u>\$ 475,000</u>	<u>\$ 364,428</u>
Twin Arch Crossing Basketball Court	Construction	<u>\$ 70,835</u>	<u>\$ 70,835</u>

Subsequent to June 30, 2018, the Town entered into the following new contracts for construction projects:

<u>Project</u>	<u>Contract Amount</u>
Inflow and Infiltration	<u>\$ 36,300</u>
West Ridgeville Blvd. Embankment Improvements	<u>\$ 122,325</u>

Subsequent to year end, a community association agreed to donate land to the Town for the Rails to Trails project, provided the Town repair or reconstruct a storm water management facility located on the property. The Town was awarded a grant from the State of Maryland Transportation Alternatives Program for the construction of the trail and storm water management facility in September 2018 in the amount of \$321,002.

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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 December 2017, the Comptroller of Maryland has determined that the Town’s future income tax appropriations will be reduced by \$1,220. 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, 2018, the Town’s portion of these costs were \$74,529, 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:

2019	\$ 78,255
2020	<u>82,168</u>
	<u>\$ 160,423</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, 2018, 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. New Governmental Accounting Standards Board Pronouncements

The GASB issued several pronouncements prior to the year ended June 30, 2018 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, will be effective for the Town as of July 1, 2018. The objective of this statement is to improve financial statement disclosures related to debt, including direct borrowings and direct placements, and it clarifies which liabilities governments should include when disclosing information related to debt. The effects of said implementation are not yet quantifiable by management.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 16. Subsequent Event

Effective July 1, 2018, the Town was accepted into the Maryland State Retirement and Pension System’s Law Enforcement Officers’ Pension System (LEOPS), a defined contribution pension plan (the “LEOPS Plan”). All sworn police officers of the Town currently participating in the Employees’ Pension System (See Note 9) were transferred to the LEOPS Plan as of July 1, 2018. The Town is expected to receive a credit of approximately \$869,487 from the LEOPS Plan to transfer these employees, which will be amortized in level installments over a 25-year term.

Note 17. Restatement of Net Position

For the year ended June 30, 2018, the Town implemented Statement 75 of the Governmental Accounting Standards Board, which resulted in the recognition of total Other Postemployment Benefits liability in governmental activities, business-type activities, and the water and sewer fund. The following represents the related restatement changes to the net position of the governmental activities, business-type activities, and water and sewer fund as of June 30, 2017:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Water and Sewer Fund</u>
Net Position as of June 30, 2017, as Originally Stated	\$ 29,805,746	\$ 31,676,696	\$ 31,676,696
Removal of Accrued Other Postemployment Benefits Balance Previously Reported Under GASB Statement No. 45	549,000	264,000	264,000
Recognition of Total Other Postemployment Benefits Liability, Under GASB Statement No. 75	(968,202)	(465,584)	(465,584)
Recognition of Deferred Outflows of Resources from Other Postemployment Benefits, Under GASB Statement No. 75	<u>5,828</u>	<u>4,880</u>	<u>4,880</u>
Net Position as of June 30, 2017, as Restated	<u>\$ 29,392,372</u>	<u>\$ 31,479,992</u>	<u>\$ 31,479,992</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MOUNT AIRY, MARYLAND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 3,571,442	\$ 3,571,442	\$ 3,743,567	\$ 172,125
Licenses and Permits	153,700	153,700	156,225	2,525
Intergovernmental	1,407,048	1,327,977	1,352,996	25,019
Charges for Services	111,500	119,466	68,549	(50,917)
Fines and Forfeitures	17,000	17,000	3,412	(13,588)
Rental Income	14,800	14,800	14,800	-
Interest Income	21,000	21,000	47,377	26,377
Miscellaneous	5,000	45,000	62,365	17,365
TOTAL REVENUES	<u>5,301,490</u>	<u>5,270,385</u>	<u>5,449,291</u>	<u>178,906</u>
EXPENDITURES				
General Government	847,647	847,647	800,723	46,924
Planning and Zoning	305,250	405,250	351,078	54,172
Public Safety				
Police	1,507,485	1,523,055	1,306,307	216,748
Volunteer Fire Company	179,194	179,194	179,194	-
Public Works				
Highways and Streets	564,100	564,100	509,401	54,699
Solid Waste Collection	476,647	476,647	471,748	4,899
Parks and Recreation	303,700	311,666	264,416	47,250
Economic Development	60,430	65,430	62,535	2,895
Miscellaneous	416,800	416,800	391,834	24,966
Capital Outlays	1,386,432	1,784,205	1,255,589	528,616
TOTAL EXPENDITURES	<u>6,047,685</u>	<u>6,573,994</u>	<u>5,592,825</u>	<u>981,169</u>
NET CHANGES IN FUND BALANCES	(746,195)	(1,303,609)	(143,534)	1,160,075
Fund Balances - Beginning of Year	6,814,179	6,814,179	6,814,179	-
FUND BALANCES - END OF YEAR	<u>\$ 6,067,984</u>	<u>\$ 5,510,570</u>	<u>\$ 6,670,645</u>	<u>\$ 1,160,075</u>

TOWN OF MOUNT AIRY, MARYLAND

Schedule "2"

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 4 FISCAL YEARS *

UNAUDITED

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

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

NOTES TO SCHEDULE:

Changes of Assumptions - Amounts reported in 2016 reflect an adjustment of the investment return, inflation, COLA increases, mortality rates, withdrawal rates, disability rates, and rates of salary increases to more closely reflect actual experience. Changes of assumptions reflect the effects of changes in significant assumptions each period. The following are the significant assumptions in each period:

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 130,765	\$ 108,765	\$ 110,039	\$ 122,411	\$ 116,396	\$ 100,528	\$ 130,176	\$ 222,972	\$ 175,731	\$ 170,937
Contributions in relation to the contractually required contribution	(130,765)	(108,765)	(110,039)	(122,411)	(116,396)	(100,528)	(130,176)	(222,972)	(175,731)	(170,937)
Contribution deficiency (excess)	<u>\$ -</u>									
Town's covered payroll	\$ 1,527,621	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076	\$ 1,163,955	\$ 1,118,230	\$ 1,189,901	\$ 1,189,940	\$ 1,135,977	\$ 1,161,211
Contributions as a percentage of covered payroll	8.6%	8.2%	8.5%	9.7%	10.0%	9.0%	10.9%	18.7%	15.5%	14.7%

TOWN OF MOUNT AIRY, MARYLAND

Schedule "4"

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

LAST FISCAL YEAR *

UNAUDITED

	2018
TOTAL OPEB LIABILITY	
Service Cost	\$ 50,814
Interest	40,561
Changes of Assumptions or Other Inputs	(199,064)
Benefit Payments	(21,200)
NET CHANGE IN TOTAL OPEB LIABILITY	(128,889)
Total OPEB Liability - Beginning of Year	1,433,786
TOTAL OPEB LIABILITY - END OF YEAR	\$ 1,304,897
 COVERED-EMPLOYEE PAYROLL	 877,763
 TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	 148.66%

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

NOTES TO SCHEDULE:

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

2018	3.58%
2017	2.85%

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