



YEAR ENDED JUNE 30, 2022



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

	Page
Independent auditor's report	1-3
Required supplementary information:	
Management's discussion and analysis (unaudited)	4-15
Basic financial statements:	
Government-wide financial statements:	
Statement of net position	16-17
Statement of activities	18
Fund financial statements:	
Balance sheet - governmental funds	19
Reconciliation of the balance sheet - governmental funds to the statement of net position	20
Statement of revenues, expenditures and changes in fund balances - governmental funds	21
Reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities	22
Statement of net position - proprietary funds	23-24
Statement of revenues, expenses and changes in fund net position - proprietary funds	25
Statement of cash flows - proprietary funds	26-27
Notes to financial statements	28-60

TOWN OF MOUNT AIRY, MARYLAND

YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS (CONTINUED)

	Page
Required supplementary information:	
Budgetary comparison schedule - general fund (unaudited)	61
Schedule of the Town's proportionate share of the net pension liability (unaudited)	62
Schedule of Town contributions (unaudited)	63
Schedule of changes in the Town's total other postemployment benefits (OPEB) liability and related ratios (unaudited)	64

Independent Auditor's Report

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

Opinions

We have audited the 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, 2022 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements to be relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 2 of the financial statements, the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matter that we identified during the audit.

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 4 through 15 and 61 through 64, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 Steindler & Fritz

Westminster, Maryland
October 14, 2022

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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, 2022. 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 2022 by \$63,982,961 (total net position). Of this amount, \$32,725,222 was for governmental activities and \$31,257,739 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$10,046,464; \$5,020,710 for governmental activities and \$5,025,754 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 \$2,056,958, and business-type activities (the Water & Sewer Fund) increased by \$1,501,818, resulting in a \$3,558,776 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, 2022, the total liabilities and fund balances for governmental funds were \$8,648,336. This is an increase of \$1,426,790 from Fiscal Year 2021.
- At the close of Fiscal Year 2022, the Town's governmental fund reported an ending fund balance of \$6,040,311, a decrease of \$465,598 from Fiscal Year 2021. This information may be reviewed on the Statement of Revenues, Expenditures and Changes in Fund Balance.
- The Town received their first disbursement of \$4,659,292 from the American Rescue Plan Act (ARPA) in early August 2021. At June 30, 2022, the General Fund has \$600,000 of the funds designated for capping and readying the CSX property for the Rails to Trails – West of Main project. The rest of the funds are being used for capital water & sewer infrastructure projects. As a result of receiving Coronavirus State and Local Fiscal Recovery Funds otherwise known as the ARPA funds the Town underwent an examination on the spending, which resulted in an opinion that the Town complied, in all material respects, with the specified requirements during the fiscal year ending June 30, 2022.
- 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 \$14 million. Of this amount \$2,407,343 was the remaining ARPA funds not disbursed by the end of Fiscal Year 2022. 41% of this amount is invested in certificates of deposit earning interest rates from 0.10% to 2.00%. You can find this information in the Notes to Financial Statements, Note 3 – Deposits.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

- 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 2022:
 - The Old Main Line Central Branch Trail Grant was obtained for Rails to Trails, East of Main in the amount of \$92,287.65. This grant partially funded the construction of a new boardwalk and storm water management project.
 - The State of Maryland Department of General Services Grant for \$300,000 partially funded the purchase of the CSX property for Rails to Trails, West of Main.
 - Ava's T21 Foundation provided the Town with a grant in the amount of \$20,000 to partially fund Phase II of the all-inclusive playground at Watkins Park.
 - The Mount Airy Police Department (MAPD) received several grants: \$5,000 from Local Government Insurance Trust and \$42,098 from the State of Maryland Grant from the Governor's Office of Crime Prevention, Youth & Victim Services for the direct purchase of body worn camera equipment, software and three-year warranty; \$4,667 from the Motor Vehicle Administration for Impaired & Aggressive Driving Grant, Occupant Protection Grant and Speed Enforcement Grant.
 - The Town received a pass-through grant from the Maryland Department of Housing & Community Development Historic Trust in the amount of \$8,090 for façade improvements to the downtown area. The funds were then paid to two businesses: \$3,015 to Firefly Fixins, LLC at 206 South Main Street, and \$5,075 to VFW-MD 10076 at 107 South Main Street, both located on Main Street.
- The Water and Sewer Fund ended Fiscal Year 2022 with a \$981,098 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 \$1,313,132.
- The Town's Water and Sewer Fund long-term liability balance including compensated absences was \$3,968,743, a net decrease of \$338,195 from Fiscal Year 2021. This information can be reviewed in the Notes to Basic Financial Statements, Note 6 – Long-Term Liabilities.
- The Town received a Bay Restoration Fund Grant in the amount of \$59,615 for Enhanced Nutrient Removal (ENR) operating and maintenance expenses. This was an increase of \$23,615 from Fiscal Year 2021. 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.
- Effective July 1, 2021, the Town implemented Governmental Accounting Standards Board Statement No. 87, *Leases*. At June 30, 2022, this resulted in a lease receivable of \$46,292 and \$966,808 and related deferred inflows of \$46,292 and \$945,200 in the General and Water and Sewer Funds, respectively. The General Fund leases a portion of the train station while the Water and Sewer Fund has a couple of leases related to use of the water tower.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serve 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.

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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

- 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.

GOVERNMENT WIDE FINANCIAL ANALYSIS

The following is selected information as of June 30, 2022, and for the previous year ended, which is provided for comparison purposes. The Information for the year ended June 30, 2021, is restated for the retrospective implementation of GASB Statement No. 87, *Leases*. A summary of the Town's Statement of Net Position is as follows:

	Fiscal Year 2022			Fiscal Year 2021, As Restated		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
Assets						
Current & Other Assets	\$ 8,648,336	\$ 9,449,420	\$ 18,097,756	\$ 7,230,687	\$ 7,731,234	\$ 14,961,921
Capital Assets	\$ 27,707,323	\$ 30,151,536	\$ 57,858,859	\$ 26,016,241	\$ 28,513,129	\$ 54,529,370
Total Assets	\$ 36,355,659	\$ 39,600,956	\$ 75,956,615	\$ 33,246,928	\$ 36,244,363	\$ 69,491,291
Deferred Outflows of Resources	\$ 1,449,916	\$ 240,587	\$ 1,690,503	\$ 1,362,602	\$ 244,303	\$ 1,606,905
Total Assets and Deferred Outflows of Resources	\$ 37,805,575	\$ 39,841,543	\$ 77,647,118	\$ 34,609,530	\$ 36,488,666	\$ 71,098,196
Liabilities						
Current Liabilities	\$ 1,414,320	\$ 2,907,830	\$ 4,322,150	\$ 463,244	\$ 626,772	\$ 1,090,016
Long-Term Liabilities	\$ 2,325,952	\$ 4,314,584	\$ 6,640,536	\$ 2,859,658	\$ 4,866,117	\$ 7,725,775
Total Liabilities	\$ 3,740,272	\$ 7,222,414	\$ 10,962,686	\$ 3,322,902	\$ 5,492,889	\$ 8,815,791
Deferred Inflows of Resources	\$ 1,340,081	\$ 1,361,390	\$ 2,701,471	\$ 618,364	\$ 1,239,856	\$ 1,858,220
Net Position						
Net Investment in Capital Assets	\$ 27,690,874	\$ 26,222,827	\$ 53,913,701	\$ 26,016,241	\$ 24,247,579	\$ 50,263,820
Restricted	\$ 13,638	\$ 9,158	\$ 22,796	\$ 18,383	\$ -	\$ 18,383
Unrestricted	\$ 5,020,710	\$ 5,025,754	\$ 10,046,464	\$ 4,633,640	\$ 5,508,342	\$ 10,141,982
Total Net Position	\$ 32,725,222	\$ 31,257,739	\$ 63,982,961	\$ 30,668,264	\$ 29,755,921	\$ 60,424,185

The Town's total net position increased by 6% (\$63,982,961 compared to \$60,424,185).

Total assets increased by 9% (\$75,956,615 compared to \$69,491,291). The capital assets include land, easements, buildings, infrastructure, equipment, vehicles and construction in progress. The current and other

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

assets include cash and cash equivalents, investments, taxes receivable, lease receivables, accounts receivable, interest receivable, inventory and intergovernmental receivables.

The Town's total liabilities increased by 24% (\$10,962,686 compared to \$8,815,791). Current liabilities include accounts payable and accrued expenses, refundable deposits, unearned revenues, 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 followed by unearned revenues in both governmental activities and business-type activities for ARPA funds received but not expended by the end of the fiscal year.

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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

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

	Fiscal Year 2022			Fiscal Year 2021		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue						
Program Revenues						
Charges for Services	\$ 302,526	\$ 2,657,260	\$ 2,959,786	\$ 482,789	\$ 2,772,256	\$ 3,255,045
Operating Grants and Contributions	\$ 727,920	\$ 59,615	\$ 787,535	\$ 922,575	\$ 36,000	\$ 958,575
Capital Grants and Contributions	\$ 2,107,918	\$ 2,313,148	\$ 4,421,066	\$ 709,822	\$ 95,131	\$ 804,953
General Revenues						
Taxes						
Income Taxes	\$ 2,503,259		\$ 2,503,259	\$ 2,165,971		\$ 2,165,971
Real Property Taxes	\$ 2,031,368		\$ 2,031,368	\$ 1,955,188		\$ 1,955,188
Personal Property Tax	\$ 115,807		\$ 115,807	\$ 136,932		\$ 136,932
Grants, Contributions, and Franchise Fees						
not Restricted to Specific Programs	\$ 949,744		\$ 949,744	\$ 943,886		\$ 943,886
Connection Charges		\$ 125,000	\$ 125,000		\$ 173,000	\$ 173,000
Interest Income and Rent	\$ 35,216	\$ 113,164	\$ 148,380	\$ 79,542	\$ 129,694	\$ 209,236
Miscellaneous	\$ 14,979		\$ 14,979	\$ 119,848		\$ 119,848
Total Revenues	\$ 8,788,737	\$ 5,268,187	\$ 14,056,924	\$ 7,516,553	\$ 3,206,081	\$ 10,722,634
Expenses						
General Government	\$ 1,134,654		\$ 1,134,654	\$ 1,219,990		\$ 1,219,990
Planning & Zoning	\$ 276,938		\$ 276,938	\$ 283,637		\$ 283,637
Public Safety	\$ 2,141,798		\$ 2,141,798	\$ 1,928,350		\$ 1,928,350
Public Works	\$ 2,373,258		\$ 2,373,258	\$ 2,357,295		\$ 2,357,295
Parks and Recreation	\$ 579,052		\$ 579,052	\$ 504,085		\$ 504,085
Economic Development	\$ 226,079		\$ 226,079	\$ 316,108		\$ 316,108
Water & Sewer Services		\$ 3,766,369	\$ 3,766,369		\$ 3,396,371	\$ 3,396,371
	\$ 6,731,779	\$ 3,766,369	\$ 10,498,148	\$ 6,609,465	\$ 3,396,371	\$ 10,005,836
Changes in Net Position	\$ 2,056,958	\$ 1,501,818	\$ 3,558,776	\$ 907,088	\$ (190,290)	\$ 716,798
Net Position at Beginning of Year	\$ 30,668,264	\$ 29,755,921	\$ 60,424,185	\$ 29,761,176	\$ 29,946,211	\$ 59,707,387
Net Position - End of Year	\$ 32,725,222	\$ 31,257,739	\$ 63,982,961	\$ 30,668,264	\$ 29,755,921	\$ 60,424,185

Governmental activities

For the fiscal year ended June 30, 2022, revenues from governmental activities totaled \$8,788,737, which is a 17% increase from the previous year. Most of the governmental general revenue came from income taxes (28%) and real property taxes (23%). A large increase can be observed in the capital grants and contributions category. This increase is attributed to several factors. The contributed capital was mostly from Carroll County for the storm water management facility that was constructed in East-West Park. Carroll County partnered with the

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

Town on this project to satisfy the State of Maryland's storm water management project mandate on the Frederick County side of Town to help clean up the Chesapeake Bay. Carroll County obtained a grant on behalf of the Town that covered approximately 50% of the cost of the project. Grants were received for the following purchases and projects: the purchase of the CSX property for Rails to Trails - West of Main, the boardwalk and storm water management project for Rails to Trails - East of Main and phase II of the all-inclusive park at Watkins Park.

Expenses from governmental activities totaled \$6,731,779. The largest component of expenses, \$2,373,258 (35%), was from Public Works. Public Safety came in next highest at \$2,141,798 (32%).

Business-type activities

Water and Sewer Service charges made up 50% of total business-type revenue, with the next highest being capital grants and contributions at 44%. Expenses increased by 11%. The decrease in charges for services was due to most of the building permit fees for the Brittany Manor sub-division came in Fiscal Year 2021. The large increase in capital grants and contributions was the first disbursement of the ARPA funds the Town received in August 2021. The increase in expenses was due to the water main valve bolt replacement project on Back Acre Circle.

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 2022, the Town's governmental funds reported combined ending fund balance of \$6,040,311, of which \$893,041, or 15%, is unassigned. \$4,796,061, or 79%, is assigned to provide funding for capital improvements, park improvements, 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 \$207,922, which consists of Parks Fee-in-lieu and Center Street Improvements. \$13,638 of the Town's funds are restricted; this is money in the police adjudicated fund, and lastly \$129,649 is listed as non-spendable funds and represents inventory, notes receivable and prepaid expenses.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

Business-type Funds

The Statement of Net Position – Proprietary Funds reports the unrestricted funds for the Water and Sewer Fund total \$5,025,754. 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 7 – Net Position and fund balances.

BUDGET AMENDMENTS ANALYSIS

The original budget for the Town was amended nineteen times during the year. Early in the fiscal year, the Town received the first disbursement of the American Rescue Plan Act (ARPA) funding in the amount of \$4,659,292. These funds were to be used mostly for Water and Sewer infrastructure projects. The capital budget was amended to allocate these funds for projects already included in the budget; the funding changed from the Water and Sewer reserve accounts to the ARPA funds. The remaining budget amendments were mostly for capital improvements purchase and projects. Finally, near the end of the fiscal year the council approved five amendments reducing costs for capital projects that did not move forward as planned in the fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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 \$485,408 less 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 not received by the end of the fiscal year. These grants were for land acquisition as well as grants that did not move forward as soon as expected. Total expenses came in \$1,863,527 less than expected, the largest variance is from capital outlays. Several general fund capital projects and purchases in the roads and parks and recreation departments were delayed or did not move forward before the end of the fiscal year.

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. This lease agreement was renewed in Fiscal Year 2022 for an additional three-year term.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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, 2022, can be found in the Notes to Basic Financial Statements, Note 5. Governmental activities capital assets total \$27,707,323 (net of accumulated depreciation), and the business type activities total \$30,151,536. 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
 - o Two new roof top air condition units at Town Hall at a cost of \$11,712.50 each for a total of \$23,425
- Roads Department
 - o A new rubber tire loader at a cost of \$78,000
 - o New guardrail on Scotch Heather Ave at a cost of \$14,500
 - o Rising Ridge Road intersection improvements for safety at a cost of \$34,805
 - o Sidewalk Project FY2022 Center Street between Cross Street & Lookout Ave at a cost of \$73,621
 - o Handicap ramp improvements on Rising Ridge Road at a cost of \$25,659
 - o Fencing - Storm Pond #34 Wildwood near Jousting Circle at a cost of \$3,980
 - o Storm Water Management Facility - Twin Ridge at a cost of \$1,032,634
 - o Storm Drain Replacement/Rehab Project FY2022 at a cost of \$175,845
 - o Storm Water Management Facility - East-West Pond at a cost of \$1,334,605, that included contributed capital of \$607,625
- Parks Department
 - o Land - CSX Property - Rails to Trails - West of Main at a cost of \$971,762
 - o A new shed for the Community Garden at a cost of \$6,650
 - o New pavilion and lighting for Caboose at a cost of \$116,209, that included contributed capital of \$61,377
 - o A new fountain at Wildwood Park at a cost of \$5,923

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

- New playground equipment – All-inclusive playground phase I – Watkins Park at a cost of \$394,280
 - New playground equipment – All-inclusive playground phase II – Watkins Park at a cost of \$266,731
 - Sidewalk extension at Watkins Park near entrance at a cost of \$15,051
 - A new zero turn mower at a cost of \$9,060
 - Fencing – Summit Ridge Soccer Field at a cost of \$9,435
 - Fencing – Backstop – Summit Ridge Ballfields at a cost of \$6,732
 - Fountain – aerating – Prospect Park at a cost of \$4,902
 - Paving – New Road construction – East-West Park parking lot at a cost of \$87,385
 - Fencing – Prospect Park basketball court – south side at a cost of \$5,635
- Police Department
 - Upfitting for Unmarked Police Car to Marked Police Car at a cost of \$4,905

Water & Sewer Fund

- Dry Pit Submersible Pump – Wilo – WWTP at a cost of \$10,774
- Generator for Sewer Station #1 at a cost of \$57,671
- Pump – Gorman-Rupp for Water Station #3 at a cost of \$3,679
- Pump & Motor for Well#4 Water Station #1 at a cost of \$6,391

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.

- The Town was conveyed land on Rising Ridge Road on December 9, 2000; however, the deed was never received and therefore was not added into our fixed asset inventory. The deed was obtained and recorded by the Town's attorney in FY2022, this land was valued at \$97,538 and is the new site for the Community Garden.

Debt

At year end, the Town's Water and Sewer Department had \$3,928,709 in outstanding debt, compared to \$4,265,550 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.

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Tax Rate for Fiscal Year 2023 will remain the same as Fiscal Year 2022 at .1662 (cents) per \$100 of assessed value. This has been the tax rate for the last six 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.

The Homestead Tax Cap was raised from 0% to 3% in Fiscal Year 2022 and will remain at 3% for Fiscal Year 2023. The 3% cap will begin to increase homeowners taxable assessed value from the value that was "frozen" since Fiscal Year 2000. 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 was 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, Carroll County managed 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 over \$2,100,000 to date to complete this work. The Town's State mandated projects have been completed; however, the Town will continue to pay the cost share to Carroll County for future Storm Water Management projects.

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, upgrading play equipment at Summit Ridge Park and expanding Rails to Trails, just to name a few. Careful consideration as to the benefit of these projects 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

TOWN OF MOUNT AIRY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

Unaudited

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, 2022, the Town is committed to construction projects for: Town View Boardwalk in the amount of \$423,224, Twin Arch park field fencing in the amount of \$38,315, water meter replacement project in the amount of \$913,246 for the purchase of new meters and \$500,000 for the installation, Sanitary Sewer cured-in-place lining projects in the amount of \$935,487, Storm Sewer improvements project in the amount of \$440,647 and Prospect Road water main replacement project in the amount of \$49,450.

The Town received the second disbursement from the American Rescue Plan Act in the amount of \$4,662,275 very soon after Fiscal Year 2022 ended. The funding will be used for water & sewer system and storm water infrastructure projects, as well as the construction of the South Main Street Roundabout. This money will enable the Town to move forward with much needed projects at a considerably faster pace due to not having to consider financing options for these substantial projects.

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 2022, the amount remaining in the General Fund reserves totaled \$4,796,061; Water & Sewer Fund reserves totaled \$4,463,251. 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.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental activities	Business-type activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 2,619,408	\$ 2,667,684	\$ 5,287,092
Cash and cash equivalents, restricted	754,977	2,410,051	3,165,028
Certificate of deposit	2,896,414		2,896,414
Accounts receivable	60,206		60,206
Taxes receivable	511,884		511,884
Lease receivable	16,052	34,020	50,072
Notes receivable	18,745		18,745
Due from other governments	1,238,673		1,238,673
Inventory	70,763	44,368	115,131
Unbilled services		668,276	668,276
Prepaid expenses and deposits	40,141	11,301	51,442
Total current assets	8,227,263	5,835,700	14,062,963
Noncurrent assets:			
Capital assets:			
Construction in progress	1,219,649	3,063,876	4,283,525
Land and land rights	3,606,571	1,438,848	5,045,419
Buildings and improvements	6,014,406	23,748,518	29,762,924
Equipment	4,238,746	625,153	4,863,899
Infrastructure	40,041,019	24,640,630	64,681,649
Vehicles	1,125,388	485,621	1,611,009
	56,245,779	54,002,646	110,248,425
Less accumulated depreciation	28,538,456	23,851,110	52,389,566
Net property and equipment	27,707,323	30,151,536	57,858,859
Certificates of deposit	390,833	2,680,932	3,071,765
Lease receivable	30,240	932,788	963,028
Total noncurrent assets	28,128,396	33,765,256	61,893,652
Total assets	36,355,659	39,600,956	75,956,615
Deferred outflows of resources:			
Deferred amounts from:			
Pensions	1,332,770	194,026	1,526,796
Other postemployment benefits	117,146	46,561	163,707
Total deferred outflows of resources	1,449,916	240,587	1,690,503
Total assets and deferred outflows of resources	\$ 37,805,575	\$ 39,841,543	\$ 77,647,118

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental activities	Business-type activities	Total
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 563,484	\$ 106,464	\$ 669,948
Accrued:			
Payroll and related benefits	99,370	22,199	121,569
Compensated absences	10,127		10,127
Interest payable		20,692	20,692
Current portion of bonds payable (net of premiums)		345,041	345,041
Payable from restricted assets:			
Accounts payable and accrued expenses		533,632	533,632
Due to other governments		56,976	56,976
Refundable deposits	141,339		141,339
Unearned revenues	600,000	1,822,826	2,422,826
	1,414,320	2,907,830	4,322,150
Total current liabilities			
Noncurrent liabilities:			
Accrued compensated absences	114,737	40,034	154,771
Net pension liability	1,449,004	294,846	1,743,850
Total other postemployment benefits liability	762,211	396,036	1,158,247
Bonds payable (net of premiums)		3,583,668	3,583,668
	2,325,952	4,314,584	6,640,536
Total noncurrent liabilities			
Total liabilities	3,740,272	7,222,414	10,962,686
Deferred inflows of resources:			
Deferred amounts from:			
Leases	46,292	945,200	991,492
Pensions	850,617	251,448	1,102,065
Other postemployment benefits	443,172	164,742	607,914
	1,340,081	1,361,390	2,701,471
Total deferred inflows of resources			
Net position:			
Net investment in capital assets	27,690,874	26,222,827	53,913,701
Restricted	13,638	9,158	22,796
Unrestricted	5,020,710	5,025,754	10,046,464
	32,725,222	31,257,739	63,982,961
Total net position			
Total liabilities, deferred inflows of resources and net position	\$ 37,805,575	\$ 39,841,543	\$ 77,647,118

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

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	\$ 1,134,654	\$ 122,685	\$ 1,014		\$ (1,010,955)		\$ (1,010,955)
Planning and zoning	276,938	76,678			(200,260)		(200,260)
Public safety	2,141,798		190,324	\$ 10,500	(1,940,974)		(1,940,974)
Public works	2,373,258	50,300	481,383	607,625	(1,233,950)		(1,233,950)
Parks and recreation	579,052	52,863		1,489,793	963,604		963,604
Economic development	226,079		55,199		(170,880)		(170,880)
Total governmental activities	6,731,779	302,526	727,920	2,107,918	(3,593,415)		(3,593,415)
Business-type activities, water and sewer services	3,766,369	2,657,260	59,615	2,313,148		\$ 1,263,654	1,263,654
Total primary government	\$ 10,498,148	\$ 2,959,786	\$ 787,535	\$ 4,421,066	(3,593,415)	1,263,654	(2,329,761)
General revenues:							
Taxes:							
Income					2,503,259		2,503,259
Real estate					2,031,368		2,031,368
Personal property					115,807		115,807
Grants, contributions and franchise fees not restricted to specific programs					949,744		949,744
Connection charges						125,000	125,000
Interest income and rents					35,216	113,164	148,380
Miscellaneous					14,979		14,979
Total general revenues					5,650,373	238,164	5,888,537
Changes in net position					2,056,958	1,501,818	3,558,776
Net position:							
Beginning of year					30,668,264	29,755,921	60,424,185
End of year					\$ 32,725,222	\$ 31,257,739	\$ 63,982,961

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	General Fund	Total governmental funds
Assets:		
Cash and cash equivalents	\$ 2,619,408	\$ 2,619,408
Cash and cash equivalents, restricted	754,977	754,977
Certificates of deposit	3,287,247	3,287,247
Accounts receivable	60,206	60,206
Taxes receivable	511,884	511,884
Lease receivable	46,292	46,292
Notes receivable	18,745	18,745
Due from other governments	1,238,673	1,238,673
Inventory	70,763	70,763
Prepaid expenses and deposits	40,141	40,141
	\$ 8,648,336	\$ 8,648,336
Liabilities:		
Accounts payable and accrued expenses	\$ 547,035	\$ 547,035
Accrued payroll and related benefits	99,370	99,370
Payable from restricted assets		
refundable deposits	141,339	141,339
Unearned revenues	600,000	600,000
	1,387,744	1,387,744
Deferred inflows of resources:		
Deferred amounts from:		
Leases	46,292	46,292
Unavailable revenue	1,173,989	1,173,989
	1,220,281	1,220,281
Fund balances:		
Nonspendable	129,649	129,649
Restricted	13,638	13,638
Committed	207,922	207,922
Assigned	4,796,061	4,796,061
Unassigned	893,041	893,041
	6,040,311	6,040,311
Total liabilities and fund balances	\$ 8,648,336	\$ 8,648,336

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, 2022

Total fund balances, governmental funds	\$ 6,040,311
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.	1,173,989
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	27,707,323
Retainage payable for capital assets used in governmental activities, are not reported in the fund financial statements.	(16,449)
Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	(966,851)
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.	(1,088,237)
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>(124,864)</u>
Total net position of governmental activities	<u><u>\$ 32,725,222</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, 2022

	General Fund	Total governmental funds
	<u> </u>	<u> </u>
Revenues:		
Taxes	\$ 4,628,991	\$ 4,628,991
Licenses and permits	218,520	218,520
Intergovernmental	1,941,676	1,941,676
Charges for services	211,209	211,209
Income:		
Rental	16,624	16,624
Interest	18,592	18,592
Miscellaneous	49,729	49,729
	<u> </u>	<u> </u>
Total revenues	<u>7,085,341</u>	<u>7,085,341</u>
Expenditures:		
General government	833,351	833,351
Planning and zoning	212,979	212,979
Public safety:		
Police	1,607,925	1,607,925
Contributions to volunteer fire company	249,600	249,600
Public works:		
Highways and streets	525,731	525,731
Solid waste collection	529,192	529,192
Parks and recreation	364,869	364,869
Economic development	187,986	187,986
Miscellaneous	485,829	485,829
Capital outlays	2,553,477	2,553,477
	<u> </u>	<u> </u>
Total expenditures	<u>7,550,939</u>	<u>7,550,939</u>
Net changes in fund balances	(465,598)	(465,598)
Fund balances:		
Beginning of year	<u>6,505,909</u>	<u>6,505,909</u>
End of year	<u><u>\$ 6,040,311</u></u>	<u><u>\$ 6,040,311</u></u>

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

Net changes in fund balances, total governmental funds **\$ (465,598)**

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.

Capital outlays	2,553,477
Depreciation expense	(1,642,459)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (13,426)

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. 777,041

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. 926,355

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	(12,694)
Deferred outflows of resources relating to:	
Pensions	97,336
Other postemployment benefits	(10,022)
Net pension liability	477,049
Total other postemployment benefits liability	59,224
Deferred inflows of resources relating to:	
Pensions	(636,929)
Other postemployment benefits	(52,396)

Changes in net position of governmental activities **\$ 2,056,958**

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2022

	<u>Water and Sewer Fund</u>	<u>Total proprietary funds</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,667,684	\$ 2,667,684
Cash and cash equivalents, restricted	2,410,051	2,410,051
Unbilled services	668,276	668,276
Inventory	44,368	44,368
Prepaid expenses and deposits	11,301	11,301
Lease receivable	34,020	34,020
	<hr/>	<hr/>
Total current assets	5,835,700	5,835,700
	<hr/>	<hr/>
Noncurrent assets:		
Capital assets:		
Construction in progress	3,063,876	3,063,876
Land and land rights	1,438,848	1,438,848
Buildings and improvements	23,748,518	23,748,518
Equipment	625,153	625,153
Infrastructure	24,640,630	24,640,630
Vehicles	485,621	485,621
	<hr/>	<hr/>
	54,002,646	54,002,646
Less accumulated depreciation	23,851,110	23,851,110
	<hr/>	<hr/>
Net property and equipment	30,151,536	30,151,536
Certificates of deposit	2,680,932	2,680,932
Lease receivable	932,788	932,788
	<hr/>	<hr/>
Total noncurrent assets	33,765,256	33,765,256
	<hr/>	<hr/>
Total assets	39,600,956	39,600,956
	<hr/>	<hr/>
Deferred outflows of resources:		
Deferred amounts from:		
Pensions	194,026	194,026
Other postemployment benefits	46,561	46,561
	<hr/>	<hr/>
Total deferred outflows of resources	240,587	240,587
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 39,841,543	\$ 39,841,543
	<hr/> <hr/>	<hr/> <hr/>

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2022

	Water and Sewer Fund	Total proprietary funds
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 106,464	\$ 106,464
Accrued:		
Payroll and related benefits	22,199	22,199
Interest payable	20,692	20,692
Unearned revenues	1,822,826	1,822,826
Current portion of bonds payable (net of premiums)	345,041	345,041
Payable from restricted assets:		
Accounts payable and accrued expenses	533,632	533,632
Due to other governments	56,976	56,976
	2,907,830	2,907,830
Total current liabilities		
Noncurrent liabilities:		
Accrued compensated absences	40,034	40,034
Net pension liability	294,846	294,846
Total other postemployment benefits liability	396,036	396,036
Bonds payable (net of premiums)	3,583,668	3,583,668
	4,314,584	4,314,584
Total noncurrent liabilities		
	7,222,414	7,222,414
Total liabilities		
Deferred inflows of resources:		
Deferred amounts from:		
Leases	945,200	945,200
Pensions	251,448	251,448
Other postemployment benefits	164,742	164,742
	1,361,390	1,361,390
Total deferred inflows of resources		
Net position:		
Net investment in capital assets	26,222,827	26,222,827
Restricted	9,158	9,158
Unrestricted	5,025,754	5,025,754
	31,257,739	31,257,739
Total net position		
	\$ 39,841,543	\$ 39,841,543
Total liabilities, deferred inflows of resources and net position		

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, 2022

	Water and Sewer Fund	Total proprietary funds
Operating revenues:		
Charges for services	\$ 2,578,781	\$ 2,578,781
Other revenues	78,479	78,479
Total operating revenues	2,657,260	2,657,260
Operating expenses:		
Depreciation	1,313,132	1,313,132
Insurance	65,589	65,589
Other administrative expenses	65,287	65,287
Payroll taxes and fringe benefits	245,553	245,553
Repairs and maintenance	803,456	803,456
Salaries and wages	620,660	620,660
Supplies and materials	233,036	233,036
Utilities	291,645	291,645
Total operating expenses	3,638,358	3,638,358
Operating loss	(981,098)	(981,098)
Nonoperating revenues (expenses):		
Connection charges	125,000	125,000
Intergovernmental	2,311,563	2,311,563
Interest income	62,447	62,447
Rental income	50,717	50,717
Interest expense and fiscal charges	(128,011)	(128,011)
Total nonoperating revenues (expenses)	2,421,716	2,421,716
Net income before capital contributions	1,440,618	1,440,618
Capital contributions	61,200	61,200
Changes in net position	1,501,818	1,501,818
Net position:		
Beginning of year	29,755,921	29,755,921
End of year	\$ 31,257,739	\$ 31,257,739

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	Water and Sewer Fund	Total proprietary funds
Cash flows from operating activities:		
Inflows, cash received from customers	\$ 3,530,765	\$ 3,530,765
	3,530,765	3,530,765
Outflows, cash paid to:		
Suppliers	768,233	768,233
Employees	619,458	619,458
	1,387,691	1,387,691
Net cash provided by operating activities:	2,143,074	2,143,074
 Cash flows from non-capital financing activities:		
Inflows, cash received from other:		
Funds	4,759	4,759
Government	59,615	59,615
	64,374	64,374
Net cash provided by non-capital financing activities	64,374	64,374
 Cash flows from capital and related financing activities:		
Inflows:		
Capital contributions	61,200	61,200
Connection fees received	125,000	125,000
Lease payments received	68,015	68,015
American Rescue Plan grant funding	2,251,948	2,251,948
	2,506,163	2,506,163
Outflows:		
Interest paid	129,384	129,384
Purchase of capital assets	2,532,408	2,532,408
Payments on long-term debt	336,841	336,841
	2,998,633	2,998,633
Net cash used by capital and related financing activities	(492,470)	(492,470)
 Cash flows from investing activities:		
Inflows:		
Interest received	45,149	45,149
Cash in of certificates of deposit	1,234,412	1,234,412
	1,279,561	1,279,561
Net cash provided by investing activities	1,279,561	1,279,561
Net increase in cash and cash equivalents	2,994,539	2,994,539
 Cash and cash equivalents:		
Beginning of year	2,083,196	2,083,196
End of year	\$ 5,077,735	\$ 5,077,735

(continued)

TOWN OF MOUNT AIRY, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2022

	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	\$ 2,667,684	\$ 2,667,684
Cash and cash equivalents, restricted	2,410,051	2,410,051
Cash and cash equivalents, end of year	\$ 5,077,735	\$ 5,077,735
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (981,098)	\$ (981,098)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,313,132	1,313,132
(Increase) decrease in assets and deferred outflows of resources:		
Lease receivable	(966,808)	(966,808)
Accounts receivable	9,556	9,556
Unbilled services	7,931	7,931
Inventory	(12,616)	(12,616)
Prepaid expenses	(1,153)	(1,153)
Deferred amounts from:		
Pensions	(753)	(753)
Other postemployment benefits	4,469	4,469
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	29,577	29,577
Accrued payroll and related benefits	2,556	2,556
Due to other governments	141	141
Accrued compensated absences	(1,354)	(1,354)
Net pension liability	(180,025)	(180,025)
Total other postemployment benefits liability	(25,113)	(25,113)
Unearned revenues	1,822,826	1,822,826
Deferred amounts from:		
Leases	945,200	945,200
Pensions	154,388	154,388
Other postemployment benefits	22,218	22,218
Net cash provided by operating activities	\$ 2,143,074	\$ 2,143,074

See notes to basic financial statements.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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, 2022

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, 2022

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, 2022

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, 2022

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.

Receivables and deferred inflow of resources for leases:

The Town's leases receivable is measured at the present value of lease payments expected to be received during the lease term. A deferred inflow of resources is recorded for the leases. The deferred inflow of resources is recorded at the commencement of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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

Government-wide statements:

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

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

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

Fund financial statements:

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

Deferred outflows and inflows of resources:

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

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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

Unearned revenues:

Revenues under reimbursable grant agreements are recognized in the period in which the qualified expenditures are made. Grant agreement funding received in advance and unexpended at year end is reported as unearned revenues.

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.

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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

Net position and fund balances:

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.

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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.

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, 2022 were \$0.1662 and \$0.41, respectively, per \$100 assessed property value.

Estimates:

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

New GASB pronouncement:

The GASB issued a pronouncement prior to the year ended June 30, 2022 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. 101, *Compensated Absences*, will be effective for the Town as of July 1, 2024. The objective of this Statement is to update the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

2. Adoption of new GASB pronouncement:

Effective July 1, 2021, the Town implemented GASB Statement No. 87, *Leases*. 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.

As a result of implementing this standard, the Town recorded leases receivable and related deferred inflows of \$13,900 and \$1,000,272 as of July 1, 2021 in the General Fund and Water and Sewer Fund, respectively.

3. Deposits:

The deposits held as of June 30, 2022 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%		8,451,820
Certificates of deposit	0.10% - 2.00%	12/12/2022 - 6/29/2026	<u>5,968,179</u>
			<u>\$ 14,420,299</u>
Reconciliation to statement of net position:			
Current assets:			
Cash and cash equivalents:			
Unrestricted			\$ 5,287,092
Restricted			<u>3,165,028</u>
Total cash and cash equivalents			8,452,120
Certificate of deposit			<u>2,896,414</u>
Total current assets			11,348,534
Noncurrent assets, certificates of deposit			<u>3,071,765</u>
Total current and noncurrent assets			<u>\$ 14,420,299</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

3. Deposits (continued):

Restricted cash and cash equivalents as of June 30, 2022 is comprised as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Bay restoration collections		\$ 56,976
Planning and zoning escrow and other deposits	\$ 141,339	
Unspent funding from American Rescue Plan	600,000	2,353,075
Police asset forfeiture	<u>13,638</u>	
	<u>\$ 754,977</u>	<u>\$ 2,410,051</u>

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

Custodial credit risks:

Deposits in financial institutions, reported as components of cash and cash equivalents and certificates of deposit, had a bank balance of \$14,680,734 as of June 30, 2022, \$13,930,734 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, 2022 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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

3. Deposits (continued):

Interest rate and credit risks:

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

Investments concentration of credit risk:

The Town's formal investment policy limits the amount of concentration in the following investments: 100% in U.S. treasury obligations, U.S. government agency and U.S. government-sponsored instrumentalities, collateralized certificates of deposit and Local Government Investment Trust. As of June 30, 2022, the Town had no concentration of credit risk.

4. Leases receivable:

The Town has entered into two communication tower lease agreements, with monthly rental payments ranging from \$2,076 to \$4,006. Each agreement has various consecutive renewal options at the lessee's discretion, which extend the lease terms to July 2035 and May 2043, respectively. These renewal options have been included in the lease receivable as of June 30, 2022. The current renewal periods expire between May 2023 and July 2025. Lease revenues generated for the year ended June 30, 2022 were \$50,717, all of which were recognized in the Water and Sewer Fund.

The Town entered into a three-year lease for a retail property during May 2019, which was extended for another three years in May 2022 at \$1,400 per month. Lease revenue generated for this property for the year ended June 30, 2022 was \$16,624, all of which was recognized in the General Fund. The cost of the leased property, presented in buildings and improvements, was \$38,311 with accumulated depreciation of \$4,086 as of June 30, 2022.

The leases receivable are measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 1.92%.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

5. Capital assets and depreciation:

A summary of governmental activities follows:

	Balance July 01, 2021	Increases	Decreases	Transfers	Balance June 30, 2022
Governmental activities:					
Non-depreciable assets:					
Construction in progress	\$ 2,682,460	\$ 2,166,179		\$ (3,628,990)	\$ 1,219,649
Land and land rights	2,537,271	97,538		971,762	3,606,571
Total non-depreciable assets	<u>5,219,731</u>	<u>2,263,717</u>		<u>(2,657,228)</u>	<u>4,826,220</u>
Depreciable assets:					
Buildings and improvements	5,762,324	91,452		160,630	6,014,406
Equipment	3,480,393	226,702	\$ 29,486	561,137	4,238,746
Infrastructure	37,345,367	760,191		1,935,461	40,041,019
Vehicles	1,120,483	4,905			1,125,388
Total depreciable assets	<u>47,708,567</u>	<u>1,083,250</u>	<u>29,486</u>	<u>2,657,228</u>	<u>51,419,559</u>
Total capital assets	<u>52,928,298</u>	<u>3,346,967</u>	<u>29,486</u>	<u>-</u>	<u>56,245,779</u>
Accumulated depreciation:					
Buildings and improvements	1,336,293	133,322		7,934	1,477,549
Equipment	1,739,210	246,600	16,060	(7,934)	1,961,816
Infrastructure	23,207,155	1,130,389			24,337,544
Vehicles	629,399	132,148			761,547
Total accumulated depreciation	<u>26,912,057</u>	<u>1,642,459</u>	<u>16,060</u>	<u>-</u>	<u>28,538,456</u>
Total capital assets, net	<u>\$ 26,016,241</u>	<u>\$ 1,704,508</u>	<u>\$ 13,426</u>	<u>\$ -</u>	<u>\$ 27,707,323</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

5. Capital assets and depreciation (continued):

Depreciation expense for the year ended June 30, 2022 charged to governmental activities was as follows:

General government	\$ 130,770
Public safety	161,015
Public works	1,221,845
Parks and recreation	121,223
Economic development	7,606
	<hr/>
	<u>\$ 1,642,459</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

5. Capital assets and depreciation (continued):

A summary of business-type activities follows:

	Balance July 01, 2021	Increases	Decreases	Transfers	Balance June 30, 2022
Business-type activities:					
Non-depreciable assets:					
Construction in progress	\$ 194,818	\$ 2,869,058			\$ 3,063,876
Land and land rights	1,438,848				1,438,848
Total non-depreciable assets	<u>1,633,666</u>	<u>2,869,058</u>			<u>4,502,724</u>
Depreciable assets:					
Buildings and improvements	23,678,178	72,410	\$ 2,070		23,748,518
Equipment	676,180		51,027		625,153
Infrastructure	24,630,559	10,071			24,640,630
Vehicles	485,621				485,621
Total depreciable assets	<u>49,470,538</u>	<u>82,481</u>	<u>53,097</u>		<u>49,499,922</u>
Total capital assets	<u>51,104,204</u>	<u>2,951,539</u>	<u>53,097</u>		<u>54,002,646</u>
Accumulated depreciation:					
Buildings and improvements	11,389,739	588,408	2,070		11,976,077
Equipment	533,759	33,620	51,027		516,352
Infrastructure	10,353,961	662,983			11,016,944
Vehicles	313,616	28,121			341,737
Total accumulated depreciation	<u>22,591,075</u>	<u>1,313,132</u>	<u>53,097</u>		<u>23,851,110</u>
Total capital assets, net	<u>\$ 28,513,129</u>	<u>\$ 1,638,407</u>	<u>\$ -</u>		<u>\$ 30,151,536</u>

Depreciation expense for the year ended June 30, 2022 charged to business-type activities for the Water and Sewer Fund totaled \$1,313,132.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

6. Long-term liabilities:

Bonds payable as of June 30, 2022 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 \$260,500 to \$341,000 with semi-annual interest payments at remaining interest rates ranging from 2.55% to 3.42%.	\$ 2,972,300
CDA, Infrastructure Bonds 2012 Refunding:	
\$1,664,165 authorized and issued. Remaining principal to be repaid in annual installments through May 2032 ranging from \$81,500 to \$106,500 with semi-annual interest payments at remaining interest rates ranging from 2.55% to 3.42%.	<u>926,000</u>
Total bonds payable	<u><u>\$ 3,898,300</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, 2022:

Type of long-term liability	Balance July 01, 2021	Additions	Reductions	Balance June 30, 2022	Due within one year
Governmental activities, accrued compensated absences	<u>\$ 112,170</u>	<u>\$ 12,694</u>		<u>\$ 124,864</u>	<u>\$ 10,127</u>
Business-type activities:					
Bonds and loan payable:					
CDA, Infrastructure Bonds 2012	\$ 3,226,800		\$ 254,500	\$ 2,972,300	\$ 260,500
CDA, Infrastructure Bonds 2012 Refunding	<u>1,005,300</u>		<u>79,300</u>	<u>926,000</u>	<u>81,500</u>
	4,232,100		333,800	3,898,300	342,000
Bond premiums	<u>33,450</u>		<u>3,041</u>	<u>30,409</u>	<u>3,041</u>
Total bonds and loan payable	4,265,550		336,841	3,928,709	345,041
Accrued compensated absences	<u>41,388</u>		<u>1,354</u>	<u>40,034</u>	
Total business-type activities	<u>\$ 4,306,938</u>		<u>\$ 338,195</u>	<u>\$ 3,968,743</u>	<u>\$ 345,041</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, 2022

6. Long-term liabilities (continued):

Interest and related costs incurred for business-type activities for the year ended June 30, 2022 was \$128,011, 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>	Business-type activities	
	Principal	Interest
2023	\$ 342,000	\$ 121,314
2024	350,500	112,593
2025	357,800	103,726
2026	368,000	94,494
2027	380,500	84,816
2028 - 2032	2,099,500	220,061
	\$ 3,898,300	\$ 737,004

7. Net position and fund balances:

Nonspendable fund balance in the General Fund as of June 30, 2022 is limited to inventory totaling \$70,763, prepaid expenses of \$40,141 and notes receivable for business relief loan program of \$18,745.

Restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2022 is limited to police asset forfeitures totaling \$13,638. 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, 2022:

Center Street improvements	\$ 71,987
Parks fee-in-lieu	135,935
	\$ 207,922

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

7. Net position and fund balances (continued):

The following is a summary of General Fund assigned fund balances as of June 30, 2022:

Capital improvements	\$ 3,589,425
Park reserve	810,506
Sidewalk improvements	9,673
Street and road repair	312,553
Truck and equipment replacement	<u>73,904</u>
	<u>\$ 4,796,061</u>

Water and Sewer Fund has restricted net position of \$9,158 related to American Rescue Plan funding. These funds must be spent in compliance with funding requirements.

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, 2022 is as follows:

Designated:	
Water system expansion	\$ 163,963
Well system capital improvement	1,608,085
Treatment plant expansion	<u>2,691,203</u>
Total designated	4,463,251
Undesignated	<u>562,503</u>
	<u>\$ 5,025,754</u>

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

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/annual-financial-reports>.

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

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

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

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

8. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

All Plan employees are eligible for accidental disability benefits regardless of length of service as long as the accident occurred in the course of their job performance. Accidental disability benefits are equal to the sum of an annuity determined as the actuarial value of the members' accumulated contributions and two-thirds (66.7%) of their AFC. Five years of service is required for ordinary disability benefits. Ordinary disability benefits are equal to the full service pension allowance if the member is at least age 62 on the date of retirement. Otherwise, the benefit is equal to the full service pension benefit computed as though the member had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

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

Contributions - Members are required to contribute 7.00% of their wages under the Plan. The Town is required to make a contribution which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. The Town's required contribution rate for the year ended June 30, 2022 was 10.57% 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 \$160,430 for the year ended June 30, 2022.

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 participating in the Employees' Pension System at that time were transferred to LEOPS as of July 1, 2018. The Town received a credit of \$862,061 from LEOPS to transfer these employees, which will be amortized in level installments over a 25-year term.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

8. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

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

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.

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.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

8. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

Contributions - LEOPS members are required to contribute 7.00% of their wages under LEOPS. The Town is required to make a contribution, which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. The Town's required contribution rate for the year ended June 30, 2022 was 34.21% 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 \$114,637 for the year ended June 30, 2022.

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

At June 30, 2022, the Town reported a liability of \$1,743,850 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2021, the Town's proportion was 0.0116%, which was an increase of 0.0010% from its proportion measured as of June 30, 2020.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

8. Pension plans (continued):

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

For the year ended June 30, 2022, the Town recognized pension expense of \$210,692. At June 30, 2022, 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		\$ 107,943
Changes of assumptions	\$ 334,065	25,736
Net difference between projected and actual earnings on pension plan investments		813,877
Changes in Town's proportionate share of contributions	917,664	154,509
Town contributions subsequent to the measurement date	275,067	
Total	\$ 1,526,796	\$ 1,102,065

The Town reported \$275,067 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:

2023	\$ 75,928
2024	85,703
2025	29,389
2026	(92,075)
2027	50,719
	\$ 149,664

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

8. Pension plans (continued):

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

Actuarial assumptions - The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.25% general, 2.75% wage
Salary increases	2.75% to 9.25%, including wage inflation
Investment rate of return	6.80%, net of pension plan investment expense, including inflation
Mortality	Fully generational - Pub-2010/MP2018

The actuarial assumptions used in the June 30, 2021 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. New economic assumptions (investment return, inflation, wage inflation and COLA increases) were adopted by the Board for the June 30, 2021 valuation.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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%	4.7%
Private equity	13%	6.5%
Rate sensitive	19%	-0.4%
Credit opportunity	9%	2.6%
Real assets	14%	4.2%
Absolute return	8%	2.0%
	100%	

Discount rate - A single discount rate of 6.80% 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 6.80%. The projection of cash flows used to determine this single discount rate assumed that Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate used for the June 30, 2020 valuation was 7.40%.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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 6.80%, 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 (5.80%)	Current discount rate (6.80%)	1% increase (7.80%)
Town's proportionate share of the net pension liability	\$ 2,970,021	\$ 1,743,850	\$ 726,749

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, 2022

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, 2022.

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, 2022, the Town reimbursed premium costs of \$13,811 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 \$1,158,247 was measured at June 30, 2021 and was determined by an actuarial valuation as of July 1, 2021.

Actuarial assumptions and other inputs - The total OPEB liability in the July 1, 2021 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 6.00%, decreasing to 4.64% in 2050, ultimately leveling off at 3.94% in 2075
Inflation	2.50%
Retirees' coverage election	100%
Mortality	Fully generational - Pub-2010/MP2019

The discount rate of 1.92% for the June 30, 2021 calculation was based on the municipal bond index as of June 30, 2021.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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

Changes in the total OPEB liability:

	Total OPEB liability
Balance at June 30, 2021	\$ 1,242,584
Changes for the year:	
Service cost	52,738
Interest	30,248
Experience gains	(9,002)
Changes in assumptions	(141,172)
Benefit payments	(17,149)
Net changes	(84,337)
Balance at June 30, 2022	\$ 1,158,247

Changes of assumptions and other inputs reflect a change in the discount rate from 2.45% for June 30, 2021 to 1.92% for June 30, 2022.

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 (0.92%) or one-percentage-point higher (2.92%) than the current discount rate:

	1% decrease (0.92%)	Current discount rate (1.92%)	1% increase (2.92%)
Total OPEB Liability	\$ 1,425,498	\$ 1,158,247	\$ 951,662

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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 (2.94%)	Current healthcare cost trend rate (3.94%)	1% increase (4.94%)
Total OPEB liability	\$ 950,541	\$ 1,158,247	\$ 1,440,133

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

For the year ended June 30, 2022, the Town recognized OPEB expense of \$18,579. At June 30, 2022, 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		\$ 360,874
Changes of assumptions	\$ 149,896	247,040
Town contributions subsequent to the measurement date	13,811	
Total	\$ 163,707	\$ 607,914

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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

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

The Town reported \$13,811 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:

2023	\$ (60,402)
2024	(60,402)
2025	(60,402)
2026	(60,402)
2027	(60,402)
Thereafter	<u>(156,008)</u>
	<u><u>\$ (458,018)</u></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 \$20,500, 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 \$31,979 for the year ended June 30, 2022.

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, 2022, 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, 2022

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, 2022:

Project	Type of project	Contract amount	Amount of contract not incurred at June 30, 2022
Governmental activities:			
Town View Boardwalk	Construction	\$ 752,212	\$ 423,224
Twin Arch park field fencing	Construction	38,315	38,315
Business-type activities:			
Water meter replacement project	Purchase	1,252,643	913,246
Water meter replacement project	Installation	500,000	500,000
Sewer main pipe replacement projects	Construction	1,609,000	935,487
Storm sewer pipe project	Construction	600,000	440,647
Prospect road water main project	Construction	196,750	49,450

The Town was awarded a grant from the State Highway Administration Recreational Trails Program for the construction of the Town view boardwalk project to assist with construction costs. For all projects listed under the proprietary fund activities above, the Town is using the Coronavirus State and Local Fiscal Recovery Funds under the American Rescue Plan Act received during fiscal year 2022.

The Town was awarded a grant from the Department of Natural Resources Program Open Space (POS) for \$574,373 to assist with the acquisition of an inactive railroad right of way corridor that will be used for public recreation. In the event the property ceases to be used for public recreation the Town is required to replace the converted property with another property or pay back the greater of the grant funds received or the appraised value of the converted property for a new use. In addition they are required to return any future POS grants associated with this property.

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).

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

11. Commitments and contingencies (continued):

In 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 agreement was renewed again in October 2021 through 2029 until the new Sixth Generation Permit is issued. In the renewed agreement, the annual amount for each municipality was calculated based on \$35,000 per impervious acre based on total number of impervious acres are required to be restored/mitigated by the permit over the period of this project and increase increments of 5% annually. From the Town's share of this project, the Town is required to pay 20% and the County is covering the remaining 80%. Under the agreement terms, the Town's portion for these costs were \$47,320 which were capitalized for the year ended June 30, 2022.

Future costs under this agreement that will be going to future Town's projects for the years ending June 30 are as follows:

2023	\$ 49,686
2024	52,170
2025	54,779
2026	57,518
2027	60,394
2028	63,413
2029	<u>66,584</u>
	<u>\$ 404,544</u>

12. 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, 2022, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

TOWN OF MOUNT AIRY, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2022

13. Environmental remediation:

Prior to purchase of the CSX property related to the Rails to Trails – West of Main project, the Town became aware of environmental issues related to the property due to elevated levels of arsenic and poly-aromatic hydrocarbons in the property that are based on criteria established by the Maryland Department of the Environment. The Town had an estimate for the remediation costs from a consultant prior to the land purchase. Subsequent to the purchase, the Town contracted with a company to perform the environmental remediation for \$517,022 and will perform continuous monitoring of dust control for additional costs of \$35,000 as a requirement from the Maryland Department of Environment (MDE). The Town will voluntarily remediate the environmental issues once their development plan is approved by the County. Management has concluded there was no obligation that would require recognition of the pollution remediation liability as of June 30, 2022, and the project is expected to be completed and recognized as a capital asset during 2023.

14. Subsequent events:

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 14, 2022, the date the financial statements were available to be issued.

TOWN OF MOUNT AIRY, MARYLAND

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

	Original budget	Final budget	Actual	Variance
Revenues:				
Taxes	\$ 3,942,800	\$ 3,942,800	\$ 4,628,991	\$ 686,191
Licenses and permits	156,800	156,800	218,520	61,720
Intergovernmental	3,462,011	3,007,011	1,941,676	(1,065,335)
Charges for services	296,700	296,700	211,209	(85,491)
Income:				
Rental	16,800	16,800	16,624	(176)
Interest	60,000	60,000	18,592	(41,408)
Miscellaneous	25,000	90,638	49,729	(40,909)
Total revenues	7,960,111	7,570,749	7,085,341	(485,408)
Expenditures:				
General government	884,169	893,669	833,351	60,318
Planning and zoning	267,760	267,760	212,979	54,781
Public safety:				
Police	1,675,360	1,647,458	1,607,925	39,533
Contributions to Volunteer Fire Company	212,100	212,100	249,600	(37,500)
Public Works				
Highways and streets	562,900	562,900	525,731	37,169
Solid waste collection	512,303	521,843	529,192	(7,349)
Parks and recreation	352,760	357,760	364,869	(7,109)
Economic development	247,901	242,901	187,986	54,915
Miscellaneous	526,880	526,880	485,829	41,051
Capital outlays	5,265,655	4,181,195	2,553,477	1,627,718
Total expenditures	10,507,788	9,414,466	7,550,939	1,863,527
Net changes in fund balances	(2,547,677)	(1,843,717)	(465,598)	1,378,119
Fund balances:				
Beginning of year	6,505,909	6,505,909	6,505,909	-
End of year	\$ 3,958,232	\$ 4,662,192	\$ 6,040,311	\$ 1,378,119

Notes to schedule for 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, 2022. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

TOWN OF MOUNT AIRY, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST 8 FISCAL YEARS *
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

	2022	2021	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0116%	0.0106%	0.0080%	0.0066%	0.0052%	0.0056%	0.0058%	0.0050%
Town's proportionate share of the net pension liability	\$ 1,743,850	\$ 2,400,924	\$ 1,650,813	\$ 1,375,898	\$ 1,134,768	\$ 1,332,726	\$ 1,206,943	\$ 886,407
Town's covered payroll	\$ 2,014,780	\$ 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	86.55%	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	81.84%	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.

	2022	2021	2020	2019	2018	2017	2016	2015
Mortality table	Pub-2010/ MP2018	Pub-2010/ MP2018	Pub-2010/ MP2018	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment return	6.80%	7.40%	7.40%	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.25%	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
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Year	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Town's covered payroll	Contributions as a percentage of covered payroll
2022	\$ 275,067	\$ (275,067)		\$ 2,062,355	13.3%
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%

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 5 FISCAL YEARS *
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability:					
Service cost	\$ 52,738	\$ 40,794	\$ 54,142	\$ 52,633	\$ 50,814
Interest	30,248	31,823	49,286	46,336	40,561
Experience gains	(9,002)	(3,087)	(459,256)	(8,969)	-
Changes of assumptions or other inputs	(141,172)	161,706	20,188	(11,092)	(199,064)
Benefit payments	(17,149)	(13,841)	(10,745)	(12,231)	(21,200)
Net changes in total OPEB liability	(84,337)	217,395	(346,385)	66,677	(128,889)
Total OPEB liability:					
Beginning of year	1,242,584	1,025,189	1,371,574	1,304,897	1,433,786
End of year	\$ 1,158,247	\$ 1,242,584	\$ 1,025,189	\$ 1,371,574	\$ 1,304,897
Covered employee payroll	\$ 718,827	\$ 694,638	\$ 735,155	\$ 873,724	\$ 877,763
Total OPEB liability as a percentage of covered employee payroll	161.13%	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:

2022	1.92%
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.