



TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2020



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2020 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

The Town's 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.

Auditor's 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 auditor's 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 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, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule - general fund, schedules of the Town's proportionate share of the net pension liability, Town contributions and changes in the Town's total other postemployment benefits (OPEB) liability and related ratios on pages 3 through 13 and 62 through 65, 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.

Brown Schultz Steindler & Fritz

Westminster, Maryland
October 23, 2020

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

The following discussion and analysis of the financial performance of the Town of Mount Airy, Maryland (the Town) provides an overview of the Town's financial activities for the year ended June 30, 2020. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the Town exceeded its total liabilities at the close of fiscal year 2020 by \$59,707,387 (total net position). Of this amount, \$29,761,176 was for governmental activities and \$29,946,211 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$10,772,130; \$5,041,459 for governmental activities and \$5,730,671 for business-type activities. This information can be found in the statement of net position, directly following Management's Discussion and Analysis.
- In reviewing the statement of activities, you will see that the net position of governmental activities (the General Fund) increased by \$1,014,095, and business-type activities (the Water & Sewer Fund) decreased by \$624,219, resulting in a \$389,876 increase in the Town's total net position from the previous fiscal year.
- The balance sheet is a report that gives a snapshot of the total financial picture of the Town's governmental fund. As of June 30, 2020, the total liabilities and fund balances for governmental funds were \$7,620,784. This is an increase of \$220,342 from fiscal year 2019.
- At the close of fiscal year 2020, the Town's governmental fund reported an ending fund balance of \$6,980,723, an increase of \$96,577 from fiscal year 2019. This information may be reviewed on the statement of revenues, expenditures and changes in fund balance.
- The Town of Mount Airy, Maryland is financially strong, with funds on deposit in certificates of deposit, checking accounts and savings accounts totaling more than \$13 million, which has been maintained for several fiscal years. 68% of this amount is invested in certificates of deposit earning interest rates from 0.05% to 2.00%. You can find this information in the notes to financial statements, Note 2 – Deposits.
- The Town received several grants in fiscal year 2020. Two grants were received from the Department of Natural Resources: \$82,430 for the Summit Ridge Park Pavilion and \$4,000 for Clean Up & Go Green program. A grant in the amount of \$5,000 was received from Marbidco for the farmers market. The Mount Airy Police Department (MAPD) received several grants: \$4,893 from the Bus Safety Enforcement grant from the Carroll County Board of Education; \$2,016 from the Impaired & Aggressive Driving grant from the Department of Motor Vehicles; \$1,503 from the School Traffic Safety Enforcement grant from the Maryland Department of Education; \$1,380 from Target Corporation for the purchase of a booth canopy for MAPD events and \$12,775 from the Bureau of Justice Assistance, Edward Bryne grant, to purchase a license plate reader. A pass-through grant was awarded to the Town from the Maryland Department of Housing & Community Development for façade improvements to downtown businesses; \$35,750 was received and then paid out to the Castle Center on Prospect Road and \$1,685 was received and then paid out to Deja Vu located on Main Street.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

- During the Spring of 2020, the Town experienced an unprecedented shut down of normal activities due to the COVID-19 worldwide pandemic. The Town closed all facilities to visitors, most of the office staff relocated to home offices and worked remotely, department of public work employees divided into two teams working alternating weekly schedules and meetings were held via conference calls and the internet. Adjustments to normal routines were made and the Town government adapted very quickly to the new "normal". An aggressive campaign was launched by Town leaders to keep residents and businesses apprised of the financial aid and services available to them during the crisis from many different sources. The Town developed a grant program for small businesses and awarded 19 - \$1,000 grants. The Town applied for and was granted assistance through the CARES Act for COVID-19 expenses for supplies and hazard pay. \$85,353 was received as of June 30, 2020. Additional reimbursements will be received for expenses and/or hazard pay up until December 30, 2020.
- The Water and Sewer Fund ended fiscal year 2020 with a \$740,178 operating loss, as reported on the statement of revenues, expenses and changes in fund net position - proprietary fund. The depreciation expense, which effects this bottom line, was \$1,311,753.
- The Town's Water and Sewer Fund long-term debt balance including compensated absences, was \$4,628,785 by year end, a net decrease of \$320,299 from fiscal year 2019. 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 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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

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.

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
YEAR ENDED JUNE 30, 2020
Unaudited

GOVERNMENT WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2020 and for the previous year ended, which is provided for comparison purposes. A summary of the Town's statement of net position is as follows:

	Fiscal Year 2020			Fiscal Year 2019		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current & Other Assets	\$ 7,606,884	\$ 6,960,215	\$ 14,567,099	\$ 7,400,442	\$ 6,800,769	\$ 14,201,211
Capital Assets	<u>\$ 24,697,617</u>	<u>\$ 28,812,431</u>	<u>\$ 53,510,048</u>	<u>\$ 23,688,283</u>	<u>\$ 29,680,644</u>	<u>\$ 53,368,927</u>
Total Assets	\$ 32,304,501	\$ 35,772,646	\$ 68,077,147	\$ 31,088,725	\$ 36,481,413	\$ 67,570,138
Deferred Outflows of Resources	\$ 584,376	\$ 208,191	\$ 792,567	\$ 387,162	\$ 168,085	\$ 555,247
Total Assets and Deferred Outflows of Resources	\$ 32,888,877	\$ 35,980,837	\$ 68,869,714	\$ 31,475,887	\$ 36,649,498	\$ 68,125,385
Liabilities						
Current Liabilities	\$ 626,161	\$ 664,595	\$ 1,290,756	\$ 516,296	\$ 459,489	\$ 975,785
Long-Term Liabilities	<u>\$ 1,946,569</u>	<u>\$ 5,155,136</u>	<u>\$ 7,101,705</u>	<u>\$ 1,961,242</u>	<u>\$ 5,518,055</u>	<u>\$ 7,479,297</u>
Total Liabilities	\$ 2,572,730	\$ 5,819,731	\$ 8,392,461	\$ 2,477,538	\$ 5,977,544	\$ 8,455,082
Deferred Inflows of Resources	\$ 554,971	\$ 214,895	\$ 769,866	\$ 251,268	\$ 101,524	\$ 352,792
Net Position						
Net Investment in Capital Assets	\$ 24,697,617	\$ 24,215,540	\$ 48,913,157	\$ 23,688,283	\$ 24,762,312	\$ 48,450,595
Restricted	\$ 22,100	\$ -	\$ 22,100	\$ 22,101	\$ -	\$ 22,101
Unrestricted	<u>\$ 5,041,459</u>	<u>\$ 5,730,671</u>	<u>\$ 10,772,130</u>	<u>\$ 5,036,697</u>	<u>\$ 5,808,118</u>	<u>\$ 10,844,815</u>
	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511

The Town's total net position increased by 1% (\$59,707,387 compared to \$59,317,511).

Total assets increased by 1% (\$68,077,147 compared to \$67,570,138). The capital assets include land, easements, buildings, infrastructure, equipment, vehicles and construction in progress. The current and other assets include cash and cash equivalents, investments, taxes receivable, accounts receivable, interest receivable, inventory and intergovernmental receivables.

The Town's total liabilities decreased by 1% (\$8,392,461 compared to \$8,455,082). Current liabilities include accounts payable and accrued expenses, refundable deposits, current portion of bonds payable and bond interest payable. The largest portion of the Town's total liabilities is from long-term debt in business-type activities in which improvements to the infrastructure of the Water and Sewer Systems have been made.

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

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020
Unaudited

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

	Fiscal Year 2020			Fiscal Year 2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue						
Program Revenues						
Charges for Services	\$ 162,140	\$ 2,591,766	\$ 2,753,906	\$ 213,880	\$ 2,687,629	\$ 2,901,509
Operating Grants and Contributions	\$ 760,225	\$ 36,000	\$ 796,225	\$ 561,913	\$ 36,000	\$ 597,913
Capital Grants and Contributions	\$ 1,049,562		\$ 1,049,562	\$ 71,966		\$ 71,966
General Revenues						
Taxes						
Income Taxes	\$ 2,114,984		\$ 2,114,984	\$ 1,973,978		\$ 1,973,978
Real Property Taxes	\$ 1,900,056		\$ 1,900,056	\$ 1,859,660		\$ 1,859,660
Personal Property Tax	\$ 131,647		\$ 131,647	\$ 144,773		\$ 144,773
Grants, Contributions, and Franchise Fees not Restricted to Specific Programs	\$ 930,528		\$ 930,528	\$ 911,869		\$ 911,869
Connection Charges		\$ 62,200	\$ 62,200		\$ 23,800	\$ 23,800
Interest Income and Rent	\$ 107,953	\$ 122,253	\$ 230,206	\$ 91,386	\$ 119,299	\$ 210,685
Miscellaneous	\$ 16,680		\$ 16,680	\$ 22,452		\$ 22,452
Total Revenues	\$ 7,173,775	\$ 2,812,219	\$ 9,985,994	\$ 5,851,877	\$ 2,866,728	\$ 8,718,605
Transfers						
Total Revenues and Transfers	\$ 7,173,775	\$ 2,812,219	\$ 9,985,994	\$ 5,851,877	\$ 2,866,728	\$ 8,718,605
Expenses						
General Government	\$ 1,097,853		\$ 1,097,853	\$ 1,170,215		\$ 1,170,215
Planning & Zoning	\$ 406,295		\$ 406,295	\$ 452,426		\$ 452,426
Public Safety	\$ 1,798,658		\$ 1,798,658	\$ 1,616,716		\$ 1,616,716
Public Works	\$ 2,213,776		\$ 2,213,776	\$ 2,278,415		\$ 2,278,415
Parks and Recreation	\$ 516,936		\$ 516,936	\$ 474,874		\$ 474,874
Economic Development	\$ 126,162		\$ 126,162	\$ 65,188		\$ 65,188
Water & Sewer Services		\$ 3,436,438	\$ 3,436,438		\$ 3,270,091	\$ 3,270,091
	\$ 6,159,680	\$ 3,436,438	\$ 9,596,118	\$ 6,057,834	\$ 3,270,091	\$ 9,327,925
Changes in Net Position	\$ 1,014,095	\$ (624,219)	\$ 389,876	\$ (205,957)	\$ (403,363)	\$ (609,320)
Net Position at Beginning of Year	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511	\$ 28,953,038	\$ 30,973,793	\$ 59,926,831
Net Position - End of Year	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

Governmental activities

For the fiscal year ended June 30, 2020, revenues from governmental activities totaled \$7,173,775, which is 72% of the total revenue received for the Town as a whole. A large increase can be observed in the capital grants and contributions category. This is attributed to value of the asset contributed by Carroll County for the storm water management facility that was constructed in the Merridale subdivision. Carroll County partnered with the Town on this project to satisfy the State of Maryland's storm water management project mandate on the Carroll County side of Town to help clean up the Chesapeake Bay. Carroll County contributed approximately 80% of the cost of the project. The majority of governmental general revenue came from income taxes (29%), and real property taxes (26%).

Expenses from governmental activities totaled \$6,159,680. The largest component of expenses, \$2,213,776 (36%), was from Public Works, which consists of operating expenses of the Streets and Roads Department including solid waste collection. Public Safety came in next highest on the chart at \$1,798,658 (29%). Public safety consists of the Mount Airy Police Department operating expenses, emergency preparedness expenses and an annual donation to the Mount Airy Volunteer Fire Company. Excluding depreciation expense, the Police Department expenses are the single highest departmental expenses for the Town.

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%. Expenses were up slightly at 5%.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds

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

In reviewing the balance sheet – governmental funds, as of the end of fiscal year 2020, the Town's governmental funds reported a combined ending fund balance of \$6,980,723, of which \$1,521,305, or 22%, is unassigned. \$5,166,813, or 74%, 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 \$204,563, which consists of parks fee-in-lieu and Center Street improvements. \$22,100 of the Town's funds are restricted; this is money in the police

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

forfeiture fund, and lastly \$65,942 is listed as non-spendable funds and represents inventory and prepaid expenses.

Business-type Funds

The statement of net position – Proprietary funds reports the unrestricted funds for the Water and Sewer Fund total \$5,730,671. You can find detailed information about the Town's fund balances for both the General Fund and the Water and Sewer Fund in the notes to basic financial statements, Note 5 – Net position and fund balances.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended 13 times during the year as approved by the Town Council. Three amendments were for ongoing capital projects that weren't completed in the previous fiscal year: annual road repaving, the Main Street sidewalk project and East/West Park play equipment. One budget amendment was for adding funding for cleaning services due to a bid award that fell through. Another budget amendment was to construct a picnic area for the Town View neighborhood as a requirement of an agreement made with the homeowner's association for the Rails to Trails East of Main Street project. A budget amendment was approved to purchase a license plate reader that the police department had obtained a grant for. Unexpected expenses related to the COVID-19 pandemic required a budget amendment. Finally, six budget amendments were approved to reduce spending due to capital projects that would not begin or be completed by the end of the fiscal year: Twin Ridge Storm Water Management Facility, Rails to Trails East of Main Street, Rails to Trails West of Main Street, Watkins Park Inclusive Playground, Windy Ridge Park Access and Water Tower #2 repainting.

In the required supplementary information section of the financial statements, the budgetary comparison schedule contains a chart that shows the original budget, the final budget, the actual and the variance to budget. The General Fund took in \$75,166 more in revenues than expected. The large positive variance in taxes was due to income taxes and the large negative variance was due to charges for services. Charges for services were lower than expected because of developer fees and permit fees. Construction in the new Brittany Manor subdivision began later than expected, and other projects such as Wildwood Park Senior Housing Section VII did not move out of the concept phase as predicted. Total expenses came in \$642,546 less than expected mostly because of the COVID-19 shut-down; many projects were placed on hold and all scheduled events were cancelled or postponed.

The rental income listed in this chart comes from the Mount Airy Pharmacy located at 1 North Main Street. When the Town purchased the Train Station in fiscal year 2017, it also became landlord to the existing tenant, the Mount Airy Pharmacy, which has been a landmark in the downtown area for many years.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2020, can be found in the notes to basic financial statements, Note 3. Governmental activities capital assets total \$24,697,617 (net of accumulated depreciation), and the business-type activities total \$28,812,431. These assets include construction in progress, land, easements, storm water management facilities, buildings, roads, sidewalks, storm drains, park facilities, machinery and equipment, vehicles, water and sewer infrastructure and the Waste Water Treatment Plant (WWTP).

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

General Fund

- General Government
 - o A storage shed was purchased and placed in the Rail Yard at a cost of \$5,345
 - o The council meeting room at Town Hall underwent a renovation, which included new furniture at a cost of \$56,851 and new audio-visual equipment at a cost of \$92,739.
 - o Two signs, each at a cost of \$4,389, were installed at the Rail Yard Complex. The signs listed a directory of the occupants of the complex.
- Roads Department
 - o The Annual Road Repaving Project consisted of repaving a section of Twin Arch Road and West Ridgeville Road. The total spent on repaving was \$646,703.
 - o Storm drain improvements were made at Sycamore Road at a cost of \$12,985 and Merridale Boulevard at a cost of \$10,480.
 - o The Merridale Storm Water Management Facility construction was completed at a total value of \$1,291,150. Carroll County government managed the project and contributed approximately 80% of the cost.
 - o \$12,531 was spent to install fencing at the Merridale Storm Water Management Pond.
 - o Equipment purchased included two mobile message boards at a cost of \$15,455 each.
- Parks Department
 - o Fencing was installed at Twin Arch Crossing basketball court at a cost of \$6,443. This added to the first portion of the fence that was installed in fiscal year 2019 and completed the fencing around the basketball court.
 - o Playground equipment was installed at East West Park. The total for this project was \$41,811.
 - o The pavilion at the Summit Ridge Park was completed at a total cost was \$105,797.
 - o An EXMARK mower was purchased and added to the equipment inventory at a cost of \$11,200.

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MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

- Police Department
 - o One portable radio was purchased at a cost of \$4,346.
 - o A license plate reader was purchased at a cost of \$14,835, which was funded by a grant.
 - o A new K-9 was donated to the Town by MAPD Officer, Christopher Ebberts. The K-9, Fedor, is valued at \$10,500.

Water & Sewer Fund

- One pickup truck purchased at a cost of \$52,545.
- A new generator was put into service at the Waste Water Treatment Plant at a cost of \$56,658.
- The Jetter Truck pump was replaced for \$12,527.
- A heater was purchased for the Headworks Building costing \$5,819.
- A control panel was replaced at Water Tower #1 at \$6,657.
- A three-year inflow and infiltration project was completed at a total cost of \$304,749.

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

- Land was deeded to the Town by Woodlands Development Corporation that consisted of forest conservation and a storm water pond. This land is valued at \$3,800.
- The Town accepted a deed of easement from Twin Arch Associates Family Limited Liability Partnership to access the storm-water management facility to perform any activities reasonably necessary to assure that the land functions as a storm-water management facility in accordance with the construction drawings for Brittany Manor. This easement is valued at \$7,007.

Debt

At year end, the Town's Water and Sewer Department had \$4,596,891 in outstanding debt, compared to \$4,918,332 the previous year. This amount consists of bonds issued for water system infrastructure improvements. They are the Infrastructure Bonds of 2012 Refunding, and the Infrastructure Bonds of 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Tax Rate for fiscal year 2021 will remain the same as fiscal year 2020 at .1662 (cents) per \$100 of assessed value. Additionally, the Homestead Tax Cap will remain at 0%. The State of Maryland has established the Homestead Property Tax Credit to help homeowners deal with large assessment increases on their principal residence. The Homestead Credit limits the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less per 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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

The effects of the COVID-19 pandemic on the Town's revenues is unknown at present, but we are sure there will be some effect. We will continue to monitor major areas of concern which are income tax revenue, real estate revenue and highway user revenue. Adjustments to the budget may need to be made as projections are received on the current and upcoming fiscal years.

Highway User Revenues began a scheduled annual increase in fiscal year 2020 and by fiscal year 2024 should 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. Careful planning for the future financial health of the Town will continue to be the focus of the Mayor and Town Council.

The Town will continue to explore grant opportunities in the future. We expect to receive funding from grants to exceed \$2 million in fiscal year 2021. Although grants aren't new to the Town financials, there has been a renewed effort to seek out and obtain grants that may have been overlooked in the past. The management of the Town of Mount Airy fully supports this effort and would like to thank staff and Town leadership for their outstanding work in this area.

The Town has been mandated by the State of Maryland to make improvements to storm-water management. A decree by the Environmental Protection Agency (EPA) called for mandatory reductions in nitrogen, phosphorus, and sediment that damage the Chesapeake Bay and are primarily found in drainage run-off and fertilizers. Maryland, along with four other states and the District of Columbia, must comply with new environmental standards which involve projects related to storm-water management. The State of Maryland enacted a "storm-water management fee" in 2012, known as the Rain Tax, on 10 of its 24 local jurisdictions within the state, including Carroll County and Frederick County. This mandated Rain Tax was repealed, but the project requirement was 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, Maryland resides in both Frederick and Carroll counties, it will be required to do projects in both counties. Frederick County is offering no financial assistance to municipalities within the county. Carroll County has set aside money, by diverting funds from other projects, and has set up a fund to help municipalities with 80% of the cost of mandated storm-water management projects. These improvements will cost the Town of Mount Airy nearly \$2 million over the next few years. Carroll County is also managing the Town's projects in both counties at no cost to the Town.

Many capital project ideas are being considered for next year and beyond. Exciting projects may include the rehabilitation or rebuilding of the Flat Iron Building, a new police station, connecting Center Street from downtown to Watkins Park, access and improvements to Windy Ridge Park and expanding Rails to Trails to name a few. Careful consideration as to the benefit of these projects to the citizens of the Town will be a main component in deciding which projects move forward into the budgeting phase. As of June 30, 2020, the Town is committed to construction projects for: elevated storage tank #2 rehab of \$557,825; inflow and infiltration of \$200,000; sidewalk and curbs of \$290,000; Town View stormwater management pond of \$106,173; Twin Ridge Storm Water Management Facility for \$802,690; WWTP sludge building addition \$84,000 and water main replacement on Center Street for \$136,375.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020 Unaudited

The Town is fortunate to have significant reserve funds that have grown over the years and have funded many capital projects. One of the main sources of income to the reserve accounts in the past has been permit fees. As the Town builds out existing developments in the approved pipeline of projects, deposits from that source of income will be reduced. There is no immediate danger of this revenue source ending for the reserve accounts. The Brittany Manor residential subdivision is under construction and building permits are being issued, and we expect several commercial properties to apply for permits in fiscal year 2021. New projects are coming along that show much promise. Wildwood Park Senior Housing Section VII is under final review by the Town and Carroll County, and 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 is self-sufficient and service fees are covering operating expenses. A system benefit charge is collected from users each quarter to help fund capital projects. Careful attention will be paid to ensure that the Water and Sewer Fund stays self-sufficient and that user fees provide all money necessary for the operating and capital budgets in future years. Large capital projects have been financed so that adequate balances remain in the Town's reserve accounts.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental activities	Business-type activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,691,390	\$ 2,292,915	\$ 3,984,305
Cash and cash equivalents, restricted	84,222	53,645	137,867
Certificates of deposit	3,403,022	916,888	4,319,910
Accounts receivable	69,217	44,869	114,086
Taxes receivable	391,620		391,620
Due from other governments	238,283		238,283
Inventory	60,642	19,614	80,256
Unbilled services		682,764	682,764
Internal balances	(13,900)	13,900	-
Prepaid expenses and deposits	5,300	4,500	9,800
Total current assets	5,929,796	4,029,095	9,958,891
Noncurrent assets:			
Certificates of deposit	1,677,088	2,931,120	4,608,208
Property and equipment:			
Construction in progress	1,351,728	286,678	1,638,406
Land and land rights	2,103,177	1,438,848	3,542,025
Buildings and improvements	5,588,134	23,234,046	28,822,180
Equipment	3,278,156	676,180	3,954,336
Infrastructure	36,637,803	23,978,802	60,616,605
Vehicles	1,058,510	485,621	1,544,131
	50,017,508	50,100,175	100,117,683
Less accumulated depreciation	25,319,891	21,287,744	46,607,635
Net property and equipment	24,697,617	28,812,431	53,510,048
Total noncurrent assets	26,374,705	31,743,551	58,118,256
Total assets	32,304,501	35,772,646	68,077,147
Deferred outflows of resources:			
Deferred amounts from:			
Pensions	562,429	200,504	762,933
Other postemployment benefits	21,947	7,687	29,634
Total deferred outflows of resources	584,376	208,191	792,567
Total assets and deferred outflows of resources	\$ 32,888,877	\$ 35,980,837	\$ 68,869,714

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental activities	Business-type activities	Total
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 497,947	\$ 240,487	\$ 738,434
Accrued:			
Payroll and related benefits	66,092	15,809	81,901
Interest payable		23,313	23,313
Current portion of bonds payable (net of premiums)		331,341	331,341
Payable from restricted assets:			
Due to other governments		53,645	53,645
Refundable deposits	62,122		62,122
Total current liabilities	626,161	664,595	1,290,756
Noncurrent liabilities:			
Accrued compensated absences	128,259	31,894	160,153
Net pension liability	1,148,915	501,898	1,650,813
Total other postemployment benefits liability	669,395	355,794	1,025,189
Bonds payable (net of premiums)		4,265,550	4,265,550
Total noncurrent liabilities	1,946,569	5,155,136	7,101,705
Total liabilities	2,572,730	5,819,731	8,392,461
Deferred inflows of resources:			
Deferred amounts from:			
Pensions	126,638	56,227	182,865
Other postemployment benefits	428,333	158,668	587,001
Total deferred inflows of resources	554,971	214,895	769,866
Net position:			
Net investment in capital assets	24,697,617	24,215,540	48,913,157
Restricted	22,100		22,100
Unrestricted	5,041,459	5,730,671	10,772,130
Total net position	29,761,176	29,946,211	59,707,387
Total liabilities, deferred inflows of resources and net position	\$ 32,888,877	\$ 35,980,837	\$ 68,869,714

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

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	\$ 1,097,853	\$ 79,171	\$ 45,738		\$ (972,944)		\$ (972,944)
Planning and zoning	406,295	25,401			(380,894)		(380,894)
Public safety	1,798,658		207,434	\$ 33,775	(1,557,449)		(1,557,449)
Public works	2,213,776	28,752	453,012	933,357	(798,655)		(798,655)
Parks and recreation	516,936	28,816		82,430	(405,690)		(405,690)
Economic development	126,162		54,041		(72,121)		(72,121)
Total governmental activities	6,159,680	162,140	760,225	1,049,562	(4,187,753)		(4,187,753)
Business-type activities, water and sewer services	3,436,438	2,591,766	36,000			\$ (808,672)	(808,672)
Total primary government	\$ 9,596,118	\$ 2,753,906	\$ 796,225	\$ 1,049,562	(4,187,753)	(808,672)	(4,996,425)
General revenues:							
Taxes:							
Income					2,114,984		2,114,984
Real estate					1,900,056		1,900,056
Personal property					131,647		131,647
Grants, contributions and franchise fees not restricted to specific programs					930,528		930,528
Connection charges						62,200	62,200
Interest income and rents					107,953	122,253	230,206
Miscellaneous					16,680		16,680
Total general revenues					5,201,848	184,453	5,386,301
Changes in net position					1,014,095	(624,219)	389,876
Net position:							
Beginning of year					28,747,081	30,570,430	59,317,511
End of year					\$ 29,761,176	\$ 29,946,211	\$ 59,707,387

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Total governmental funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 1,691,390	\$ 1,691,390
Cash and cash equivalents, restricted	84,222	84,222
Certificates of deposit	5,080,110	5,080,110
Accounts receivable	69,217	69,217
Taxes receivable	391,620	391,620
Due from other governments	238,283	238,283
Inventory	60,642	60,642
Prepaid expenses and deposits	5,300	5,300
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 7,620,784</u></u>	<u><u>\$ 7,620,784</u></u>
Liabilities:		
Accounts payable and accrued expenses	\$ 497,947	\$ 497,947
Accrued payroll and related benefits	66,092	66,092
Due to other funds	13,900	13,900
Payable from restricted assets refundable deposits	62,122	62,122
	<u> </u>	<u> </u>
Total liabilities	<u><u>640,061</u></u>	<u><u>640,061</u></u>
Fund balances:		
Nonspendable	65,942	65,942
Restricted	22,100	22,100
Committed	204,563	204,563
Assigned	5,166,813	5,166,813
Unassigned	1,521,305	1,521,305
	<u> </u>	<u> </u>
Total fund balances	<u><u>6,980,723</u></u>	<u><u>6,980,723</u></u>
Total liabilities and fund balances	<u><u>\$ 7,620,784</u></u>	<u><u>\$ 7,620,784</u></u>

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balances, governmental funds	\$ 6,980,723
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	24,697,617
Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	(713,124)
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.	(1,075,781)
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.	<u>(128,259)</u>
Total net position of governmental activities	<u><u>\$ 29,761,176</u></u>

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General Fund	Total governmental funds
	<u> </u>	<u> </u>
Revenues:		
Taxes	\$ 4,146,687	\$ 4,146,687
Licenses and permits	157,364	157,364
Intergovernmental	1,656,512	1,656,512
Charges for services	129,458	129,458
Income:		
Rental	16,800	16,800
Interest	91,153	91,153
Miscellaneous	26,376	26,376
	<u> </u>	<u> </u>
Total revenues	<u>6,224,350</u>	<u>6,224,350</u>
Expenditures:		
General government	773,623	773,623
Planning and zoning	295,589	295,589
Public safety:		
Police	1,435,155	1,435,155
Volunteer Fire Company	201,875	201,875
Public works:		
Highways and streets	449,070	449,070
Solid waste collection	478,045	478,045
Parks and recreation	309,052	309,052
Economic development	119,142	119,142
Miscellaneous	422,839	422,839
Capital outlays	1,643,383	1,643,383
	<u> </u>	<u> </u>
Total expenditures	<u>6,127,773</u>	<u>6,127,773</u>
Net changes in fund balances	96,577	96,577
Fund balances:		
Beginning of year	<u>6,884,146</u>	<u>6,884,146</u>
End of year	<u><u>\$ 6,980,723</u></u>	<u><u>\$ 6,980,723</u></u>

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net changes in fund balances, total governmental funds **\$ 96,577**

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

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

Add capital outlays	1,643,383
Less depreciation expense	(1,569,902)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.	(13,572)
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Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenue in the governmental funds.	949,425
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In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Accrued compensated absences	(24,077)
Deferred outflows of resources relating to:	
Pensions	181,566
Other postemployment benefits	15,648
Net pension liability	(212,907)
Total other postemployment benefits liability	251,657
Deferred inflows of resources relating to:	
Pensions	(11,113)
Other postemployment benefits	(292,590)

Changes in net position of governmental activities **\$ 1,014,095**

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2020

	Water and Sewer Fund	Total proprietary funds
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,292,915	\$ 2,292,915
Cash and cash equivalents, restricted	53,645	53,645
Certificates of deposit	916,888	916,888
Accounts receivable	44,869	44,869
Unbilled services	682,764	682,764
Due from other funds	13,900	13,900
Inventory	19,614	19,614
Prepaid expenses and deposits	4,500	4,500
	4,029,095	4,029,095
Total current assets		
Noncurrent assets:		
Certificates of deposit	2,931,120	2,931,120
Property and equipment:		
Construction in progress	286,678	286,678
Land and land rights	1,438,848	1,438,848
Buildings and improvements	23,234,046	23,234,046
Equipment	676,180	676,180
Infrastructure	23,978,802	23,978,802
Vehicles	485,621	485,621
	50,100,175	50,100,175
Less accumulated depreciation	21,287,744	21,287,744
Net property and equipment	28,812,431	28,812,431
	31,743,551	31,743,551
Total noncurrent assets		
	35,772,646	35,772,646
Total assets		
Deferred outflows of resources:		
Deferred amounts from:		
Pensions	200,504	200,504
Other postemployment benefits	7,687	7,687
	208,191	208,191
Total deferred outflows of resources		
	\$ 35,980,837	\$ 35,980,837
Total assets and deferred outflows of resources		
	\$ 35,980,837	\$ 35,980,837

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2020

	Water and Sewer Fund	Total proprietary funds
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 240,487	\$ 240,487
Accrued:		
Payroll and related benefits	15,809	15,809
Interest payable	23,313	23,313
Current portion of bonds payable (net of premiums)	331,341	331,341
Payable from restricted assets, due to other governments	53,645	53,645
	664,595	664,595
Total current liabilities	664,595	664,595
Noncurrent liabilities:		
Accrued compensated absences	31,894	31,894
Net pension liability	501,898	501,898
Total other postemployment benefits liability	355,794	355,794
Bonds payable (net of premiums)	4,265,550	4,265,550
	5,155,136	5,155,136
Total noncurrent liabilities	5,155,136	5,155,136
Total liabilities	5,819,731	5,819,731
Deferred inflows of resources:		
Deferred amounts from:		
Pensions	56,227	56,227
Other postemployment benefits	158,668	158,668
	214,895	214,895
Total deferred inflows of resources	214,895	214,895
Net position:		
Net investment in capital assets	24,215,540	24,215,540
Unrestricted	5,730,671	5,730,671
	29,946,211	29,946,211
Total net position	29,946,211	29,946,211
Total liabilities, deferred inflows of resources and net position	\$ 35,980,837	\$ 35,980,837

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund	Total proprietary funds
Operating revenues:		
Charges for services	\$ 2,487,699	\$ 2,487,699
Other revenues	70,024	70,024
	2,557,723	2,557,723
Operating expenses:		
Depreciation	1,311,753	1,311,753
Insurance	43,740	43,740
Other administrative expenses	34,747	34,747
Payroll taxes and fringe benefits	257,230	257,230
Repairs and maintenance	610,012	610,012
Salaries and wages	573,184	573,184
Supplies and materials	186,603	186,603
Utilities	280,632	280,632
	3,297,901	3,297,901
Operating loss	(740,178)	(740,178)
Nonoperating revenues (expenses):		
Connection charges	62,200	62,200
Intergovernmental	36,000	36,000
Interest income	74,523	74,523
Gain on disposal of assets	3,500	3,500
Rental income	47,730	47,730
Interest expense and fiscal charges	(142,037)	(142,037)
	81,916	81,916
Total nonoperating revenues (expenses)	81,916	81,916
Net loss before capital contributions	(658,262)	(658,262)
Capital contributions	34,043	34,043
Changes in net position	(624,219)	(624,219)
Net position:		
Beginning of year	30,570,430	30,570,430
End of year	\$ 29,946,211	\$ 29,946,211

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund	Total proprietary funds
Cash flows from operating activities:		
Inflows:		
Cash received from customers	\$ 2,516,606	\$ 2,516,606
Rental income received	47,730	47,730
	2,564,336	2,564,336
Outflows:		
Cash paid to:		
Suppliers	1,374,296	1,374,296
Employees	566,836	566,836
	1,941,132	1,941,132
Net cash provided by operating activities:	623,204	623,204
Cash flows from non-capital financing activities:		
Inflows, cash received from other government	36,000	36,000
Outflows, cash paid to other funds	13,900	13,900
Net cash provided by non-capital financing activities	22,100	22,100
Cash flows from capital and related financing activities:		
Inflows:		
Capital contributions	34,043	34,043
Connection fees received	62,200	62,200
	96,243	96,243
Outflows:		
Interest paid	143,077	143,077
Purchase of capital assets	271,237	271,237
Payments on long-term debt	321,441	321,441
	735,755	735,755
Net cash used by capital and related financing activities	(639,512)	(639,512)
Cash flows from investing activities:		
Inflows, interest received	74,523	74,523
Outflows, purchase of certificate of deposit	66,559	66,559
Net cash provided by investing activities	7,964	7,964
Net increase in cash and cash equivalents	13,756	13,756
Cash and cash equivalents:		
Beginning of Year	2,332,804	2,332,804
End of year	\$ 2,346,560	\$ 2,346,560

(continued)

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund	Total proprietary funds
Reconciliation of cash and cash equivalents to the statement of net position:		
Current assets:		
Cash and cash equivalents	\$ 2,292,915	\$ 2,292,915
Cash and cash equivalents, restricted	53,645	53,645
	\$ 2,346,560	\$ 2,346,560
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (740,178)	\$ (740,178)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,311,753	1,311,753
Rental income	47,730	47,730
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	553,307	553,307
Unbilled services	(594,424)	(594,424)
Inventory	(19,614)	(19,614)
Prepaid expenses	(4,500)	(4,500)
Deferred amounts from:		
Pensions	(32,653)	(32,653)
Other postemployment benefits	(7,453)	(7,453)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	25,599	25,599
Accrued payroll and related benefits	5,206	5,206
Due to other governments	(3,362)	(3,362)
Accrued compensated absences	1,142	1,142
Net pension liability	62,008	62,008
Total other postemployment benefits liability	(94,728)	(94,728)
Deferred amounts from:		
Pensions	3,236	3,236
Other postemployment benefits	110,135	110,135
	\$ 623,204	\$ 623,204
Noncash capital and related financing activities:		
Trade-in allowances for purchases of equipment	\$ 3,500	\$ 3,500

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies:

Reporting entity:

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

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

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

Basic financial statements - government-wide statements:

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basic financial statements - government-wide statements:

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

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

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

Basic financial statements - fund financial statements:

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basic financial statements - fund financial statements:

Governmental funds:

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

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

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

Proprietary funds:

The focus of proprietary fund measurement is upon determination of operating income (loss), changes in net position, financial position and cash flows. The applicable accounting principles generally accepted in the United States of America are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basis of accounting:

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

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

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

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

Cash and cash equivalents:

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Inventory:

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

Capital assets and depreciation:

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

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

Buildings	10 - 50 years
Furniture, machinery and equipment	5 - 15 years
Improvements	10 - 20 years
Roads, sidewalks and storm drains	20 - 40 years
Vehicles	5 - 10 years
Water distribution and sewer systems	40 - 50 years

Government-wide statements:

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Government-wide statements:

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

Fund financial statements:

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

Deferred outflows and inflows of resources:

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

Accrued compensated absences:

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Bond premiums and issuance costs:

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

Net position and fund balances:

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

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

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

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

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

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

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Net position and fund balances:

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

Unassigned fund balance - This category represents amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned fund balances are available for use, it is the Town's policy to use fund balances in the following order: 1) committed and 2) assigned, if projects are budgeted using such funds or for any emergency projects, otherwise, the unassigned fund balance is used.

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, 2020. 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Adoption of new GASB pronouncements:

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2020 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 90, Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61 - The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement were implemented by the Town as of July 1, 2019, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 91, Conduit Debt Obligations - The objective of this Statement is to better meet the information needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events. The provisions of this Statement were early-implemented by the Town as of July 1, 2019, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 93, Replacement of Interbank Offered Rates - The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The provisions of this Statement were early-implemented by the Town as of July 1, 2019, with no effect on the financial statements presentation and disclosure.

New GASB pronouncements:

The GASB issued several pronouncements prior to the year ended June 30, 2020 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, 2021. 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.

GASB Statement No. 92, Omnibus 2020, will be effective for the Town as of July 1, 2021. The objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

New GASB pronouncements:

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the Town as of July 1, 2022. The objective of this Statement is to address issues related to the public-private and public-public partnership arrangements.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postpones the effective date for certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates indicated above include the deferrals provided by this Statement.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will be effective for the Town as of July 1, 2022. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457-Deferred Compensation Plans - an Amendment of GASB Statements No.14 and No.84, and a Supersession of GASB Statement No. 32* - will be effective for the Town as of July 1, 2022. The objectives of this Statement are to 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing body typically would perform; 2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans and employee benefit plans other than pension plans on OPEB plans as fiduciary component units in fiduciary fund financial statements and 3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

2. Deposits:

The deposits held as of June 30, 2020 were as follows:

<u>Type</u>	<u>Interest rate</u>	<u>Maturities</u>	<u>Carrying value</u>
Deposits:			
Cash on hand			\$ 300
Demand deposits	0% - 0.77%		4,121,872
Certificates of deposit	0.05% - 2.00%	12/12/2020 - 11/12/2024	<u>8,928,118</u>
			<u>\$ 13,050,290</u>
Reconciliation to statement of net position:			
Current assets:			
Cash and cash equivalents:			
Unrestricted			\$ 3,984,305
Restricted			<u>137,867</u>
Total cash and cash equivalents			4,122,172
Certificates of deposit			<u>4,319,910</u>
Total current assets			8,442,082
Noncurrent assets, certificates of deposit			<u>4,608,208</u>
Total current and noncurrent assets			<u>\$ 13,050,290</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

2. Deposits (continued):

Restricted cash and cash equivalents as of June 30, 2020 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Bay restoration collections		\$ 53,645
Planning and zoning escrow and other deposits	\$ 62,122	
Police asset forfeiture	<u>22,100</u>	
	<u>\$ 84,222</u>	<u>\$ 53,645</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).

Custodial credit risks:

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$13,122,314 as of June 30, 2020, \$9,884,826 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. Certificates of deposit fall into the category that the holding period is to be less than one year. Management has taken the position that since the banks are providing them a one-time penalty-free withdrawal per account before maturity that they effectively consider the investments short-term in nature. In the current fiscal year, they also violated their policy by renewing a certificate of deposit in excess of two years. Maturities of certificates of deposit held at June 30, 2020 are provided in the schedule above. In addition, the Town's investment policy limits the purchase of certificates of deposit to banks located in Maryland. Some of the Town's certificates of deposit accounts were purchased through the Certificate of Deposit Account Registry Service, which includes banks across the United States.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

2. Deposits (continued):

Interest rate and credit risks:

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

Investments concentration of credit risk:

The Town's formal investment policy limits the amount of concentration in the following investments: 100% in U.S. treasury obligations, U.S. government agency and U.S. government-sponsored instrumentalities, and collateralized certificates of deposit (only Maryland commercial banks), and 50% in Local Government Investment Trust. As of June 30, 2020, the Town had no concentration of credit risk.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

3. Capital assets and depreciation:

A summary of governmental activities follows:

	Balance July 1, 2019	Increases	Decreases	Transfer	Balance June 30, 2020
Governmental activities:					
Non-depreciable assets:					
Construction in progress	\$ 1,143,629	\$ 888,519		\$ (680,420)	\$ 1,351,728
Land and land rights	2,092,370	10,807			2,103,177
Total non-depreciable assets	3,235,999	899,326		(680,420)	3,454,905
Depreciable assets:					
Buildings and improvements	5,582,790			5,344	5,588,134
Equipment	2,909,616	93,166	\$ 26,170	301,544	3,278,156
Infrastructure	34,663,954	1,600,317		373,532	36,637,803
Vehicles	1,058,510				1,058,510
Total depreciable assets	44,214,870	1,693,483	26,170	680,420	46,562,603
Total capital assets	47,450,869	2,592,809	26,170	-	50,017,508
Accumulated depreciation:					
Buildings and improvements	1,105,198	113,064			1,218,262
Equipment	1,331,950	197,554	12,597		1,516,907
Infrastructure	20,955,981	1,133,125			22,089,106
Vehicles	369,457	126,159			495,616
Total accumulated depreciation	23,762,586	1,569,902	12,597		25,319,891
Total capital assets, net	\$ 23,688,283	\$ 1,022,907	\$ 13,573	\$ -	\$ 24,697,617

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

3. Capital assets and depreciation (continued):

Depreciation expense for the year ended June 30, 2020 charged to governmental activities was as follows:

General government	\$ 111,332
Public safety	144,062
Public works	1,220,667
Parks and recreation	86,821
Economic development	7,020
	<hr/>
	<u>\$ 1,569,902</u>

Accumulated costs attributable to governmental activities projects included in construction in progress as of June 30, 2020 are as follows:

Caboose pavilion	\$ 48,766
Electric car charging station	37,075
Flat iron building	373,305
Police equipment	33,966
Public works improvements	16,733
Rails to trails	299,965
Sidewalk project, South Main Street	308,514
Storm water management	170,610
Watkins Park dog park fence	5,195
Watkins Park inclusive playground	12,805
Windy Ridge Park	44,794
	<hr/>
	<u>\$ 1,351,728</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

3. Capital assets and depreciation (continued):

A summary of business-type activities follows:

	Balance July 1, 2019	Increases	Decreases	Transfer	Balance June 30, 2020
Business-type activities:					
Non-depreciable assets:					
Construction in progress	\$ 282,093	\$ 309,550		\$ (304,965)	\$ 286,678
Land and land rights	1,438,848				1,438,848
Total non-depreciable assets	<u>1,720,941</u>	<u>309,550</u>		<u>(304,965)</u>	<u>1,725,526</u>
Depreciable assets:					
Buildings and improvements	22,866,820	62,261		304,965	23,234,046
Equipment	665,736	12,527	\$ 2,083		676,180
Infrastructure	23,972,145	6,657			23,978,802
Vehicles	463,352	52,545	30,276		485,621
Total depreciable assets	<u>47,968,053</u>	<u>133,990</u>	<u>32,359</u>	<u>304,965</u>	<u>48,374,649</u>
Total capital assets	<u>49,688,994</u>	<u>443,540</u>	<u>32,359</u>	<u>-</u>	<u>50,100,175</u>
Accumulated depreciation:					
Buildings and improvements	10,207,610	590,552			10,798,162
Equipment	466,936	34,491	2,083		499,344
Infrastructure	9,056,143	654,470			9,710,613
Vehicles	277,661	32,240	30,276		279,625
Total accumulated depreciation	<u>20,008,350</u>	<u>1,311,753</u>	<u>32,359</u>		<u>21,287,744</u>
Total capital assets, net	<u>\$ 29,680,644</u>	<u>\$ (868,213)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,812,431</u>

Depreciation expense for the year ended June 30, 2020 charged to business-type activities for the Water and Sewer Fund totaled \$1,311,753.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

3. Capital assets and depreciation (continued):

Accumulated costs attributable to business-type activities projects included in construction in progress as of June 30, 2020 are as follows:

Elevated storage tank #2 rehabilitation	\$ 3,869
Harrison/Leishear well	14,208
Inflow and infiltration	171,255
Sewer system Center Street water main	59,649
Sewer system odor control pump	6,521
Sewer system sludge building	25,275
Sewer system WILO mixer	<u>5,901</u>
	<u>\$ 286,678</u>

4. Long-term liabilities:

Bonds payable as of June 30, 2020 consisted of the following:

CDA, Infrastructure Bonds 2012:

\$5,339,431 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$250,300 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 2.28% to 3.42%

\$ 3,477,100

CDA, Infrastructure Bonds 2012 Refunding:

\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$78,000 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 2.28% to 3.42%

1,083,300

Total bonds payable

\$ 4,560,400

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

4. Long-term liabilities (continued):

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020:

Type of long-term liability	Balance July 01, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
Governmental activities, accrued compensated absences	\$ 104,182	\$ 24,077		\$ 128,259	
Business-type activities:					
Bonds and loan payable:					
CDA, Infrastructure Bonds 2012	\$ 3,720,500		\$ 243,400	\$ 3,477,100	\$ 250,300
CDA, Infrastructure Bonds 2012 Refunding	1,158,300		75,000	1,083,300	78,000
	4,878,800		318,400	4,560,400	328,300
Bond premiums	39,532		3,041	36,491	3,041
Total bonds and loan payable	4,918,332		321,441	4,596,891	331,341
Accrued compensated absences	30,752	1,142		31,894	
Total business-type activities	\$ 4,949,084	\$ 1,142	\$ 321,441	\$ 4,628,785	\$ 331,341

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

Interest and related costs incurred for business-type activities for the year ended June 30, 2020 was \$142,037, all of which was expensed.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

4. Long-term liabilities (continued):

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

<u>Years Ending June 30</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 328,300	\$ 137,245
2022	333,800	129,759
2023	342,000	121,314
2024	350,500	112,593
2025	357,800	103,726
2026 - 2030	1,967,000	353,936
2031 - 2032	881,000	45,435
	<u>\$ 4,560,400</u>	<u>\$ 1,004,008</u>

5. Net position and fund balances:

Nonspendable fund balance in the General Fund as of June 30, 2020 is limited to inventory totaling \$60,642 and prepaid expenses of \$5,300.

Restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2020 is limited to police asset forfeitures totaling \$22,100. These funds must be spent in accordance with guidelines imposed by the budget of the Office of the State's Attorney for Frederick County, Maryland.

The following is a summary of General Fund committed fund balances as of June 30, 2020:

Center Street improvements	\$ 70,650
Parks fee-in-lieu	<u>133,913</u>
	<u>\$ 204,563</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

5. Net position and fund balances (continued):

The following is a summary of General Fund assigned fund balances as of June 30, 2020:

Capital improvements	\$ 3,355,714
Future land acquisition	361,061
Office and building improvements	56,656
Park reserve	334,371
Police	5,745
Sidewalk improvements	9,529
Street and road repair	913,798
Truck and equipment replacement	<u>129,939</u>
	<u>\$ 5,166,813</u>

Net position in the Water and Sewer Fund is unrestricted. Designations of portions of the unrestricted net position are established to indicate tentative plans for financial resource utilization in future periods. The unrestricted net position of the proprietary fund at June 30, 2020 is as follows:

Designated:	
Water system expansion	\$ 473,740
Well system:	
Expansion	1,238,474
Capital improvement	595,174
Sewerage system reserve	9,314
Treatment plant expansion	<u>3,381,440</u>
Total designated	5,698,142
Undesignated	<u>32,529</u>
	<u>\$ 5,730,671</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

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 1% interest per month unpaid. The Town also has the ability to place liens against the properties. Business personal property taxes are due within 30 days of billing, which occurs as assessment information is received by the State. Property taxes are reported net of discounts. A list of all property in which the Town taxes have not been paid as of January 1st shall be provided to the official of Carroll County or Frederick County responsible for the sale of tax delinquent property as provided by Maryland law. The tax rates for real and business personal property for the year ended June 30, 2020 were \$0.1662 and \$0.41, respectively, per \$100 assessed property value.

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:

2021	\$ 73,474
2022	75,679
2023	75,664
2024	52,803
2025	<u>54,387</u>
	<u>\$ 332,007</u>

All lease agreements have various consecutive renewal options at the lessee's discretion, and the future minimum receipts noted above are limited to the current renewal periods under the relating non-cancelable agreements. The current renewal periods expire between July 2020 and June 2025. Lease revenues generated for the year ended June 30, 2020 were \$47,730, all of which were recognized in the Water and Sewer Fund.

During January 2017, the Town purchased a property and obtained the assignment of an existing lease for a portion of the property being leased to a private business, with a lease term through April 30, 2019. The Town entered into a new three-year lease for this property during May 2019 at \$1,400 per month. Lease revenue generated for this property for the year ended June 30, 2020 was \$16,800, all of which was recognized in the General Fund. The cost of the leased property, presented in buildings and improvements, was \$38,311 with accumulated depreciation of \$2,554 as of June 30, 2020.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

7. Lease agreements (continued):

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

2021	\$ 16,800
2022	<u>14,000</u>
	<u>\$ 30,800</u>

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, 2020 under this agreement was \$47,808.

The Town also rents multiple copiers and other office equipment with monthly payments ranging from \$172 to \$537 per month, expiring between January 2020 and February 2023. Rent expense under these agreements was \$17,083 for the year ended June 30, 2020.

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

2021	\$ 44,297
2022	5,519
2023	<u>3,679</u>
	<u>\$ 53,495</u>

9. Pension plans:

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

Plan description - Town employees that work a minimum of 500 regular hours, excluding overtime, are provided with pensions through the Maryland State Retirement and Pension System, a cost-sharing multiple-employer defined benefit pension plan administered by the State Retirement Agency (the Agency). Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at: <https://sra.maryland.gov/sites/main/files/file-attachments/2019-srps-cafr-web.pdf>

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

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

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

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

Contributions - Members are required to contribute 7.00% of their wages under the Plan. The Town is required to make a contribution which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. The Town's required contribution rate for the year ended June 30, 2020 was 9.38% 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 \$148,658 for the year ended June 30, 2020.

Law Enforcement Officers' Pension System (LEOPS):

Plan description - Effective July 1, 2018, the Town was accepted into the Maryland State Retirement and Pension System's Law Enforcement Officers' Pension System (LEOPS), a cost-sharing multiple-employer defined benefit pension plan administered by the Agency. All sworn police officers of the Town currently participating in the Employees' Pension System were transferred to LEOPS as of July 1, 2018. The Town received a credit of \$862,061 from LEOPS to transfer these employees, which will be amortized in level installments over a 25-year term.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

Law enforcement officers are provided with pensions through the Maryland State Retirement and Pension System (System) municipal pool, a cost-sharing multiple-employer defined benefit pension plan administered by the Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at: <https://sra.maryland.gov/sites/main/files/file-attachments/2019-srps-cafr-web.pdf>

Benefits provided - The LEOPS plan provides retirement, disability and death benefits. Retirement benefits equal 2.3% of average final compensation (AFC) for the first 30 years of creditable service, plus 1.0% of AFC for each additional year. Full service pension allowances equal 2.0% of AFC for the five highest consecutive years as an employee, up to a maximum benefit of 65% of AFC (32.5 years of credit). LEOPS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions, plus interest to the date of retirement. LEOPS members are not eligible for early service retirement allowances.

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

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

Contributions - LEOPS members are required to contribute 7.00% of their wages under LEOPS. 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, 2020 was 32.22% of covered payroll, less amortization of the new entrant credit of \$71,659, 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 LEOPS from the Town were \$79,104 for the year ended June 30, 2020.

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

At June 30, 2020, the Town reported a liability of \$1,650,813 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Town's proportion was 0.0080%, which was an increase of 0.0014% from its proportion measured as of June 30, 2018.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended June 30, 2020, the Town recognized pension expense of \$260,354. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		\$ 87,202
Changes of assumptions	\$ 20,661	44,928
Net difference between projected and actual earnings on pension plan investments	33,918	
Changes in Town's proportionate share of contributions	480,592	50,735
Town contributions subsequent to the measurement date	227,762	
 Total	\$ 762,933	\$ 182,865

The Town reported \$227,762 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. 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:

2021	\$ 112,905
2022	51,149
2023	74,955
2024	84,730
2025	28,567
	\$ 352,306

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

The System allocates employer liabilities, deferred outflows of resources and deferred inflows of resources based on payroll expenses from the year ended June 30, 2018. Since the Town's police officers did not transfer into LEOPS until July 1, 2018, no liabilities, deferred outflows of resources or deferred inflows of resources related to LEOPS have been recorded as of June 30, 2020. The amounts will be recorded as of June 30, 2021 and will be amortized into pension expense over the average expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees).

Actuarial assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 8.35%, including wage inflation
Investment rate of return	7.40%, net of pension plan investment expense, including inflation
Mortality	Fully generational - Pub-2010/MP2018

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study of the System for the period 2014-2018 after the completion of the June 30, 2018 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, 2019.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Public equity	37%	6.3%
Private equity	13%	7.5%
Rate sensitive	19%	1.3%
Credit opportunity	9%	3.9%
Real assets	14%	4.5%
Absolute return	8%	3.0%
	<u>100%</u>	

Discount rate - A single discount rate of 7.40% 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 7.40%. 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, 2018 valuation was 7.45%.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions:

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 7.40%, as well as what the Plan's net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher:

	1% decrease (6.40%)	Current discount rate (7.40%)	1% increase (8.40%)
Town's proportionate share of the net pension liability	\$ 2,389,387	\$ 1,650,813	\$ 1,035,674

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

10. Other postemployment benefits plan (OPEB):

General information about the OPEB plan:

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

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

To be eligible for this retiree medical plan:

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

10. Other postemployment benefits plan (OPEB) (continued):

General information about the OPEB plan:

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 15 participants, 11 of which are active plan members and 4 are retirees receiving benefits as of June 30, 2020.

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, 2020, the Town reimbursed premium costs of \$11,128 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 \$1,025,189 was measured at June 30, 2019 and was determined by an actuarial valuation as of July 1, 2019.

Actuarial assumptions and other inputs - The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Healthcare cost trend rate	Initially 4.70%, then increasing to 5.20% by 2030, and gradually decreasing to 4.00% in 2075
Inflation	2.50%
Retirees' coverage election	100%
Mortality	Fully generational - Pub-2010/MP2018

The discount rate of 3.13% for the June 30, 2019 valuation was based on the municipal bond index as of June 30, 2019.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

10. Other postemployment benefits plan (OPEB) (continued):

Changes in the total OPEB liability:

	Total OPEB liability
Balance at June 30, 2019	\$ 1,371,574
Changes for the year:	
Service cost	54,142
Interest	49,286
Experience gains	(459,256)
Changes in assumptions	20,188
Benefit payments	(10,745)
Net changes	(346,385)
Balance at June 30, 2020	\$ 1,025,189

Changes of assumptions and other inputs reflect a change in the discount rate from 3.62% for June 30, 2019 to 3.13% for June 30, 2020.

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 one-percentage-point lower (2.13%) or one-percentage-point higher (4.13%) than the current discount rate:

	1% decrease (2.13%)	Current discount rate (3.13%)	1% increase (4.13%)
Total OPEB Liability	\$ 1,262,859	\$ 1,025,189	\$ 840,621

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

10. Other postemployment benefits plan (OPEB) (continued):

Changes in the total OPEB liability:

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 one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates (see actuarial assumptions and other inputs for healthcare cost trend rates):

	1% decrease (3.00%)	Current healthcare cost trend rate (4.00%)	1% increase (5.00%)
Total OPEB liability	\$ 825,400	\$ 1,025,189	\$ 1,300,366

OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended June 30, 2020, the Town recognized OPEB expense of \$44,367. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		\$ 428,460
Changes of assumptions	\$ 18,506	158,541
Town contributions subsequent to the measurement date	11,128	
Total	\$ 29,634	\$ 587,001

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

10. Other postemployment benefits plan (OPEB) (continued):

OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB:

The Town reported \$11,128 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as reductions in OPEB expense as follows for the years ending June 30:

2021	\$ (54,849)
2022	(54,849)
2023	(54,849)
2024	(54,849)
2025	(54,849)
Thereafter	<u>(294,250)</u>
	<u>\$ (568,495)</u>

11. Deferred compensation plan:

The Town offers a defined contribution plan created in accordance with IRC Section 457(b). The plan permits all full-time employees to defer a portion of their salary until future years. The employee's contribution is fully vested at the contribution date. Employees can defer the lesser of \$19,500, and up to an additional \$6,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. Town contributions to the 457(b) plan were \$19,500 for the year ended June 30, 2020.

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.

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, 2020, 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

12. Commitments and contingencies (continued):

The Town is committed under the following contracts for projects as of June 30, 2020:

Project	Type of project	Contract amount	Amount of contract not incurred at June 30, 2020
Elevated Tank #2 Rehab	Construction	\$ 557,825	\$ 557,825
Manhole rehabilitation	Construction	200,000	200,000
Sidewalk and curbs	Construction	290,000	45,291
Town view stormwater management pond	Engineering	106,173	78,525
Twin Ridge facility retrofit	Construction	802,690	802,690
Wastewater treatment plant sludge building addition	Engineering	84,000	58,725
Water main replacement for Center Street	Construction	136,375	76,726

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

Under federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a stormwater 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 seven 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 five-year period of this project. From the Town's share of this project, the Town is required to pay 20% and the County is covering the remaining 80%. For the year ended June 30, 2020, Town's portion of these costs were \$82,168. Over the five-year term of the agreement, the Town paid a total of \$373,532. These funds went toward the design and construction of a stormwater management facility. The facility was completed in the current year, so the amount paid was transferred from construction in progress to infrastructure. The County and municipalities agreed to continue the current agreement by extending for one additional year, while working towards the issuance of the Fifth Generation Permit. As such, the Town made their next committed payment under this agreement subsequent to year end in the amount of \$82,168, which will be applied to the next permit and funds going to future projects.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

12. Commitments and contingencies (continued):

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Town’s tax base, due to state government-imposed shutdowns of businesses and other results of the virus. While the Town expects this matter may negatively impact its results, the extent of the impact of COVID-19 on the Town’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of COVID-19 on overall economic trends, all of which are highly uncertain and cannot be predicted.

13. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Town is a member in the Local Government Insurance Trust (LGIT), a public entity risk pool that is owned and directed by local governments (participants) that subscribe to its insurance coverages. LGIT provides the Town’s general, automobile, employee, health, police and public officials’ legal liability insurance coverage. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT’s operations. The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The Town also participates in an excess liability pool, which has maximum coverage of \$2,000,000. Premiums are charged to the Town, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2020, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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.

15. Subsequent events:

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 23, 2020, the date the financial statements were available to be issued.

TOWN OF MOUNT AIRY, MARYLAND

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020
(UNAUDITED)

	Original budget	Final budget	Actual	Variance
Revenues:				
Taxes	\$ 3,856,450	\$ 3,856,450	\$ 4,146,687	\$ 290,237
Licenses and permits	148,300	148,300	157,364	9,064
Intergovernmental	3,748,887	1,548,234	1,656,512	108,278
Charges for services	473,200	473,200	129,458	(343,742)
Fines and forfeitures	3,000	3,000		(3,000)
Income:				
Rental	16,800	16,800	16,800	-
Interest	40,000	40,000	91,153	51,153
Miscellaneous	15,000	63,200	26,376	(36,824)
Total revenues	8,301,637	6,149,184	6,224,350	75,166
Expenditures:				
General government	892,449	917,199	773,623	143,576
Planning and zoning	292,000	292,000	295,589	(3,589)
Public safety:				
Police	1,556,617	1,563,837	1,435,155	128,682
Volunteer Fire Company	201,875	201,875	201,875	-
Public Works				
Highways and streets	538,500	538,500	449,070	89,430
Solid waste collection	490,780	490,780	478,045	12,735
Parks and recreation	339,330	339,330	309,052	30,278
Economic development	74,195	90,425	119,142	(28,717)
Miscellaneous	453,857	453,857	422,839	31,018
Capital outlays	4,701,267	1,882,516	1,643,383	239,133
Total expenditures	9,540,870	6,770,319	6,127,773	642,546
Net changes in fund balances	(1,239,233)	(621,135)	96,577	717,712
Fund balances:				
Beginning of year	6,884,146	6,884,146	6,884,146	-
End of year	\$ 5,644,913	\$ 6,263,011	\$ 6,980,723	\$ 717,712

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST 6 FISCAL YEARS *
(UNAUDITED)

	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0080%	0.0066%	0.0052%	0.0056%	0.0058%	0.0050%
Town's proportionate share of the net pension liability	\$ 1,650,813	\$ 1,375,898	\$ 1,134,768	\$ 1,332,726	\$ 1,206,943	\$ 886,407
Town's covered payroll	\$ 1,826,173	\$ 1,527,621	\$ 1,331,268	\$ 1,290,022	\$ 1,258,076	\$ 1,163,955
Town's proportionate share of the net pension liability as a percentage of its covered payroll	90.40%	90.07%	85.24%	103.31%	95.94%	76.15%
Plan fiduciary net position as a percentage of the total pension liability	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

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

Note to schedule:

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

	2020	2019	2018	2017	2016	2015
Mortality table	Pub-2010/ MP2018	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment return	7.40%	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	2.60%	2.65%	2.70%	2.70%	2.90%

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF TOWN CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST 10 FISCAL YEARS
(UNAUDITED)

<u>Year</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Town's covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2020	\$ 227,762	\$ (227,762)		\$ 2,052,759	11.1%
2019	164,356	(164,356)		1,826,173	9.0%
2018	130,765	(130,765)		1,527,621	8.6%
2017	108,765	(108,765)		1,331,268	8.2%
2016	110,039	(110,039)		1,290,022	8.5%
2015	122,411	(122,411)		1,258,076	9.7%
2014	116,396	(116,396)		1,163,955	10.0%
2013	100,528	(100,528)		1,118,230	9.0%
2012	130,176	(130,176)		1,189,901	10.9%
2011	222,972	(222,972)		1,189,940	18.7%

Note to schedule:

The Town began contributing to the Law Enforcement Officers' Pension System for uniformed police officers in fiscal year 2020.

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF CHANGES IN THE TOWN'S TOTAL OTHER POSTEMPLOYMENT BENEFITS (OPEB)
LIABILITY AND RELATED RATIOS
LAST 3 FISCAL YEARS *
(UNAUDITED)

	2020	2019	2018
Total OPEB liability:			
Service cost	\$ 54,142	\$ 52,633	\$ 50,814
Interest	49,286	46,336	40,561
Experience gains	(459,256)	(8,969)	-
Changes of assumptions	20,188	(11,092)	(199,064)
Benefit payments	(10,745)	(12,231)	(21,200)
	(346,385)	66,677	(128,889)
Net changes in total OPEB liability			
Total OPEB liability:			
Beginning of year	1,371,574	1,304,897	1,433,786
End of year	\$ 1,025,189	\$ 1,371,574	\$ 1,304,897
Covered employee payroll	\$ 735,155	\$ 873,724	\$ 877,763
Total OPEB liability as a percentage of covered employee payroll	139.45%	156.98%	148.66%

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

Note 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:

2020	3.13%
2019	3.62%
2018	3.58%
2017	2.85%

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