



TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2021



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2021

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YEAR ENDED JUNE 30, 2021

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Independent Auditor's Report

Honorable Mayor and Town 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, 2021 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 Town'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 Town'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, 2021, 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 15 and 61 through 64, 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 (GASB), 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 Steidman & Fritz

Westminster, Maryland
October 21, 2021

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

The following discussion and analysis of the financial performance of the Town of Mount Airy provides an overview of the Town's financial activities for the year ended June 30, 2021. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the Town of Mount Airy exceeded its total liabilities at the close of fiscal year 2021 by \$60,424,185 (total net position). Of this amount, \$30,668,264 was for governmental activities and \$29,755,921 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$10,141,982; \$4,633,640 for governmental activities and \$5,508,342 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 \$907,088, and business-type activities (the Water & Sewer Fund) decreased by \$190,290, resulting in a \$716,798 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, 2021, the total liabilities and fund balances for governmental funds were \$7,221,546. This is a decrease of \$399,238 from fiscal year 2020.
- At the close of fiscal year 2021, the Town's governmental fund reported an ending fund balance of \$6,505,909, a decrease of \$474,814 from fiscal year 2020. This information may be reviewed on the statement of revenues, expenditures and changes in fund balance.
- The Town of Mount Airy ended the fiscal year, with funds on deposit in certificates of deposit, checking accounts and savings accounts totaling more than \$12 million. 73% 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.
- Grant acquisition continues to be a source of funding for many capital projects as well as some operating expenditures. The Town received many grants throughout fiscal year 2021:
 - The Maryland Heritage Area Award Grant was obtained in the amount of \$17,980. This grant funded approximately 40% of a new roof and related improvements to the Train Station.
 - Two grants were received that partially funded Phase 1 of the new all-inclusive playground at Watkins Park: Ava's T21 Foundation provided the Town with a grant in the amount of \$75,000, and the Town received \$200,728 from the Department of Natural Resources.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

- The Mount Airy Police Department (MAPD) received several grants: \$873 from the Carroll County Board of Education Bus Safety Enforcement Grant; \$3,308 from the Motor Vehicle Administration Impaired & Aggressive Driving Grant; \$5,857 from the Maryland Department of Education School Traffic Safety Enforcement Grant; \$277 from the Maryland Highway Safety Office Occupant Protection Grant; \$320 from the Maryland Highway Safety Office Speed Enforcement Grant and \$874 from the Governor's Office of Crime Control & Prevention to purchase Body Armor.
- The Town received a pass-through grant from the Maryland Department of Housing & Community Development Historic Trust in the amount of \$8,838 for façade improvements to the downtown area. The funds were then paid to two businesses: \$5,173 to Mount Airy Hotel, LLC at 216 South Main Street, and \$3,665 to Ridgeville LLC at the old firehouse building at 231 - 237 South Main Street, both located on Main Street.
- During the Spring of 2020, the Town experienced an unprecedented shut down of normal activities due to the COVID-19 pandemic which continued into fiscal year 2021. For approximately six months during fiscal year 2021, the Town closed or limited visitors to facilities, most of the office staff relocated to home offices and worked remotely, department of public work employees divided into two teams working alternating weeks and meetings were held via conference calls and web conferences. Adjustments to normal routines and procedures were made, and the Town government adapted very quickly to the new "normal". Operations began to go back to pre-pandemic levels beginning in May 2021; however, we remain vigilant in providing a safe environment for our citizens and employees. An aggressive campaign was launched in fiscal year 2020 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, and the Town developed a grant program for small businesses awarding 19 - \$1,000 grants. In fiscal year 2021, the town continued to offer support to businesses via two methods: the Business Relief Loan which provided two loans of \$10,000 each to two businesses, and the Historic District Micro-Grant Program that provided 11 - \$4,545 grants to businesses in the downtown area. The Town applied for and was granted assistance through the CARES Act for reimbursement of COVID-19 expenses for supplies and hazard pay. \$85,353 was received in fiscal year 2020, and an additional \$303,975 was received in fiscal year 2021.
- The Town's police department added one officer to the force this past year and filled a vacant officer position. The department is now fully staffed and consists of 11 officers and two civilian employees.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

- Upgrades were made to the electric service at the Municipal Parking Lot and Watkins Park where new electric car charging stations were installed. The electric upgrade at Watkins Park cost \$6,529, and a Tesla station was installed. The Tesla station, valued at approximately \$1,200, was obtained through efforts of volunteers at no cost to the Town. The Municipal Parking Lot received two electric upgrades, one for a Tesla station and one for a supercharging station. The electric upgrade for the Tesla station cost was \$5,100, and this Tesla charger was also obtained by volunteers at no cost to the Town. The electric upgrade for two supercharging stations cost \$40,216. The supercharging stations are not owned by the Town. They were installed by the Electric Vehicle Institute (EVI) who maintains ownership and is responsible for repairs and maintenance of the stations. The Town pays for the electricity, and in return EVI will transfer net revenue to the Town on a quarterly basis. The Town received the first payment of \$232 for the final quarter of fiscal year 2021.
- The Water and Sewer Fund ended fiscal year 2021 with a \$488,526 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 \$1,311,659.
- The Town's Water and Sewer Fund long-term debt balance including compensated absences was \$4,306,938 by year end, a net decrease of \$321,847 from fiscal year 2020. 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 considered 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

June 30, 2021

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

June 30, 2021

Unaudited

GOVERNMENT WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2021, 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 2021			Fiscal Year 2020		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current & Other Assets	\$ 7,216,787	\$ 6,730,962	\$ 13,947,749	\$ 7,606,884	\$ 6,960,215	\$ 14,567,099
Capital Assets	\$ 26,016,241	\$ 28,513,129	\$ 54,529,370	\$ 24,697,617	\$ 28,812,431	\$ 53,510,048
Total Assets	\$ 33,233,028	\$ 35,244,091	\$ 68,477,119	\$ 32,304,501	\$ 35,772,646	\$ 68,077,147
Deferred Outflows of Resources	\$ 1,362,602	\$ 244,303	\$ 1,606,905	\$ 584,376	\$ 208,191	\$ 792,567
Total Assets and Deferred Outflows of Resources	\$ 34,595,630	\$ 35,488,394	\$ 70,084,024	\$ 32,888,877	\$ 35,980,837	\$ 68,869,714
Liabilities						
Current Liabilities	\$ 463,244	\$ 626,772	\$ 1,090,016	\$ 626,161	\$ 664,595	\$ 1,290,756
Long-Term Liabilities	\$ 2,859,658	\$ 4,866,117	\$ 7,725,775	\$ 1,946,569	\$ 5,155,136	\$ 7,101,705
Total Liabilities	\$ 3,322,902	\$ 5,492,889	\$ 8,815,791	\$ 2,572,730	\$ 5,819,731	\$ 8,392,461
Deferred Inflows of Resources	\$ 604,464	\$ 239,584	\$ 844,048	\$ 554,971	\$ 214,895	\$ 769,866
Net Position						
Net Investment in Capital Assets	\$ 26,016,241	\$ 24,247,579	\$ 50,263,820	\$ 24,697,617	\$ 24,215,540	\$ 48,913,157
Restricted	\$ 18,383	\$ -	\$ 18,383	\$ 22,100	\$ -	\$ 22,100
Unrestricted	\$ 4,633,640	\$ 5,508,342	\$ 10,141,982	\$ 5,041,459	\$ 5,730,671	\$ 10,772,130
Total Net Position	\$ 30,668,264	\$ 29,755,921	\$ 60,424,185	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387

The Town's total net position increased by 1% (\$60,424,185 compared to \$59,707,387).

Total assets increased by 1% (\$68,477,119 compared to \$68,077,147). 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 increased by 5% (\$8,815,791 compared to \$8,392,461). 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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

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 post-employment benefits is the liability for those benefits that have already been accrued for past and current, eligible retired employees.

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

	Fiscal Year 2021			Fiscal Year 2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue						
Program Revenues						
Charges for Services	\$ 482,789	\$ 2,772,256	\$ 3,255,045	\$ 162,140	\$ 2,591,766	\$ 2,753,906
Operating Grants and Contributions	\$ 922,575	\$ 36,000	\$ 958,575	\$ 760,225	\$ 36,000	\$ 796,225
Capital Grants and Contributions	\$ 709,822	\$ 95,131	\$ 804,953	\$ 1,049,562		\$ 1,049,562
General Revenues						
Taxes						
Income Taxes	\$ 2,165,971		\$ 2,165,971	\$ 2,114,984		\$ 2,114,984
Real Property Taxes	\$ 1,955,188		\$ 1,955,188	\$ 1,900,056		\$ 1,900,056
Personal Property Tax	\$ 136,932		\$ 136,932	\$ 131,647		\$ 131,647
Grants, Contributions, and Franchise Fees						
not Restricted to Specific Programs	\$ 943,886		\$ 943,886	\$ 930,528		\$ 930,528
Connection Charges		\$ 173,000	\$ 173,000		\$ 62,200	\$ 62,200
Interest Income and Rent	\$ 79,542	\$ 129,694	\$ 209,236	\$ 107,953	\$ 122,253	\$ 230,206
Miscellaneous	\$ 119,848		\$ 119,848	\$ 16,680		\$ 16,680
Total Revenues	\$ 7,516,553	\$ 3,206,081	\$ 10,722,634	\$ 7,173,775	\$ 2,812,219	\$ 9,985,994
Expenses						
General Government	\$ 1,219,990		\$ 1,219,990	\$ 1,097,853		\$ 1,097,853
Planning & Zoning	\$ 283,637		\$ 283,637	\$ 406,295		\$ 406,295
Public Safety	\$ 1,928,350		\$ 1,928,350	\$ 1,798,658		\$ 1,798,658
Public Works	\$ 2,357,295		\$ 2,357,295	\$ 2,213,776		\$ 2,213,776
Parks and Recreation	\$ 504,085		\$ 504,085	\$ 516,936		\$ 516,936
Economic Development	\$ 316,108		\$ 316,108	\$ 126,162		\$ 126,162
Water & Sewer Services		\$ 3,396,371	\$ 3,396,371		\$ 3,436,438	\$ 3,436,438
	\$ 6,609,465	\$ 3,396,371	\$ 10,005,836	\$ 6,159,680	\$ 3,436,438	\$ 9,596,118
Changes in Net Position	\$ 907,088	\$ (190,290)	\$ 716,798	\$ 1,014,095	\$ (624,219)	\$ 389,876
Net Position at Beginning of Year	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387	\$ 28,747,081	\$ 30,570,430	\$ 59,317,511
Net Position - End of Year	\$ 30,668,264	\$ 29,755,921	\$ 60,424,185	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

Governmental Activities

For the fiscal year ended June 30, 2021, revenues from governmental activities totaled \$7,516,553, which is a 5% increase from the previous year. Most of the governmental general revenue came from income taxes (29%) and real property taxes (26%). The large increase in charges for services was due to building permit fees that were received for the Brittany Manor sub-division. The large increase in miscellaneous revenue was due to a \$75,000 donation from Ava's T21 Foundation for the new all-inclusive playground at Watkins Park.

Expenses from governmental activities totaled \$6,609,465. The largest component of expenses, \$2,357,295 (36%), was from Public Works. Public Safety came in next highest at \$1,928,350 (29%).

Business-type Activities

Water and Sewer Service charges made up 86% of total business-type revenue, with the next highest being connection charges at 5%. Expenses were down slightly at 1%. The large increase in charges for services was due to building permit fees that were received for the Brittany Manor sub-division.

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 2021, the Town's governmental funds reported combined ending fund balance of \$6,505,909, of which \$1,032,341, or 16%, is unassigned. \$5,139,565, or 79%, is assigned to provide funding for capital improvements, land acquisition, 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 \$206,636, which consists of Parks Fee-in-lieu and Center Street Improvements. \$18,383 of the Town's funds are restricted; this is money in the police adjudicated fund, and lastly, \$108,984 is listed as non-spendable funds and represents inventory and prepaid expenses.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

Business-type Funds

The statement of net position – proprietary funds reports the unrestricted funds for the Water and Sewer Fund total \$5,508,342. 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 seventeen times during the year. Six amendments were for ongoing projects that weren't completed in previous fiscal years: Watkins Park Dog Park fencing, the Flat Iron Building Phase 1 Site Improvements project, upgrades to the electric service at the Municipal Parking Lot for the electric car supercharging stations, completion of the Department of Public Works office and breakroom improvements, additional improvements needed to complete Water Tower #2 rehabilitation and the completion of a Town Survey to enter and analyze the data which was delayed due to the Covid-19 pandemic. A budget amendment was needed to make improvements after high levels of radon were discovered in the basement of Town Hall. Another amendment was to account for a donation that was received for the all-inclusive playground installed at Watkins Park. During the year it was discovered that a grant the Town had been awarded was a matching grant, and as a result an amendment was needed to include the Town's portion of the expense for the Center Street connection project. Later in the year, the state rescinded the matching requirement. An amendment was approved to increase the election expense to allow for the additional cost of using paper ballots. Finally, near the end of the fiscal year, the council approved seven amendments reducing costs for capital projects that did not move forward as planned in the fiscal year.

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 \$70,252 more in revenues than expected. The large positive variance in taxes was due to income taxes, and the large negative variance was due to intergovernmental revenues, specifically park grant revenue. These grants were for land acquisition that did not move forward as soon as expected. Total expenses came in \$404,854 less than expected, the largest variance from public safety. Several line items within the police department budget came in under budget due to two vacancies that were not filled for several months during the fiscal year. Other expenses that came in well under budget were worker's compensation insurance and retirement expense.

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

June 30, 2021

Unaudited

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Mount Airy's investment in capital assets for its governmental and business-type activities as of June 30, 2021, can be found in the notes to basic financial statements, Note 3. Governmental activities capital assets total \$26,016,241 (net of accumulated depreciation), and the business type activities total \$28,513,129. 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 Wastewater 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
 - A new roof was installed at the Train Station at a cost of \$44,868.
 - A new heating and air conditioning unit was installed for Level 1 at Town Hall. The cost was \$8,520.
 - A radon mitigation system was installed in the basement of Town Hall at a cost of \$14,145.
 - The office and breakroom of the Department of Public Works facility was completed at a cost of \$90,100.
 - New flooring was installed on the main level at Town Hall at a cost of \$13,325.
 - An electrostatic sprayer was purchased at a cost of \$3,999 and is used to sanitize areas of Town Hall to reduce the spreading of germs related to Covid-19, but will also be a valuable tool during flu season in the future.
 - Upgrades to the electric service were made at two locations for the installation of electric car charging stations. The Municipal Parking Lot underwent two upgrades: one for a Tesla station at \$5,100 and one for a supercharging station at \$40,216. A new Tesla station was installed at Watkins Park; the electric upgrade cost \$6,529.

- Roads Department
 - The Annual Road Repaving project was completed at Center Street. The total spent on repaving was \$69,270.
 - Site improvements were made to the streets, intersections and traffic patterns surrounding the Municipal Parking Lot at a cost of \$329,780.
 - The Main Street sidewalk project that also included the installation of cluster mailboxes was completed during the fiscal year. The total cost of the project, that spanned three fiscal years, was \$308,513.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

- Equipment purchased included a boom lift at \$49,462, a salt spreader at \$5,975, a paint spraying machine at \$3,500 and a leaf vacuum at \$3,324
- Parks Department
 - Fencing was installed at the Summit Ridge ballfields at a cost of \$29,943.
 - Fencing was also installed at the Watkins Park Dog Park at a cost of \$10,390.
 - ADA Access to Summit Ridge Park was completed at a cost of \$24,074.
- Police Department
 - One mobile radio was purchased at a cost of \$4,335.
 - A license plate reader was purchased at a cost of \$15,335.
 - An electrostatic sprayer was purchased at a cost of \$3,999.
 - A Mobile Data Terminal (laptop) was purchase at a cost of \$3,660.
 - An additional utility police vehicle was purchased and upfitted at a cost of \$61,973.
- Community Development
 - A storage shed was purchased and placed in the Rail Yard at a cost of \$5,415.

Water & Sewer Fund

- Rehabilitation was completed at Water Tower #2. The total cost came in at \$655,224.
- The annual Inflow and Infiltration (I&I) project was completed at a total cost of \$434,192.
- A pump for odor control on Carroll Avenue was installed at Sewer Pumping Station #3 for \$6,521.
- A methanol feed pump was installed at the Wastewater Treatment Plant at a cost of \$3,419.
- The well pump and motor were replaced at Well #2 at a cost of \$4,860.

Contributed Capital (Land, facilities, easements or other capital assets given to the Town). Values must be assigned to assets given to the Town and in doing so land values of adjacent properties are used to assign a value.

- Land was deeded to the Town by the Town View Community Association for the Rails to Trails project. This land is valued at \$362,553.
- An easement was given to the Town from Goldstar Post #191 for the purpose of installing and maintaining a storm water drainage pipe within the easement area. The easement is valued at \$25,805.
- An easement was granted by 2504 Back Acre Circle, LLC for access to a storm water management facility. This easement is valued at \$45,735.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

Debt

At year end, the Town's Water and Sewer Department had \$4,265,550 in outstanding debt, compared to \$4,596,891 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 2022 will remain the same as fiscal year 2021 at .1662 (cents) per \$100 of assessed value. This has been the tax rate for the last five fiscal years and follows a decade and a half of declining tax rates. Conversely, the cost of operating the Town has increased over the same period. In the coming year, the Town will evaluate all the Town's revenue sources to determine if adjustments need to be made to keep up with the cost of living.

For the first time in over twenty years, the Homestead Tax Cap will change. The Homestead Tax Cap limits the real estate taxes due on any increases in taxable assessments each year to a fixed percentage so that homeowners gradually see an increase in their tax bills over the course of several years until the previous taxable assessment catches up to the current taxable assessment. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less each year. With the Town's long-standing cap of 0% qualified homeowners have received a credit on their real estate tax bills for increases in taxable assessments for the past 20 years. The cap is set for 3% in fiscal year 2022. The 3% cap will begin to increase homeowners taxable assessed value from the value that was "frozen" twenty years ago. It's a very small step in "catching up" to current assessed values which will increase real estate tax revenue for the Town, albeit by a very small amount. The Maryland State Department of Assessments and Taxation estimates that long-term homeowners in Mount Airy may never be taxed at the full taxable assessed value.

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 resides in both Frederick and Carroll counties it is 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; additionally, they are managing the Town's stormwater projects in both Frederick and Carroll counties at no cost to the Town. Improvements to the Town's storm water management facilities have cost nearly \$2,000,000 to date, and it is anticipated that at least another \$2,000,000 will be needed to complete this work.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

Many General Fund capital projects are being considered for next year and beyond. Projects on the list of possibilities include connecting Center Street from downtown to Watkins Park (MD Route 808 to MD Route 27), constructing a roundabout on South Main Street, acquiring land and building a new police station, determining the future of the Flat Iron Building, obtaining access and making improvements to Windy Ridge Park, expanding Rails to Trails and building a community center, just 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. Funding will also be a main component in determining which projects move forward into the budgeting phase; there are more projects on the wish list than the Town has in reserve funds to start or complete, and the operating budget cannot sustain a debt payment with the current revenue flow although reserves can be used for this purpose. Efforts to obtain grants have been and will continue to be a focus of Town staff in future years.

As of June 30, 2021, the Town is committed to construction projects for: South Main Street Roundabout in the amount of \$145,000 for engineering, Restoration of East/West Stormwater Pond – shared with Carroll County in the amount of \$123,940 for construction, Town View stormwater management pond in the amount of \$82,663 for engineering, WWTP sludge building addition in the amount of \$17,957 for engineering and \$599,000 for construction and Center Street water main replacement in the amount of \$21,504 for engineering and \$963,754 for construction.

The Town received \$4,659,292 from the American Rescue Plan Act very soon after fiscal year 2021 ended. The funding will be used for water & sewer system and storm water infrastructure projects. This money will enable the Town to move forward with much needed projects at a considerably faster pace. The Town expects a second disbursement of funding of over \$3,000,000 when the first round of projects are completed. Eligibility to receive the second round of funding begins in September 2022.

The Town is fortunate to have reserve funds that built up over the years from surplus funds and permit fees, and they are used to fund capital projects. At the end of fiscal year 2021 the amount remaining in the General Fund reserves totaled \$5,139,565; Water & Sewer Fund reserves totaled \$5,334,893. As the Town builds out existing subdivisions and new building construction in the approved pipeline of projects, deposits from permit fees will eventually end. Careful planning will be the key to determine how to fund the ongoing capital projects for which the reserves have historically been used. Considerations will include the safe level of funds to keep for emergencies, or "rainy day" funds, and other potential sources of revenue to fund future capital projects.

Future revenues will be among the most important topics of discussion for our elected officials in the coming years. Without an increase in revenue the Town will no longer be able to continue to provide the same level of services to citizens. Planning for the future financial health of the Town will be the focus of the Mayor and Town Council. Increasing real estate tax revenues can be accomplished via two means: by increasing the tax rate on existing revenue sources or increasing the tax base from which revenue is collected (e.g., development of properties). Either method will be beneficial to the fiscal health of the Town.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

Unaudited

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 Acting Mayor and Council President Jason Poirier at 110 South Main Street, Mount Airy, Maryland 21771-0050.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental activities	Business-type activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,057,688	\$ 2,026,361	\$ 3,084,049
Cash and cash equivalents, restricted	134,233	56,835	191,068
Certificates of deposit	4,506,000	1,263,492	5,769,492
Accounts receivable	39,518	9,556	49,074
Taxes receivable	396,727		396,727
Due from other governments	463,652		463,652
Inventory	67,220	31,752	98,972
Unbilled services		676,207	676,207
Internal balances	(4,759)	4,759	-
Prepaid expenses and deposits	41,764	10,148	51,912
Total current assets	6,702,043	4,079,110	10,781,153
Noncurrent assets:			
Certificates of deposit	514,744	2,651,852	3,166,596
Property and equipment:			
Construction in progress	2,682,460	194,818	2,877,278
Land and land rights	2,537,271	1,438,848	3,976,119
Buildings and improvements	5,762,324	23,678,178	29,440,502
Equipment	3,480,393	676,180	4,156,573
Infrastructure	37,345,367	24,630,559	61,975,926
Vehicles	1,120,483	485,621	1,606,104
	52,928,298	51,104,204	104,032,502
Less accumulated depreciation	26,912,057	22,591,075	49,503,132
Net property and equipment	26,016,241	28,513,129	54,529,370
Total noncurrent assets	26,530,985	31,164,981	57,695,966
Total assets	33,233,028	35,244,091	68,477,119
Deferred outflows of resources:			
Deferred amounts from:			
Pensions	1,235,434	193,273	1,428,707
Other postemployment benefits	127,168	51,030	178,198
Total deferred outflows of resources	1,362,602	244,303	1,606,905
Total assets and deferred outflows of resources	\$ 34,595,630	\$ 35,488,394	\$ 70,084,024

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental activities	Business-type activities	Total
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 262,891	\$ 191,388	\$ 454,279
Accrued:			
Payroll and related benefits	84,503	19,643	104,146
Interest payable		22,065	22,065
Current portion of bonds payable (net of premiums)		336,841	336,841
Payable from restricted assets:			
Due to other governments		56,835	56,835
Refundable deposits	115,850		115,850
Total current liabilities	463,244	626,772	1,090,016
Noncurrent liabilities:			
Accrued compensated absences	112,170	41,388	153,558
Net pension liability	1,926,053	474,871	2,400,924
Total other postemployment benefits liability	821,435	421,149	1,242,584
Bonds payable (net of premiums)		3,928,709	3,928,709
Total noncurrent liabilities	2,859,658	4,866,117	7,725,775
Total liabilities	3,322,902	5,492,889	8,815,791
Deferred inflows of resources:			
Deferred amounts from:			
Pensions	213,688	97,060	310,748
Other postemployment benefits	390,776	142,524	533,300
Total deferred inflows of resources	604,464	239,584	844,048
Net position:			
Net investment in capital assets	26,016,241	24,247,579	50,263,820
Restricted	18,383		18,383
Unrestricted	4,633,640	5,508,342	10,141,982
Total net position	30,668,264	29,755,921	60,424,185
Total liabilities, deferred inflows of resources and net position	\$ 34,595,630	\$ 35,488,394	\$ 70,084,024

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

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	\$ 1,219,990	\$ 186,671	\$ 306,289		\$ (727,030)		\$ (727,030)
Planning and zoning	283,637	125,885			(157,752)		(157,752)
Public safety	1,928,350		86,487		(1,841,863)		(1,841,863)
Public works	2,357,295	89,354	509,524	\$ 434,094	(1,324,323)		(1,324,323)
Parks and recreation	504,085	80,879		275,728	(147,478)		(147,478)
Economic development	316,108		20,275		(295,833)		(295,833)
Total governmental activities	6,609,465	482,789	922,575	709,822	(4,494,279)		(4,494,279)
Business-type activities, water and sewer services	3,396,371	2,772,256	36,000	95,131		\$ (492,984)	(492,984)
Total primary government	\$ 10,005,836	\$ 3,255,045	\$ 958,575	\$ 804,953	(4,494,279)	(492,984)	(4,987,263)
General revenues:							
Taxes:							
Income					2,165,971		2,165,971
Real estate					1,955,188		1,955,188
Personal property					136,932		136,932
Grants, contributions and franchise fees not restricted to specific programs					943,886		943,886
Connection charges						173,000	173,000
Interest income and rents					79,542	129,694	209,236
Miscellaneous					119,848		119,848
Total general revenues					5,401,367	302,694	5,704,061
Changes in net position					907,088	(190,290)	716,798
Net position:							
Beginning of year					29,761,176	29,946,211	59,707,387
End of year					\$ 30,668,264	\$ 29,755,921	\$ 60,424,185

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Total governmental funds
Assets:		
Cash and cash equivalents	\$ 1,057,688	\$ 1,057,688
Cash and cash equivalents, restricted	134,233	134,233
Certificates of deposit	5,020,744	5,020,744
Accounts receivable	39,518	39,518
Taxes receivable	396,727	396,727
Due from other governments	463,652	463,652
Inventory	67,220	67,220
Prepaid expenses and deposits	41,764	41,764
Total assets	\$ 7,221,546	\$ 7,221,546
Liabilities:		
Accounts payable and accrued expenses	\$ 262,891	\$ 262,891
Accrued payroll and related benefits	84,503	84,503
Due to other funds	4,759	4,759
Payable from restricted assets refundable deposits	115,850	115,850
Total liabilities	468,003	468,003
Deferred inflows of resources, unavailable revenue	247,634	247,634
Fund balances:		
Nonspendable	108,984	108,984
Restricted	18,383	18,383
Committed	206,636	206,636
Assigned	5,139,565	5,139,565
Unassigned	1,032,341	1,032,341
Total fund balances	6,505,909	6,505,909
Total liabilities and fund balances	\$ 7,221,546	\$ 7,221,546

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, 2021

Total fund balances, governmental funds	\$ 6,505,909
Amounts reported for governmental activities in the statement of net position are different because:	
Revenues are recognized in the period for which earned rather than when "available." A portion of revenues are not an available financial resources and therefore are not reported in the fund financial statements.	247,634
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	26,016,241
Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	(904,307)
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.	(1,085,043)
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>(112,170)</u>
Total net position of governmental activities	<u><u>\$ 30,668,264</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, 2021

	General Fund	Total governmental funds
Revenues:		
Taxes	\$ 4,141,629	\$ 4,141,629
Licenses and permits	258,126	258,126
Intergovernmental	1,876,313	1,876,313
Charges for services	350,468	350,468
Income:		
Rental	16,800	16,800
Interest	62,742	62,742
Miscellaneous	128,747	128,747
	6,834,825	6,834,825
Total revenues		
Expenditures:		
General government	858,292	858,292
Planning and zoning	208,839	208,839
Public safety:		
Police	1,459,441	1,459,441
Volunteer Fire Company	206,443	206,443
Public works:		
Highways and streets	566,367	566,367
Solid waste collection	498,049	498,049
Parks and recreation	300,954	300,954
Economic development	251,374	251,374
Miscellaneous	473,395	473,395
Capital outlays	2,486,485	2,486,485
	7,309,639	7,309,639
Total expenditures		
Net changes in fund balances		
	(474,814)	(474,814)
Fund balances:		
Beginning of year	6,980,723	6,980,723
	\$ 6,505,909	\$ 6,505,909
End of year		

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, 2021

Net changes in fund balances, total governmental funds **\$ (474,814)**

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	2,486,485
Less depreciation expense	(1,598,400)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (3,555)

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. 434,094

In the statement of activities, revenues are recognized when they are earned and received. In the governmental funds, revenues are recognized as income if they are available to satisfy current obligations. This is the amount of the change in deferred inflows of resources in the governmental funds which is recognized as revenue in the statement of activities. 247,634

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	16,089
Deferred outflows of resources relating to:	
Pensions	673,005
Other postemployment benefits	105,221
Net pension liability	(777,138)
Total other postemployment benefits liability	(152,040)
Deferred inflows of resources relating to:	
Pensions	(87,050)
Other postemployment benefits	37,557

Changes in net position of governmental activities **\$ 907,088**

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

	Water and Sewer Fund	Total proprietary funds
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,026,361	\$ 2,026,361
Cash and cash equivalents, restricted	56,835	56,835
Certificates of deposit	1,263,492	1,263,492
Accounts receivable	9,556	9,556
Unbilled services	676,207	676,207
Due from other funds	4,759	4,759
Inventory	31,752	31,752
Prepaid expenses and deposits	10,148	10,148
	4,079,110	4,079,110
Total current assets		
Noncurrent assets:		
Certificates of deposit	2,651,852	2,651,852
Property and equipment:		
Construction in progress	194,818	194,818
Land and land rights	1,438,848	1,438,848
Buildings and improvements	23,678,178	23,678,178
Equipment	676,180	676,180
Infrastructure	24,630,559	24,630,559
Vehicles	485,621	485,621
	51,104,204	51,104,204
Less accumulated depreciation	22,591,075	22,591,075
	28,513,129	28,513,129
Total noncurrent assets		
	31,164,981	31,164,981
Total assets	35,244,091	35,244,091
Deferred outflows of resources:		
Deferred amounts from:		
Pensions	193,273	193,273
Other postemployment benefits	51,030	51,030
	244,303	244,303
Total deferred outflows of resources	244,303	244,303
Total assets and deferred outflows of resources	\$ 35,488,394	\$ 35,488,394

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

	Water and Sewer Fund	Total proprietary funds
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 191,388	\$ 191,388
Accrued:		
Payroll and related benefits	19,643	19,643
Interest payable	22,065	22,065
Current portion of bonds payable (net of premiums)	336,841	336,841
Payable from restricted assets, due to other governments	56,835	56,835
	626,772	626,772
Total current liabilities		
Noncurrent liabilities:		
Accrued compensated absences	41,388	41,388
Net pension liability	474,871	474,871
Total other postemployment benefits liability	421,149	421,149
Bonds payable (net of premiums)	3,928,709	3,928,709
	4,866,117	4,866,117
Total noncurrent liabilities		
Total liabilities	5,492,889	5,492,889
 Deferred inflows of resources:		
Deferred amounts from:		
Pensions	97,060	97,060
Other postemployment benefits	142,524	142,524
	239,584	239,584
Total deferred inflows of resources	239,584	239,584
 Net position:		
Net investment in capital assets	24,247,579	24,247,579
Unrestricted	5,508,342	5,508,342
	29,755,921	29,755,921
Total net position	29,755,921	29,755,921
Total liabilities, deferred inflows of resources and net position	\$ 35,488,394	\$ 35,488,394

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, 2021

	Water and Sewer Fund	Total proprietary funds
Operating revenues:		
Charges for services	\$ 2,694,925	\$ 2,694,925
Other revenues	77,331	77,331
	2,772,256	2,772,256
Operating expenses:		
Depreciation	1,311,659	1,311,659
Insurance	56,257	56,257
Other administrative expenses	29,912	29,912
Payroll taxes and fringe benefits	277,129	277,129
Repairs and maintenance	497,668	497,668
Salaries and wages	612,976	612,976
Supplies and materials	188,433	188,433
Utilities	286,748	286,748
	3,260,782	3,260,782
Total operating expenses	3,260,782	3,260,782
Operating loss	(488,526)	(488,526)
Nonoperating revenues (expenses):		
Connection charges	173,000	173,000
Intergovernmental	36,000	36,000
Interest income	78,378	78,378
Rental income	51,316	51,316
Interest expense and fiscal charges	(135,589)	(135,589)
	203,105	203,105
Total nonoperating revenues (expenses)	203,105	203,105
Net loss before capital contributions	(285,421)	(285,421)
Capital contributions	95,131	95,131
	(190,290)	(190,290)
Changes in net position	(190,290)	(190,290)
Net position:		
Beginning of year	29,946,211	29,946,211
	\$ 29,755,921	\$ 29,755,921
End of year	\$ 29,755,921	\$ 29,755,921

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	Water and Sewer Fund	Total proprietary funds
Cash flows from operating activities:		
Inflows:		
Cash received from customers	\$ 2,814,126	\$ 2,814,126
Rental income received	51,316	51,316
	2,865,442	2,865,442
Outflows:		
Cash paid to:		
Suppliers	1,316,395	1,316,395
Employees	599,648	599,648
	1,916,043	1,916,043
Net cash provided by operating activities:	949,399	949,399
Cash flows from non-capital financing activities:		
Inflows:		
Cash received from other:		
Funds	9,141	9,141
Government	36,000	36,000
	45,141	45,141
Net cash provided by non-capital financing activities	45,141	45,141
Cash flows from capital and related financing activities:		
Inflows:		
Capital contributions	95,131	95,131
Connection fees received	173,000	173,000
	268,131	268,131
Outflows:		
Interest paid	136,837	136,837
Purchase of capital assets	1,068,899	1,068,899
Payments on long-term debt	331,341	331,341
	1,537,077	1,537,077
Net cash used by capital and related financing activities	(1,268,946)	(1,268,946)
Cash flows from investing activities:		
Inflows, interest received	78,378	78,378
Outflows, purchase of certificate of deposit	67,336	67,336
	11,042	11,042
Net cash provided by investing activities	11,042	11,042
Net decrease in cash and cash equivalents	(263,364)	(263,364)
Cash and cash equivalents:		
Beginning of year	2,346,560	2,346,560
End of year	\$ 2,083,196	\$ 2,083,196

(continued)

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2021

	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	\$ 2,026,361	\$ 2,026,361
Cash and cash equivalents, restricted	56,835	56,835
Cash and cash equivalents, end of year	\$ 2,083,196	\$ 2,083,196
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (488,526)	\$ (488,526)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,311,659	1,311,659
Rental income	51,316	51,316
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	35,313	35,313
Unbilled services	6,557	6,557
Inventory	(12,138)	(12,138)
Prepaid expenses	(5,648)	(5,648)
Deferred amounts from:		
Pensions	7,231	7,231
Other postemployment benefits	(43,343)	(43,343)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	7,443	7,443
Accrued payroll and related benefits	3,834	3,834
Due to other governments	3,190	3,190
Accrued compensated absences	9,494	9,494
Net pension liability	(27,027)	(27,027)
Total other postemployment benefits liability	65,355	65,355
Deferred amounts from:		
Pensions	40,833	40,833
Other postemployment benefits	(16,144)	(16,144)
Net cash provided by operating activities	\$ 949,399	\$ 949,399
Noncash capital and related financing activities:		
Removal of CIP projects to inventory and expense	\$ 20,108	\$ 20,108

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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, 2021

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, 2021

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, 2021

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 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, 2021

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, 2021

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.

Unavailable revenues:

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

Accrued compensated absences:

The Town permits employees to accumulate unused vacation time to a maximum of 160 hours, earned equally from each pay based on the employee's length of service. Upon termination from employment, an employee will be paid for annual vacation leave accumulated to the date of separation up to 160 hours, plus any accumulated annual 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, 2021

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, 2021

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, 2021. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

Property tax calendar:

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, 2021 were \$0.1662 and \$0.41, respectively, per \$100 assessed property value.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

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

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.

Adoption of new GASB pronouncements:

The following summarizes GASB statements implemented by the Town during the year ended June 30, 2021 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 84, *Fiduciary Activities*. The requirements of this Statement will enhance consistency and comparability by 1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and 2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability will enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The provisions of this statement were implemented by the Town as of July 1, 2020, with no effect on the financial statements presentation or disclosure.

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*. The objectives of this Statement are to 1) increase consistency of financial report of defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans, and 2) enhance the relevance, consistency and comparability of the information related to Internal Revenue Code Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans, and investment information for all Section 457 plans. The provisions of this Statement were early implemented by the Town as of July 1, 2020, with no effect on the financial statements presentation disclosure.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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

New GASB pronouncement:

The GASB issued a pronouncement prior to the year ended June 30, 2021 that has an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statement may have on the Town's financial statements:

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.

2. Deposits:

The deposits held as of June 30, 2021 were as follows:

<u>Type</u>	<u>Interest rate</u>	<u>Maturities</u>	<u>Carrying value</u>
Deposits:			
Cash on hand			\$ 300
Demand deposits	0.00% - 0.77%		3,274,817
Certificates of deposit	0.05% - 2.00%	9/23/2021 - 6/29/2026	<u>8,936,088</u>
			<u>\$ 12,211,205</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

2. Deposits (continued):

Reconciliation to statement of net position:

Current assets:

Cash and cash equivalents:

Unrestricted	\$ 3,084,049
Restricted	<u>191,068</u>

Total cash and cash equivalents	3,275,117
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Certificates of deposit	<u>5,769,492</u>
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Total current assets	9,044,609
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Noncurrent assets, certificates of deposit	<u>3,166,596</u>
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Total current and noncurrent assets	<u><u>\$ 12,211,205</u></u>
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Restricted cash and cash equivalents as of June 30, 2021 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Bay restoration collections		\$ 56,835
Planning and zoning escrow and other deposits	\$ 115,850	
Police asset forfeiture	<u>18,383</u>	
	<u><u>\$ 134,233</u></u>	<u><u>\$ 56,835</u></u>

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

2. Deposits (continued):

Custodial credit risks:

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$12,363,324 as of June 30, 2021, \$9,075,587 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 five years. Certificates of deposit fall into the category that the holding period is to up to five years. Maturities of certificates of deposit held at June 30, 2021 are provided in the schedule above. Some of the Town's certificates of deposit accounts were purchased through the Certificate of Deposit Account Registry Service, which are fully collateralized through several banks across the United States, which complies with the Town's investment policy.

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, collateralized certificates of deposit and Local Government Investment Trust. As of June 30, 2021, the Town had no concentration of credit risk.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

3. Capital assets and depreciation:

A summary of governmental activities follows:

	Balance July 01, 2020	Increases	Decreases	Transfer	Balance June 30, 2021
Governmental activities:					
Non-depreciable assets:					
Construction in progress	\$ 1,351,728	\$ 2,121,362		\$ (790,630)	\$ 2,682,460
Land and land rights	2,103,177	434,094			2,537,271
Total non-depreciable assets	<u>3,454,905</u>	<u>2,555,456</u>		<u>(790,630)</u>	<u>5,219,731</u>
Depreciable assets:					
Buildings and improvements	5,588,134	86,273	\$ 2,183	90,100	5,762,324
Equipment	3,278,156	147,606	7,606	62,237	3,480,393
Infrastructure	36,637,803	69,271		638,293	37,345,367
Vehicles	1,058,510	61,973			1,120,483
Total depreciable assets	<u>46,562,603</u>	<u>365,123</u>	<u>9,789</u>	<u>790,630</u>	<u>47,708,567</u>
Total capital assets	<u>50,017,508</u>	<u>2,920,579</u>	<u>9,789</u>	<u>-</u>	<u>52,928,298</u>
Accumulated depreciation:					
Buildings and improvements	1,218,262	118,722	691		1,336,293
Equipment	1,516,907	227,846	5,543		1,739,210
Infrastructure	22,089,106	1,118,049			23,207,155
Vehicles	495,616	133,783			629,399
Total accumulated depreciation	<u>25,319,891</u>	<u>1,598,400</u>	<u>6,234</u>		<u>26,912,057</u>
Total capital assets, net	<u>\$ 24,697,617</u>	<u>\$ 1,322,179</u>	<u>\$ 3,555</u>	<u>\$ -</u>	<u>\$ 26,016,241</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

3. Capital assets and depreciation (continued):

Depreciation expense for the year ended June 30, 2021 charged to governmental activities was as follows:

General government	\$ 126,755
Public safety	159,543
Public works	1,209,242
Parks and recreation	95,434
Economic development	7,426
	<hr/>
	\$ 1,598,400
	<hr/> <hr/>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

3. Capital assets and depreciation (continued):

A summary of business-type activities follows:

	Balance July 01, 2020	Increases	Decreases	Transfer	Balance June 30, 2021
Business-type activities:					
Non-depreciable assets:					
Construction in progress	\$ 286,678	\$ 1,024,185		\$ (1,116,045)	\$ 194,818
Land and land rights	1,438,848				1,438,848
Total non-depreciable assets	<u>1,725,526</u>	<u>1,024,185</u>		<u>(1,116,045)</u>	<u>1,633,666</u>
Depreciable assets:					
Buildings and improvements	23,234,046	3,419		440,713	23,678,178
Equipment	676,180				676,180
Infrastructure	23,978,802	4,861	\$ 8,328	655,224	24,630,559
Vehicles	485,621				485,621
Total depreciable assets	<u>48,374,649</u>	<u>8,280</u>	<u>8,328</u>	<u>1,095,937</u>	<u>49,470,538</u>
Total capital assets	<u>50,100,175</u>	<u>1,032,465</u>	<u>8,328</u>	<u>(20,108)</u>	<u>51,104,204</u>
Accumulated depreciation:					
Buildings and improvements	10,798,162	591,577			11,389,739
Equipment	499,344	34,415			533,759
Infrastructure	9,710,613	651,676	8,328		10,353,961
Vehicles	279,625	33,991			313,616
Total accumulated depreciation	<u>21,287,744</u>	<u>1,311,659</u>	<u>8,328</u>		<u>22,591,075</u>
Total capital assets, net	<u>\$ 28,812,431</u>	<u>\$ (279,194)</u>	<u>\$ -</u>	<u>\$ (20,108)</u>	<u>\$ 28,513,129</u>

Depreciation expense for the year ended June 30, 2021 charged to business-type activities for the Water and Sewer Fund totaled \$1,311,659.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

4. Long-term liabilities:

Bonds payable as of June 30, 2021 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 \$254,500 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 2.53% to 3.42%.	\$ 3,226,800
CDA, Infrastructure Bonds 2012 Refunding:	
\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$79,300 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 2.53% to 3.42%.	<u>1,005,300</u>
Total bonds payable	<u><u>\$ 4,232,100</u></u>

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

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

Type of long-term liability	Balance July 01, 2020	Additions	Reductions	Balance June 30, 2021	Due within one year
Governmental activities, accrued compensated absences	<u>\$ 128,259</u>		<u>\$ 16,089</u>	<u>\$ 112,170</u>	
Business-type activities:					
Bonds and loan payable:					
CDA, Infrastructure Bonds 2012	\$ 3,477,100		\$ 250,300	\$ 3,226,800	\$ 254,500
CDA, Infrastructure Bonds 2012 Refunding	<u>1,083,300</u>		<u>78,000</u>	<u>1,005,300</u>	<u>79,300</u>
	4,560,400		328,300	4,232,100	333,800
Bond premiums	<u>36,491</u>		<u>3,041</u>	<u>33,450</u>	<u>3,041</u>
Total bonds and loan payable	4,596,891		331,341	4,265,550	336,841
Accrued compensated absences	<u>31,894</u>	<u>\$ 9,494</u>		<u>41,388</u>	
Total business-type activities	<u>\$ 4,628,785</u>	<u>\$ 9,494</u>	<u>\$ 331,341</u>	<u>\$ 4,306,938</u>	<u>\$ 336,841</u>

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

4. Long-term liabilities (continued):

Interest and related costs incurred for business-type activities for the year ended June 30, 2021 was \$135,589, all of which was expensed.

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

Years ending <u>June 30</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 333,800	\$ 129,759
2023	342,000	121,314
2024	350,500	112,593
2025	357,800	103,726
2026	368,000	94,494
2027 - 2031	2,032,500	289,571
2032	<u>447,500</u>	<u>15,306</u>
	<u>\$ 4,232,100</u>	<u>\$ 866,763</u>

5. Net position and fund balances:

Nonspendable fund balance in the General Fund as of June 30, 2021 is limited to inventory totaling \$67,220 and prepaid expenses of \$41,764.

Restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2021 is limited to police asset forfeitures totaling \$18,383. 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, 2021:

Center Street improvements	\$ 71,716
Parks fee-in-lieu	<u>134,920</u>
	<u>\$ 206,636</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

5. Net position and fund balances (continued):

The following is a summary of General Fund assigned fund balances as of June 30, 2021:

Capital improvements	\$ 3,508,402
Future land acquisition	367,370
Park reserve	402,691
Police	5,745
Sidewalk improvements	9,600
Street and road repair	772,405
Truck and equipment replacement	<u>73,352</u>
	<u>\$ 5,139,565</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, 2021 is as follows:

Designated:	
Water system expansion	\$ 168,174
Well system:	
Expansion	1,263,492
Capital improvement	766,660
Sewerage system reserve	9,384
Treatment plant expansion	<u>3,127,183</u>
Total designated	5,334,893
Undesignated	<u>173,449</u>
	<u>\$ 5,508,342</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

6. 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:

2022	\$ 75,679
2023	75,664
2024	52,803
2025	54,387
2026	<u>2,269</u>
	<u>\$ 260,802</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 May 2023 and July 2026. Lease revenues generated for the year ended June 30, 2021 were \$51,316, 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, 2021 was \$16,800, all of which was recognized in the General Fund. The lease is expected to provide future minimum lease receipts in the General Fund of \$14,000 for the year ending June 30, 2022. The cost of the leased property, presented in buildings and improvements, was \$38,311 with accumulated depreciation of \$3,320 as of June 30, 2021.

7. Operating leases:

The Town leases a building for the police department, with monthly lease payments of \$3,984. The original lease term expired in April 2021. The Town did not renew the lease under the original term and is instead renting on a monthly basis. Rent expense recognized for the year ended June 30, 2021 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 thru February 2023. Rent expense under these agreements was \$17,327 for the year ended June 30, 2021.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

7. Operating leases (continued):

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

2022	\$ 5,519
2023	<u>3,679</u>
	<u>\$ 9,198</u>

8. 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).

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/2020_msrps_cafr-web_final.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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

8. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

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

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

8. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

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, 2021 was 10.24% 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 \$155,931 for the year ended June 30, 2021.

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.

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/2020_msrrps_cafweb_final.pdf

Benefits provided - The LEOPS plan provides retirement, disability and death benefits. 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

8. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

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 year 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, but not in performance of duty equals 50% of the applicable ordinary disability allowance. The special death benefit provided upon death in the performance of duty equals 66.67% of the applicable ordinary disability allowance.

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, 2021 was 34.93% 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 \$100,205 for the year ended June 30, 2021.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

8. Pension plans (continued):

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

At June 30, 2021, the Town reported a liability of \$2,400,924 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Town's proportion was 0.0106%, which was an increase of 0.0026% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$343,489. At June 30, 2021, 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		\$ 60,917
Changes of assumptions	\$ 6,917	35,331
Net difference between projected and actual earnings on pension plan investments	184,008	
Changes in Town's proportionate share of contributions	981,646	214,500
Town contributions subsequent to the measurement date	256,136	
Total	\$ 1,428,707	\$ 310,748

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

8. Pension plans (continued):

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

The Town reported \$256,136 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, 2022. 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:

2022	\$ 194,273
2023	218,079
2024	227,854
2025	242,474
2026	<u>(20,857)</u>
	<u>\$ 861,823</u>

Actuarial assumptions - The total pension liability in the June 30, 2020 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 11.60%, 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, 2020 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, 2021

8. 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:

Asset class	Target allocation	Long-term expected real rate of return
Public equity	37%	5.2%
Private equity	13%	6.5%
Rate sensitive	19%	-0.3%
Credit opportunity	9%	2.8%
Real assets	14%	4.3%
Absolute return	8%	1.8%
	100%	

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

8. 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	\$ 3,418,103	\$ 2,400,924	\$ 1,553,708

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

9. 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, 2021

9. 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, 2021.

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, 2021, the Town reimbursed premium costs of \$13,144 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 \$1,242,584 was measured at June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019.

Actuarial assumptions and other inputs - The total OPEB liability in the July 1, 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/MP2019

The discount rate of 2.45% for the June 30, 2020 calculation was based on the municipal bond index as of June 30, 2020.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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

Changes in the total OPEB liability:

	Total OPEB liability
Balance at June 30, 2020	\$ 1,025,189
Changes for the year:	
Service cost	40,794
Interest	31,823
Experience gains	(3,087)
Changes in assumptions	161,706
Benefit payments	(13,841)
Net changes	217,395
Balance at June 30, 2021	\$ 1,242,584

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13% for June 30, 2020 to 2.45% for June 30, 2021.

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 (1.45%) or one-percentage-point higher (3.45%) than the current discount rate:

	1% decrease (1.45%)	Current discount rate (2.45%)	1% increase (3.45%)
Total OPEB Liability	\$ 1,537,533	\$ 1,242,584	\$ 1,013,824

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

9. 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	\$ 983,970	\$ 1,242,584	\$ 1,602,211

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

For the year ended June 30, 2021, the Town recognized OPEB expense of \$28,274. At June 30, 2021, 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		\$ 392,272
Changes of assumptions	\$ 165,054	141,028
Town contributions subsequent to the measurement date	13,144	
Total	\$ 178,198	\$ 533,300

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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

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

The Town reported \$13,144 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, 2022. 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:

2022	\$ (41,630)
2023	(41,630)
2024	(41,630)
2025	(41,630)
2026	(41,630)
Thereafter	<u>(160,096)</u>
	<u>\$ (368,246)</u>

10. 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 for two active employees were \$29,229 for the year ended June 30, 2021.

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.

11. 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, 2021, 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, 2021

11. Commitments and contingencies (continued):

The Town has active construction projects and is committed under the following contracts for major projects, as of June 30, 2021:

Project	Type of project	Contract amount	Amount of contract not incurred at June 30, 2021
Governmental activities:			
South Main Street Roundabout	Engineering	\$ 195,110	\$ 145,000
Restoration of East/West Stormwater Pond - shared with Carroll County	Construction	542,729	123,940
Town view stormwater management pond	Engineering	154,564	82,663
Business-type activities:			
Wastewater treatment plant sludge building addition	Engineering	86,250	17,957
Wastewater treatment plant sludge building addition	Construction	599,000	599,000
Water main replacement for Center Street	Engineering	146,375	21,504
Water main replacement for Center Street	Construction	963,754	963,754

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%. The five-year agreement expired as of June 30, 2020, and all parties agreed to continue the agreement terms through annual extensions until they finalize the Fifth Generation Permit. Under the agreement terms, the Town's portion for these costs were \$82,168 for the year ended June 30, 2021, and \$47,320 for fiscal year 2022. Both these costs 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, 2021

12. Risks & uncertainties:

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, 2021, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

14. Subsequent events:

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 21, 2021, the date the financial statements were available to be issued.

In September 2021, the Town finalized the purchase of the CSX property related to the Rails to Trails - West of Main Street project for \$870,253. A down-payment of \$86,000 was made during fiscal year 2021, and the remaining purchase price of the property of \$784,253 was paid subsequent to year-end.

TOWN OF MOUNT AIRY, MARYLAND

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021
(UNAUDITED)

	Original budget	Final budget	Actual	Variance
Revenues:				
Taxes	\$ 3,861,630	\$ 3,861,630	\$ 4,141,629	\$ 279,999
Licenses and permits	146,025	146,025	258,126	112,101
Intergovernmental	3,281,220	2,215,218	1,876,313	(338,905)
Charges for services	428,900	428,900	350,468	(78,432)
Income:				
Rental	16,800	16,800	16,800	-
Interest	60,000	60,000	62,742	2,742
Miscellaneous	15,000	36,000	128,747	92,747
Total revenues	7,809,575	6,764,573	6,834,825	70,252
Expenditures:				
General government	910,411	922,411	858,292	64,119
Planning and zoning	239,125	248,125	208,839	39,286
Public safety:				
Police	1,669,951	1,669,951	1,459,441	210,510
Volunteer Fire Company	206,443	206,443	206,443	-
Public Works				
Highways and streets	514,500	514,500	566,367	(51,867)
Solid waste collection	501,303	501,303	498,049	3,254
Parks and recreation	324,400	324,400	300,954	23,446
Economic development	241,215	241,215	251,374	(10,159)
Miscellaneous	484,318	484,318	473,395	10,923
Capital outlays	5,061,327	2,601,827	2,486,485	115,342
Total expenditures	10,152,993	7,714,493	7,309,639	404,854
Net changes in fund balances	(2,343,418)	(949,920)	(474,814)	475,106
Fund balances:				
Beginning of year	6,980,723	6,980,723	6,980,723	-
End of year	\$ 4,637,305	\$ 6,030,803	\$ 6,505,909	\$ 475,106

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST 7 FISCAL YEARS *
(UNAUDITED)

	2021	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0106%	0.0080%	0.0066%	0.0052%	0.0056%	0.0058%	0.0050%
Town's proportionate share of the net pension liability	\$ 2,400,924	\$ 1,650,813	\$ 1,375,898	\$ 1,134,768	\$ 1,332,726	\$ 1,206,943	\$ 886,407
Town's covered payroll	\$ 2,052,759	\$ 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	116.96%	90.40%	90.07%	85.24%	103.31%	95.94%	76.15%
Plan fiduciary net position as a percentage of the total pension liability	70.72%	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.

	2021	2020	2019	2018	2017	2016	2015
Mortality table	Pub-2010/ MP2018	Pub-2010/ MP2018	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment return	7.40%	7.40%	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	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>
2021	\$ 256,136	\$ (256,136)		\$ 2,014,780	12.7%
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%

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 4 FISCAL YEARS *
(UNAUDITED)

	2021	2020	2019	2018
Total OPEB liability:				
Service cost	\$ 40,794	\$ 54,142	\$ 52,633	\$ 50,814
Interest	31,823	49,286	46,336	40,561
Experience gains	(3,087)	(459,256)	(8,969)	-
Differences between expected and actual experience	161,706	20,188	(11,092)	(199,064)
Benefit payments	(13,841)	(10,745)	(12,231)	(21,200)
	217,395	(346,385)	66,677	(128,889)
Total OPEB liability:				
Beginning of year	1,025,189	1,371,574	1,304,897	1,433,786
End of year	\$ 1,242,584	\$ 1,025,189	\$ 1,371,574	\$ 1,304,897
Covered employee payroll	\$ 694,638	\$ 735,155	\$ 873,724	\$ 877,763
Total OPEB liability as a percentage of covered employee payroll	178.88%	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:

2021	2.45%
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.