

TOWN OF MOUNT AIRY, MARYLAND

FINANCIAL STATEMENTS

Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 11
FINANCIAL STATEMENTS	
Statement of Net Position	12
Statement of Activities	13 – 14
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	19
Statement of Fund Net Position – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	21
Statement of Cash Flows – Increase (Decrease) in Cash and Cash Equivalents – Proprietary Fund	22 – 23
NOTES TO FINANCIAL STATEMENTS	24 – 41
SUPPLEMENTAL SCHEDULES	
Schedule of Funding Progress – Other Postemployment Benefits – Health Care	42
Schedule of Revenues – Budget and Actual – General Fund	43
Schedule of Expenditures – Budget and Actual – General Fund	44 – 46
Schedule of Revenues – Budget and Actual – Water and Sewer Fund	47
Schedule of Expenses – Budget and Actual – Water and Sewer Fund	48

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Mount Airy, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Mount Airy, Maryland, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 3 through 11 and page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Mount Airy, Maryland's basic financial statements. The supplementary information, included in the schedules on pages 43 through 48, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Gary R. Bozell & Associates, P.A.

Towson, Maryland
October 23, 2014

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Our discussion and analysis of the Town of Mount Airy's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2014. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The assets of the Town of Mount Airy exceeded its liabilities at the close of Fiscal Year 2014 by \$61,407,361 (total net position). Of this amount, \$29,704,394 was for governmental activities and \$31,702,967 was for business-type activities. Further, the amount of net position that was unrestricted at year end was \$6,476,111 for governmental activities and \$6,992,828 for business-type activities. This information can be found in the Statement of Net Position, directly following Management's Discussion and Analysis.
- In reviewing the Statement of Activities, you will see that the net position of governmental activities increased by \$129,159, and business-type activities increased by \$362,018, resulting in a \$491,177 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. As of June 30, 2014, the total liabilities and fund balances for governmental funds were \$7,221,381. This is an increase of \$409,622 from Fiscal Year 2013.
- At the close of Fiscal Year 2014, the Town's governmental fund reported an ending fund balance of \$6,838,715, an increase of \$635,839 from Fiscal Year 2013. This information may be reviewed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.
- The Town of Mount Airy is financially strong with funds on deposit in investment accounts, certificates of deposit, checking accounts and savings accounts totaling more than \$13 million. You can find this information in the Notes to Financial Statements, Note B – Cash and Investments. Total deposits and investments increased \$1,718,528 from Fiscal Year 2013. The Town has been able to keep the tax rate steady and the homestead tax credit at a 0% cap, with no changes in services to its citizens, despite the economic conditions affecting the rest of the state and nation. Our goal is, and will continue to be, to keep the Town financially strong without increasing taxes or reducing services.
- The Water and Sewer Fund ended Fiscal Year 2014 with \$417,959 in operating income, as reported on the Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund.
- The Town's Water and Sewer Fund long-term debt increased by \$945,138, or 19%, during Fiscal Year 2014. This increase is due to the issuance of Local Government Infrastructure Bonds 2012 Series B-2 from the Maryland Department of Housing and Community Development, which is being used to fund water and sewer infrastructure projects such as the Main Street Water Line Replacement and Water Station #2 Rehabilitation.
- The General Fund does not have any long-term debt.
- The Town was reimbursed \$18,664 from the Maryland Emergency Management Agency for expenses relating to the record snowfall that occurred between February 12th and 13th. This reimbursement amounted to 75% of the total cost of the storm.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Town's net position. You can think of the Town's *net position* (the difference between assets and liabilities) as one way to measure the Town's financial health or condition. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. One would need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's infrastructure, to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town's basic services are reported here, including the police, general administration, economic development, sanitation, streets and roads, parks and recreation, and planning and zoning. Taxes, franchise fees, fines, and state grants finance most of these activities.
- Business-type activities – The Town charges a fee to customers to help cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. The Town's two kinds of funds, governmental and proprietary, use different accounting approaches.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

- Governmental funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation after the fund financial statements. The Town's Governmental Fund is the General Fund.
- Proprietary funds – Services that the Town provides, for which it charges customers, are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, 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.

The Town as a Whole

Governmental Activities

This section will show a financial comparison of revenues and expenses and provide explanations for significant differences. Please see the section titled *The Town's Funds* for a condensed comparison.

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Some of the individual line item revenues reported for each function are:

General Government	Real and Personal Property Taxes, Income Taxes, Business Taxes, Admission and Amusement Taxes, Franchise Fees
Planning and Zoning	Inspection Fees, Filing Fees, Developer Fees
Public Safety	State Police Grants
Parks and Recreation	Project Open Space, Skate Park Fees, Park Fees
Streets and Roads	Highway User Revenues, Water and Sewer Permit Fees

All other governmental revenues are reported as miscellaneous. It is important to note that all taxes are classified as general revenue, even if restricted to a specific purpose.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Governmental-Wide Financial Information

The following is selected information as of June 30, 2014 and for the previous year ended, which is provided for comparison purposes.

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 7,221,381	\$ 7,479,682	\$ 14,701,063	\$ 6,811,758	\$ 6,171,238	\$ 12,982,996
Capital assets	23,228,283	30,605,692	53,833,975	23,650,315	30,769,271	54,419,586
Total assets	<u>\$ 30,449,664</u>	<u>\$ 38,085,374</u>	<u>\$ 68,535,038</u>	<u>\$ 30,462,073</u>	<u>\$ 36,940,509</u>	<u>\$ 67,402,582</u>
Current liabilities	\$ 382,666	\$ 310,079	\$ 692,745	\$ 608,882	\$ 513,673	\$ 1,122,555
Long-term liabilities	-	5,878,353	5,878,353	-	4,929,050	4,929,050
Accrued liability for other postemployment benefits	362,604	176,775	539,379	277,956	135,472	413,428
Total liabilities	<u>745,270</u>	<u>6,365,207</u>	<u>7,110,477</u>	<u>886,838</u>	<u>5,578,195</u>	<u>6,465,033</u>
Deferred inflow of resources	-	17,200	17,200	-	21,365	21,365
Net position						
Invested in capital assets, net of related debt	23,228,283	24,710,139	47,938,422	23,650,315	25,818,856	49,469,171
Restricted	-	-	-	-	-	-
Unrestricted	6,476,111	6,992,828	13,468,939	5,924,920	5,522,093	11,447,013
Total net position	<u>29,704,394</u>	<u>31,702,967</u>	<u>61,407,361</u>	<u>29,575,235</u>	<u>31,340,949</u>	<u>60,916,184</u>
Total liabilities and net position	<u>\$ 30,449,664</u>	<u>\$ 38,085,374</u>	<u>\$ 68,535,038</u>	<u>\$ 30,462,073</u>	<u>\$ 36,950,409</u>	<u>\$ 67,402,582</u>
Program revenues						
Charges for services	\$ 88,037	\$ 2,791,200	\$ 2,879,237	\$ 170,684	\$ 2,915,995	\$ 3,086,679
Operating grants and contributions	389,391	-	389,391	131,919	21,600	153,519
Capital grants and contributions	254,700	278,308	533,008	290,000	317,786	607,786
Total program revenues	<u>732,128</u>	<u>3,069,508</u>	<u>3,801,636</u>	<u>592,603</u>	<u>3,255,381</u>	<u>3,847,984</u>
General revenues						
Income taxes	1,396,795	-	1,396,795	1,375,777	-	1,375,777
Real property taxes	1,631,023	-	1,631,023	1,629,870	-	1,629,870
Personal property tax	127,883	-	127,883	135,957	-	135,957
Penalties and interest	17,631	-	17,631	14,404	-	14,404
Admissions and amusement taxes	16,409	-	16,409	9,674	-	9,674
Licenses and permits	127,701	-	127,701	127,941	-	127,941
Intergovernmental	666,816	-	666,816	579,812	-	579,812
Unrestricted investment income	20,424	47,420	67,844	22,959	46,546	69,505
Total general revenues	<u>4,004,682</u>	<u>47,420</u>	<u>4,052,102</u>	<u>3,896,394</u>	<u>46,546</u>	<u>3,942,940</u>

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Total revenue	4,736,810	3,116,928	7,853,738	4,488,997	3,301,927	7,790,924
Transfers	-	-	-	-	-	-
Total revenues and transfers	4,736,810	3,116,928	7,853,738	4,488,997	3,301,927	7,790,924
Total expenses	4,607,651	2,754,910	7,362,561	4,512,557	2,794,395	7,306,952
Change in net position	129,159	362,018	491,177	(23,560)	507,532	483,972
Net position, beginning of year	29,575,235	31,340,949	60,916,184	29,598,795	30,833,417	60,432,212
Net position, end of year	<u>\$ 29,704,394</u>	<u>\$ 31,702,967</u>	<u>\$ 61,407,361</u>	<u>\$ 29,575,235</u>	<u>\$ 31,340,949</u>	<u>\$ 60,916,184</u>

Business-type Activities

Business-type activities increased the Town's net position by \$362,018, as reported in the preceding chart, and charges for services decreased by \$124,795 from Fiscal Year 2013. In reviewing the Statement of Cash Flows, the net cash provided by operating activities was \$1,329,582.

The Town's Funds

The following schedule presents a summary of general revenues and expenditures for the fiscal year ended June 30, 2014, and percentage of increases and decreases in relation to the prior year.

	FYE 2014 Amount	FYE 2013 Amount	Increase (Decrease) From FYE 13	Percent Change
Revenues				
Taxes	\$ 3,475,959	\$ 3,247,797	\$ 228,162	7%
Licenses and permits	127,701	127,941	(240)	0%
Intergovernmental	769,989	629,616	140,373	22%
Fees and fines	66,815	152,770	(85,955)	-56%
Capital improvements	247,000	290,000	(43,000)	-15%
Interest and other investment income	20,424	22,959	(2,535)	-11%
Miscellaneous	24,472	17,914	6,558	37%
Total revenues	<u>\$ 4,732,360</u>	<u>\$ 4,488,997</u>	<u>\$ 243,363</u>	5%
Expenditures				
General government	\$ 684,338	\$ 588,598	\$ 95,740	16%
Planning and zoning	188,439	208,485	(20,046)	-10%
Public safety	832,381	813,864	18,517	2%
Streets and roads	473,542	433,139	40,403	9%
Waste collection	392,003	514,156	(122,153)	-24%
Parks and recreation	249,779	206,912	42,867	21%
Economic development	15,371	3,779	11,592	307%
Miscellaneous	348,524	350,263	(1,739)	0%
Capital expenditures	912,144	1,590,296	(678,152)	-43%
Total expenditures	<u>\$ 4,096,521</u>	<u>\$ 4,709,492</u>	<u>\$ (612,971)</u>	-13%

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Total revenues for Governmental Funds in Fiscal Year 2014 increased by 5% from Fiscal Year 2013, as shown on the previous chart. Three categories showed increases and three categories showed decreases. A 37% increase in miscellaneous revenues was mostly due to the sale of a dump truck, and payments for property damage that occurred the previous fiscal year. Intergovernmental and tax revenue increases can be attributed to bonus grants that were received for police and highways. Decreases in revenues were experienced in fees and fines, capital improvements, and interest and other investment income. The majority of a 56% decrease in fees and fines was from a large developer inspection fee received the previous fiscal year. Capital improvement revenue was down 15%, which is an expected trend resulting from fewer permits being issued, as the approved pipeline of new homes and businesses is built out. Interest and other investment income revenue dropped 11% due to the extremely low rate at which the Town is earning money on cash deposits.

Total expenditures for Governmental Funds decreased by 13% in Fiscal Year 2014. The largest decrease was in the capital expenditures category. Capital expenditures typically vary widely from one fiscal year to the next, depending upon the projects that are planned, and were \$678,152 less than the previous year. Waste collection decreased by \$122,153 from the previous year. The sanitation contract was put out for bid for the first time in nine years; a new hauler was chosen at a cost much less than the previous hauler, and this new hauler uses a privately owned landfill that charges much less in tipping fees than the county landfills the Town had previously used. Additionally, the new hauler is reporting much less tonnage taken to the landfill than the previous hauler. All of these factors lead to quite a dramatic drop in waste collection expenses. Economic development showed an increase of 307% over the previous year; however, the actual dollar variance was quite small. This category is part of the new Community Development & Planning Department that was formed in Fiscal Year 2013, and more funding was provided in Fiscal Year 2014 to better serve the citizens and businesses of Mount Airy. Parks and recreation expenses had an increase of 21% which can be attributed mostly to the Rails to Trails Project. General government expenses were up 16% from Fiscal Year 2013, which was a result of several factors: a part-time employee was added to the general government staff, legal fees increased due to a homeowners' association taking legal action against the Town in an effort to transfer ownership of privately owned roads to the Town, and lastly, some line items were re-located to the general government category to more accurately report expenses.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

General Fund Budgetary Highlights

Revenues received were slightly more than budgeted, and expenses were substantially less than budgeted, as shown in the chart below. Revenues for taxes, licenses and permits and miscellaneous came in slightly over budget, and intergovernmental, fees and fines, capital improvement assessments and interest and other investment income came in slightly under budget. An effort had been made during the preparation of this budget to estimate revenues less conservatively, and overall the variance of budget to actual ended up being less than 0.2% at \$8,775. Expenditures were \$549,230 less than budgeted, the main contributor being capital expenditures.

	Governmental Funds			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes	\$ 3,245,535	\$ 3,445,616	\$ 3,475,959	\$ 30,343
Licenses and permits	116,400	116,400	127,701	11,301
Intergovernmental	773,269	773,269	769,989	(3,280)
Fees and fines	72,500	72,500	66,815	(5,685)
Capital improvement assessments	273,000	273,000	247,000	(26,000)
Interest and other investment income	27,000	27,000	20,424	(6,576)
Miscellaneous	15,800	15,800	24,472	8,672
Total revenues	\$ 4,523,504	\$ 4,723,585	\$ 4,732,360	\$ 8,775

	Governmental Funds			
	Original Budget	Final Budget	Actual	Variance
Expenditures				
General government	\$ 681,469	\$ 686,549	\$ 684,338	\$ 2,211
Planning and zoning	202,644	202,644	188,439	14,205
Public safety	849,500	849,500	832,381	17,119
Streets and roads	492,900	492,900	473,542	19,358
Waste collection	421,382	424,382	392,003	32,379
Parks and recreation	264,035	264,035	249,779	14,256
Economic development	21,400	21,400	15,371	6,029
Miscellaneous	349,620	349,620	348,524	1,096
Capital expenditures	1,286,000	1,354,721	912,144	442,577
Total expenditures	\$ 4,568,950	\$ 4,645,751	\$ 4,096,521	\$ 549,230

Capital Asset and Debt Administration

Capital Assets

Many capital improvement projects were completed throughout Fiscal Year 2014 and were added to the assets of the Town. Under the General Fund, the Annual Road Repaving Program and the Annual Sidewalk Replacement Program work was completed. Equipment purchases included a new vehicle, a front end loader, and a video security system for Town Hall. Fencing and back stops were installed at Watkins Park and East/West Park, the Town purchased a parcel of land for Rails to Trails, and a parcel of land was deeded to the Town by Summit Ridge Development Corporation as open space.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

The Water and Sewer Department added a pipe freezer and a spectrophotometer to their equipment in Fiscal Year 2014, and the final phase of the Supervisory Control & Data Acquisition (SCADA) project was completed.

Debt

At year end, the Town's Water and Sewer Department had \$5,895,553 in outstanding debt, compared to \$4,950,415 the previous year. This amount consists of notes and bonds issued for Water and Sewer Improvements. They are the MDE WWTP Loan, the Infrastructure Bonds of 2012 Refunding, and the Infrastructure Bonds of 2012, of which the Town had drawn \$3,721,528 of the available \$5,339,431.

Economic Factors and Next Year's Budgets and Rates

The economy in Mount Airy is growing slowly, but steadily. The Town experienced tremendous cuts in Highway User Revenue and State Police Grants from the State of Maryland in Fiscal Year 2010, but we have been able to recover. This has been achieved through careful planning and budgeting, growth in revenues received from sources such as income taxes and county shared taxes, and reducing costs wherever possible. In Fiscal Year 2015, the Town will research and "shop" local banks in Mount Airy to get the best interest rate possible on investments. The real property tax rate has remained steady during this time, when many other municipal governments had no choice but to increase taxes to make up the difference. The Town of Mount Airy continues to have the lowest tax rate of all municipalities in the State of Maryland with a comparable population. The Maryland Municipal League will continue to lobby the Maryland State Legislature for full restoration of state revenues, but in the meantime, the Town of Mount Airy is holding its own. Careful planning for the future financial health of the Town will continue to be the focus of the Mayor and Town Council.

Maryland's new "Rain Tax" will have a financial effect on the Town. This new tax is a result of a decree by the Environmental Protection Agency (EPA) which identified mandatory reductions in nitrogen, phosphorus, and sediment that damage the Chesapeake Bay and are primarily found in drainage run-off and fertilizers. Maryland, along with four other states and the District of Columbia, must comply with these new environmental standards which involve projects related to storm water management. The State of Maryland enacted a "storm water management fee", known as the Rain Tax, on ten of its twenty-four local jurisdictions within the state, including Carroll County and Frederick County. It is up to each county to determine how to fund the mandated improvements to storm water management. Carroll County has set aside money for these projects and has set up a fund to help municipalities with the cost. Carroll County will be funding 80% of the improvements needed to comply with the new environmental standards on the Carroll County side of Town. Frederick County imposed a one cent tax to its citizens to comply with the law, however there are no plans at the present time for the county to fund any storm water management improvements on the Frederick County side of Town. It is estimated that the cost for the Town of Mount Airy could be up to \$300,000 per year for five years, beginning Fiscal Year 2016.

The Town is fortunate to have significant reserve funds that have grown over the years and have funded many capital projects. One of the main sources of income to these accounts in the past has been permit fees. As the Town builds out existing developments in the approved pipeline of projects, deposits from that source of income will be reduced. There is no immediate danger of this revenue source ending for the reserve accounts; it could take ten to fifteen years to build out the current pipeline, and new projects are coming along that show much promise, such as the office park slated for the Harrison/Leishear property. Careful planning will be the key to determine how these reserves will be funded and used in the future, and how to fund the ongoing capital projects for which these funds have historically been used. Other considerations will include the safe level of funds to keep for emergencies or "rainy day" funds, other potential sources of revenue, if any, and funding future capital projects.

TOWN OF MOUNT AIRY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

The Water and Sewer Fund has remained self-sufficient for the last three fiscal years, following a decade of significant contributions from the General Fund to help with operating and capital expenses. Careful attention will be paid to ensure that the Water and Sewer Fund stays self-sufficient, and that user fees provide all money necessary for the operating and capital budgets in future years. The decrease in revenue received in Fiscal Year 2014 from water and sewer service charges is of some concern and an effort will be made to determine the reason for this. Preliminary findings are that consumers have become very good at conserving water, and a system-wide audit of water usage pinpointed approximately 100 water meters with zero usage. Some of these properties are vacant and no water is being used; water meters are being replaced at properties that are occupied. Large capital projects, such as the Main Street Water Main Replacement Project and Water Station #2 Rehabilitation, are being financed so that adequate balances remain in the Town's reserve accounts.

Contacting the Town's Financial Management

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

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,291,235	\$ 3,386,772	\$ 5,678,007
Investments	4,747,519	3,278,556	8,026,075
Taxes receivable	64,465	-	64,465
Accounts receivable	57,731	16,615	74,346
Unbilled service charges	-	606,964	606,964
Interest and dividends receivable	29,224	190,775	219,999
Intergovernmental receivables	31,207	-	31,207
Capital assets:			
Land and construction in progress	2,177,849	5,453,492	7,631,341
Other capital assets, net of accumulated depreciation	21,050,434	25,152,200	46,202,634
TOTAL ASSETS	30,449,664	38,085,374	68,535,038
LIABILITIES			
Accounts payable and accrued expenses	359,763	267,323	627,086
Refundable deposits	22,903	-	22,903
Note and bond interest payable	-	42,756	42,756
Notes payable			
Due within one year	-	206,415	206,415
Due in more than one year	-	894,741	894,741
Bonds payable			
Due within one year	-	299,000	299,000
Due in more than one year	-	4,478,197	4,478,197
Accrued liability for other postemployment benefits	362,604	176,775	539,379
TOTAL LIABILITIES	745,270	6,365,207	7,110,477
DEFERRED INFLOW OF RESOURCES			
Deferred amounts from refunding of debt	-	17,200	17,200
NET POSITION			
Net investment in capital assets	23,228,283	24,710,139	47,938,422
Unrestricted	6,476,111	6,992,828	13,468,939
TOTAL NET POSITION	\$ 29,704,394	\$ 31,702,967	\$ 61,407,361

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
Governmental Activities					
General government	\$ 963,627	\$ 45,063	\$ -	\$ 247,000	\$ (671,564)
Planning and zoning	265,217	31,657	-	-	(233,560)
Public safety	832,381	1,125	84,509	-	(746,747)
Waste collection	392,349	-	-	-	(392,349)
Parks and recreation	386,386	10,192	-	-	(376,194)
Streets and roads	1,753,294	-	304,882	7,700	(1,440,712)
Economic development	14,397	-	-	-	(14,397)
Total Governmental Activities	4,607,651	88,037	389,391	254,700	(3,875,523)
Business-type Activities					
Water and sewer	2,754,910	2,791,200	-	278,308	314,598
Total Business-type Activities	2,754,910	2,791,200	-	278,308	314,598
TOTAL PRIMARY GOVERNMENT	\$ 7,362,561	\$ 2,879,237	\$ 389,391	\$ 533,008	\$ (3,560,925)

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGE IN NET POSITION			
Net (expense) revenue	\$ (3,875,523)	\$ 314,598	\$ (3,560,925)
General revenues:			
Taxes:			
Real property taxes	1,631,023	-	1,631,023
Personal property tax:			
Railroad and public utility	22,103	-	22,103
Ordinary business corporations	105,780	-	105,780
Penalties and interest	17,631	-	17,631
Income taxes	1,396,795	-	1,396,795
Admissions and amusement taxes	16,409	-	16,409
Licenses and permits:			
Alcoholic beverage	4,773	-	4,773
Traders' licenses	22,228	-	22,228
Cable and video licenses	100,700	-	100,700
Intergovernmental:			
County grants	666,730	-	666,730
Financial corporation	86	-	86
Unrestricted investment income	20,424	47,420	67,844
Total general revenues	4,004,682	47,420	4,052,102
CHANGE IN NET POSITION	129,159	362,018	491,177
NET POSITION - BEGINNING	29,575,235	31,340,949	60,916,184
NET POSITION - ENDING	<u>\$ 29,704,394</u>	<u>\$ 31,702,967</u>	<u>\$ 61,407,361</u>

TOWN OF MOUNT AIRY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>Total Governmental Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,291,235
Investments	4,747,519
Taxes receivable	64,465
Accounts receivable	57,731
Interest and dividends receivable	29,224
Intergovernmental receivables	<u>31,207</u>
TOTAL ASSETS	<u><u>\$ 7,221,381</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenses	\$ 359,763
Refundable deposits	<u>22,903</u>
TOTAL LIABILITIES	<u>382,666</u>
 FUND BALANCE	
Committed	201,934
Assigned	5,351,672
Unassigned	<u>1,285,109</u>
TOTAL FUND BALANCE	<u>6,838,715</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 7,221,381</u></u>

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 6,838,715
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets of \$40,405,949 net of accumulated depreciation of (\$17,177,666) are not financial resources and, therefore, are not reported in the funds. See Note E for additional detail.	23,228,283
Liabilities for other postemployment benefits are not reported in the funds. See Note I for additional detail.	<u>(362,604)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 29,704,394</u></u>

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	<u>Total Governmental Funds</u>
REVENUES	
Taxes	\$ 3,475,959
Licenses and permits	127,701
Intergovernmental	769,989
Fees and fines	66,815
Capital improvement assessments	247,000
Interest and other investment income	20,424
Miscellaneous	<u>24,472</u>
TOTAL REVENUES	<u>4,732,360</u>
EXPENDITURES	
General government	684,338
Planning and zoning	188,439
Public safety	832,381
Streets and roads	473,542
Waste collection	392,003
Parks and recreation	249,779
Economic development	15,371
Miscellaneous	348,524
Capital expenditures	<u>912,144</u>
TOTAL EXPENDITURES	<u>4,096,521</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	635,839
OTHER FINANCING SOURCES (USES)	<u>-</u>
NET CHANGE IN FUND BALANCE	635,839
FUND BALANCE - BEGINNING	<u>6,202,876</u>
FUND BALANCE - ENDING	<u><u>\$ 6,838,715</u></u>

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 635,839
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of (\$1,342,801) exceeded capital outlays of \$913,117 in the current period.	(429,684)
In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets disposed of (\$73,847), net of related accumulated depreciation of \$73,799.	(48)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	7,700
The effect of other postemployment benefits.	<u>(84,648)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 129,159</u></u>

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ 3,245,535	\$ 3,445,616	\$ 3,475,959	\$ 30,343
Licenses and permits	116,400	116,400	127,701	11,301
Intergovernmental	773,269	773,269	769,989	(3,280)
Fees and fines	72,500	72,500	66,815	(5,685)
Capital improvement assessments	273,000	273,000	247,000	(26,000)
Interest and other investment income	27,000	27,000	20,424	(6,576)
Miscellaneous	15,800	15,800	24,472	8,672
TOTAL REVENUES	<u>4,523,504</u>	<u>4,723,585</u>	<u>4,732,360</u>	<u>8,775</u>
EXPENDITURES				
General government	681,469	686,549	684,338	2,211
Planning and zoning	202,644	202,644	188,439	14,205
Public safety	849,500	849,500	832,381	17,119
Streets and roads	492,900	492,900	473,542	19,358
Waste collection	421,382	424,382	392,003	32,379
Parks and recreation	264,035	264,035	249,779	14,256
Economic development	21,400	21,400	15,371	6,029
Miscellaneous	349,620	349,620	348,524	1,096
Capital expenditures	1,286,000	1,354,721	912,144	442,577
TOTAL EXPENDITURES	<u>4,568,950</u>	<u>4,645,751</u>	<u>4,096,521</u>	<u>549,230</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(45,446)	77,834	635,839	558,005
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>\$ (45,446)</u>	<u>\$ 77,834</u>	635,839	<u>\$ 558,005</u>
FUND BALANCE - BEGINNING			<u>6,202,876</u>	
FUND BALANCE - ENDING			<u>\$ 6,838,715</u>	

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2014

	Enterprise Fund
ASSETS	
Cash and cash equivalents	\$ 3,386,772
Investments	3,278,556
Accounts receivable	16,615
Unbilled service charges	606,964
Interest and dividends receivable	190,775
Capital assets:	
Land and construction in progress	5,453,492
Other capital assets, net of accumulated depreciation	25,152,200
TOTAL ASSETS	38,085,374
LIABILITIES	
Accounts payable and accrued expenses	267,323
Note and bond interest payable	42,756
Notes payable	
Due within one year	206,415
Due in more than one year	894,741
Bonds payable	
Due within one year	299,000
Due in more than one year	4,478,197
Accrued liability for other postemployment benefits	176,775
TOTAL LIABILITIES	6,365,207
DEFERRED INFLOW OF RESOURCES	
Deferred amounts from refunding of debt	17,200
NET POSITION	
Net investment in capital assets	24,710,139
Unrestricted	6,992,828
TOTAL NET POSITION	\$ 31,702,967

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Sewer system	\$ 1,211,973
Water service	1,380,638
Well system	67,500
Other revenues	<u>409,397</u>
TOTAL OPERATING REVENUES	<u>3,069,508</u>
OPERATING EXPENSES	
Sewer system	797,117
Water service	434,744
Administrative and other expenses	363,380
Depreciation	<u>1,056,308</u>
TOTAL OPERATING EXPENSES	<u>2,651,549</u>
OPERATING INCOME (LOSS)	<u>417,959</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and other investment income	47,420
Bond interest expense	(102,920)
Loss on disposal of capital assets	<u>(441)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(55,941)</u>
CHANGE IN NET POSITION	362,018
NET POSITION - BEGINNING	<u>31,340,949</u>
NET POSITION - ENDING	<u><u>\$ 31,702,967</u></u>

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,495,901
Cash payments to suppliers for goods and services	(1,329,164)
Cash payments to employees for services	(437,584)
Other operating revenues	<u>600,429</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,329,582</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(893,170)
Proceeds of bonds issued	1,441,075
Principal paid on notes and bonds	(495,937)
Interest paid on notes and bonds	<u>(94,155)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(42,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(83,066)
Interest and other investment income	<u>3,201</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(79,865)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,207,530
CASH AND CASH EQUIVALENTS AT JULY 1, 2013	<u>2,179,242</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2014	<u><u>\$ 3,386,772</u></u>

See accompanying notes to financial statements.

TOWN OF MOUNT AIRY, MARYLAND
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUND (CONTINUED)
For the Year Ended June 30, 2014

	<u>Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 417,959
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:	
Depreciation	1,056,308
(Increase) decrease in accounts receivable	26,820
Increase (decrease) in accounts payable	(212,808)
Increase (decrease) in other postemployment benefits	<u>41,303</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,329,582</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As required by accounting principles generally accepted in the United States of America for governmental entities (GAAP), the accompanying financial statements present the Town's primary government.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: 1.) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; 2.) operating grants and contributions which finance annual operating activities including restricted investment income; and 3.) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States for governmental entities (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds.) Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for goods and services, and benefit charges. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets.

Fund Types and Major Funds

Governmental Funds

The Town reports the following governmental funds:

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

Proprietary Funds

The Town reports the following proprietary funds:

Enterprise Fund - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis are recovered primarily through user charges. Utility services are accounted for in the Water and Sewer Fund.

Assets, Liabilities and Net Position or Fund Balance

Cash and Investments

Cash and investments are separately held and reflected in their respective funds as "cash and cash equivalents" and "investments."

The Town reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (continued)

Cash and Investments (continued)

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value.

Capital Assets and Depreciation

The Town's property, plant, equipment and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with a cost of \$3,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

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

Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Long-Term Debt and Debt Issuance Costs

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

In accordance with GASB 65, for current and advance refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (continued)

Long-Term Debt and Debt Issuance Costs (continued)

In accordance with GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

Compensated Absences

The Town's employees are entitled to certain compensated absences based on their length of employment. Compensated absences are accrued as earned, however, the amount of accumulated unpaid leave accrued at year end was not material.

Net Position

Net position represents assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, and is displayed in three components – net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the net position of the Town which is not restricted for any project or other purpose. However, these funds may be designated for specific projects or purposes in the fund financial statements.

The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (continued)

Fund Balance (continued)

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Town ordinances).

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Town can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed – The committed fund balance classification includes amounts that can be used only for specific purposes imposed by formal action (ordinance or resolution) of the Town Council. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or the Mayor.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting

The Mayor, on or before June 1st each year, shall submit a proposed budget to the Council. The budget shall provide a complete financial plan for the budget year and shall contain estimates of anticipated revenues and proposed expenditures for the coming year. The total of the anticipated revenues shall equal the total of the proposed expenditures.

Before adopting the budget, the Council shall hold a public hearing after notice in some newspaper or newspapers having general circulation within the Town. The Council may insert new items or may increase or decrease the items of the budget. Where the Council shall increase the total proposed expenditures, it shall also increase the total anticipated revenue to at least equal such total proposed expenditures. The budget shall be prepared and adopted in the form of an ordinance. A favorable vote of at least a majority of the total membership of the Council shall be necessary for adoption.

Expenditures may not legally exceed budgeted appropriations for that general classification of expenditure.

All appropriations not expended or lawfully encumbered lapse at the end of the budget year, and are available to fund appropriations in the subsequent year.

The making of contracts, or the spending of monies for capital improvements financed in whole or in part by the issuance of bonds, or the making of contracts of leases or for services for a period exceeding the budget year in which the contract is made, is expressly authorized.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States for governmental entities requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through October 23, 2014 the date on which the financial statements were available to be issued.

New Governmental Accounting Standards Board Standards

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, is effective for the year ending June 30, 2014, however, the Town implemented this standard early, for the year ending June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also establishes that debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Governmental Accounting Standards Board Standards (continued)

GASB Statement Number 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, is effective for the Town for the year ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement will have no direct impact on the Town, simply aid in the preparation of financial statements.

GASB Statement Number 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, is effective for reporting periods ending June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This statement will have no impact on the Town as it does not maintain its own pension plan.

GASB Statement Number 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, will be effective for the Town beginning with its year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local government employers for the pension in which they are involved. The Town currently participates in the Employees Retirement and Pension Systems, which is a cost-sharing multiple-employer defined benefit plan sponsored and administered by the State Retirement and Pension System of Maryland. The Town will need to report its share of the net pension liability, pension expense, deferred outflows and deferred inflows of the State plan, as applicable, as well as informational disclosures.

GASB Statement Number 69, *Government Combinations and Disposals of Government Operations*, will become effective for reporting periods ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Town does not foresee any impact from this pronouncement.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, is effective for reporting periods ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Town currently has no such guarantees and does not foresee any such arrangements in the future, therefore this statement will not impact the Town.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B – CASH AND INVESTMENTS

The Town of Mount Airy, Maryland is governed by the deposit and investment limitations of state law. Deposits and investments held at June 30, 2014, and reported at fair value, are as follows:

Type	Moody's Rating	Maturities	Carrying Value
Deposits			
Deposits			\$ 5,677,657
Cash on hand			350
Certificates of deposit		November 10, 2014 to June 29, 2016	5,757,610
			<u>11,435,617</u>
Investments			
U. S. Government Agency securities	Aaa	December 15, 2014	1,999,025
Money market funds	Aaa	Weighted Avg. Maturity 31 days	269,440
			<u>2,268,465</u>
			<u>\$13,704,082</u>
Reconciliation to Statement of Net Position			
Cash and equivalents			\$ 5,678,007
Investments			8,026,075
Total deposits and investments			<u><u>\$13,704,082</u></u>

Custodial Credit Risk

At June 30, 2014, the carrying amount of the Town's cash deposits was \$5,677,657 and the bank balance was \$5,849,362. Of the bank balances, \$250,000 was covered by federal depository insurance, and the balance of \$5,599,362 was covered by collateral held by the pledging bank's trust department to secure the Town's deposits with those institutions. Certificates of deposit are held by the Town. Of the certificates of deposit, \$250,000 was covered by federal depository insurance and the balance of \$5,727,609 was covered by collateral held by the pledging bank's trust department to secure the Town's deposits. All investments, evidenced by individual securities, are registered in the Town's name.

Investment Interest Rate Risk

The investment policy of the Town specifies that the majority of investments be on a short-term basis, however, a portion of the portfolio can contain investments with longer maturities, up to two years. Maturities of investments held at June 30, 2014 are provided in the schedule above. Certificates of deposit with maturities in excess of two years allow for a one-time penalty-free withdrawal per account before maturity.

Investment Credit Risk

The Town's investment policy authorizes investments in:

1. insured, interest-bearing accounts in financial institutions;
2. any obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
3. any obligations that a federal agency issues in accordance with an act of Congress;
4. a repurchase agreement that any of these obligations secures;
5. money market mutual funds containing securities of these organizations; or
6. the Maryland Local Government Investment Pool.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE B – CASH AND INVESTMENTS (continued)

Concentration of Investment Credit Risk

The Town's investment policy authorizes up to 100% of its portfolio to be invested in U. S. Treasury obligations, U. S. Government Agency and U. S. Government-sponsored instrumentalities, money market mutual funds containing securities of these organizations and collateralized certificates of deposit. At June 30, 2014, the Town had invested \$269,440 in a money market fund that was rated Aaa, but whose portfolio composition was only 15% U. S. Government Agency and Treasury obligations. The Town's management has concluded that these investments were not at risk, but as of August 20, 2014, transferred the funds to a money market fund whose portfolio composition was 100% U. S. Government Agency and Treasury obligations. All other investments were in U. S. Government Agency securities held in the Town's name.

NOTE C – PROPERTY TAXES

Property taxes attach an enforceable lien on property as of July 1st. Taxes are levied on July 1st and are payable without interest by October 1st. Beginning October 1st, interest at $\frac{2}{3}$ of 1% is charged for each month, or fraction thereof, that taxes remain unpaid. A list of all property on which the Town taxes have not been paid as of the first day of the following January 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.

Real and personal property taxes are levied at rates enacted by the Mayor and Town Council in the annual budget on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The tax rates for the fiscal year ended June 30, 2014 were 16.95¢ per \$100 of assessed value for real property and 42.0¢ per \$100 of assessed value for business personal property.

NOTE D – RECEIVABLES

Receivables at June 30, 2014 of the Town's governmental and enterprise funds are as follows:

	Governmental Funds	Enterprise Funds	Total
Taxes receivable	\$64,465	\$ --	\$64,465
Accounts receivable	57,731	16,615	74,346
Unbilled service charges	--	606,964	606,964
Intergovernmental receivables:			
Highway taxes	26,155	--	26,155
Admission and amusement taxes	4,055	--	4,055
Business licenses	997	--	997
Total	<u>\$153,403</u>	<u>\$623,579</u>	<u>\$776,982</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE E – CAPITAL ASSETS

Changes in Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

Governmental Activities Capital Assets:

	Balance at July 1, 2013	Additions	Deductions	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 1,030,937	\$ 25,700	\$ --	\$ 1,056,637
Construction in progress	915,098	206,114	--	1,121,212
Total capital assets, not being depreciated	<u>1,946,035</u>	<u>231,814</u>	<u>--</u>	<u>2,177,849</u>
Capital assets, being depreciated:				
Buildings and improvements	4,043,383	--	--	4,043,383
Equipment	973,647	168,765	62,190	1,080,222
Streets, roads and storm drains	31,398,201	436,424	--	31,834,625
Park equipment	1,197,713	83,814	11,657	1,269,870
Total capital assets, being depreciated	<u>37,612,944</u>	<u>689,003</u>	<u>73,847</u>	<u>38,228,100</u>
Less accumulated depreciation for:				
Buildings and improvements	575,314	81,045	--	656,359
Equipment	613,413	61,029	62,190	612,252
Streets, roads and storm drains	14,076,685	1,154,159	--	15,230,844
Park equipment	643,252	46,568	11,609	678,211
Total accumulated depreciation	<u>15,908,664</u>	<u>1,342,801</u>	<u>73,799</u>	<u>17,177,666</u>
Total capital assets, being depreciated, net	<u>21,704,280</u>	<u>(653,798)</u>	<u>48</u>	<u>21,050,434</u>
Governmental activities capital assets, net	<u>\$23,650,315</u>	<u>\$ (421,984)</u>	<u>\$ 48</u>	<u>\$ 23,228,283</u>

Changes in Capital Assets (continued)

Business-type Activities Capital Assets:

	Balance at July 1, 2013	Additions	Deductions	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 1,404,938	\$ --	\$ --	\$ 1,404,938
Construction in progress	3,296,890	751,664	--	4,048,554
Total capital assets, not being depreciated	<u>4,701,828</u>	<u>751,664</u>	<u>--</u>	<u>5,453,492</u>
Capital assets, being depreciated:				
Machinery and equipment	916,269	3,263	5,310	914,222
Sewer system	21,089,205	138,243	--	21,227,448
Water distribution system	17,624,575	--	--	17,624,575
Total capital assets, being depreciated	<u>39,630,049</u>	<u>141,506</u>	<u>5,310</u>	<u>39,766,245</u>
Less accumulated depreciation for:				
Machinery and equipment	611,306	53,510	4,869	659,947
Sewer system	7,008,738	541,670	--	7,550,408
Water distribution system	5,942,562	461,128	--	6,403,690
Total accumulated depreciation	<u>13,562,606</u>	<u>1,056,308</u>	<u>4,869</u>	<u>14,614,045</u>
Total capital assets, being depreciated, net	<u>26,067,443</u>	<u>(914,802)</u>	<u>441</u>	<u>25,152,200</u>
Business-type activities capital assets, net	<u>\$30,769,271</u>	<u>\$ (163,138)</u>	<u>\$ 441</u>	<u>\$30,605,692</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE E – CAPITAL ASSETS (continued)

Depreciation Expense

Depreciation expense was charged to functions/programs of the Town for the year ended June 30, 2014 as follows:

Governmental Activities:

General government	\$ 79,653
Waste collection	346
Parks and recreation	47,033
Streets and roads	<u>1,215,769</u>
Total	<u>\$1,342,801</u>

Business-type Activities:

Water and sewer	<u>\$1,056,308</u>
-----------------	--------------------

Capital Commitments

At June 30, 2014, the outstanding commitments relating to projects of the Town amount to approximately \$1,250,000 for governmental activities for building projects, storm drain and streetscape projects, and park projects, of which \$959,002 has been spent to date; and \$5,590,000 for business-type activities, including water line replacement and water station improvements, of which \$3,878,847 has been spent to date.

NOTE F – LONG-TERM DEBT

The Town's long-term debt at June 30, 2014 consisted of the following:

Business-type Activities:

Description	Due	Rate	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014	Due Within One Year
Infrastructure Bonds 2012							
Refunding	2032	0.61 - 3.42%	\$1,593,800	\$ --	\$70,000	\$1,523,800	\$ 71,000
Infrastructure Bonds 2012	2032	0.61 - 3.42%	2,055,522	1,441,075	226,000	3,270,597	228,000
Note payable							
Maryland Dept of Environment Loan	2019	3.24%	1,301,093	--	199,937	1,101,156	206,415
Total long-term debt			<u>\$4,950,415</u>	<u>\$1,441,075</u>	<u>\$495,937</u>	<u>\$5,895,553</u>	<u>\$505,415</u>

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE F – LONG-TERM DEBT (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	\$ 505,415	\$ 214,661	\$ 720,076
2016	515,103	204,804	719,907
2017	526,507	194,094	720,601
2018	537,636	182,798	720,434
2019	549,995	170,750	720,745
2020 – 2024	1,673,000	657,973	2,330,973
2025 – 2029	1,905,300	428,200	2,333,500
2030 – 2032	1,300,500	99,662	1,400,162
Total	<u>\$7,513,456</u>	<u>\$2,152,942</u>	<u>\$9,666,398</u>

On December 1, 2012, the Town signed an agreement with the Community Development Administration (the “Administration”), a unit of the Division of Development Finance of the Maryland Department of Housing and Community Development, for the Administration to issue and sell its Local Government Infrastructure Bonds 2012 Series B-1 and Series B-2 to finance and refinance obligations of the Town. The Town’s new obligations are one bond in the principal amount of \$1,664,165 and a second bond in the principal amount of \$5,339,431.

The proceeds of the first bond were used to refund the Town’s Local Government Infrastructure Bond 2002 Series A. The proceeds of the second bond are being used to fund water and sewer infrastructure projects. The Town draws funds periodically to pay costs during construction. At June 30, 2014, the Town had requisitioned \$3,721,528, however, the total principal repayment of \$5,339,431 has been reflected in the annual requirements above. The remaining balance of \$1,617,903 must be drawn within 24 months of the date of issue.

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance construction of assets. Interest costs incurred for the year June 30, 2014 ended were \$232,173, of which \$129,253 was capitalized.

Other long-term liabilities, including OPEB liabilities in governmental and business-type activities, are liquidated from general revenues in the respective General and Water and Sewer Funds, as applicable.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE G – INTERFUND BALANCES AND ACTIVITY

Due to/from Other Funds

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for goods or services and other miscellaneous receivables/payables between funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

There were no due to/from other funds balances at June 30, 2014.

NOTE H – PENSION PLAN

In December 2001, the Council of the Town of Mount Airy passed a resolution to enroll in the State Retirement and Pension System of Maryland, and give current employees 100% credit for years of service. The effective date of enrollment was January 1, 2002.

All Town employees participate in the Employees Retirement and Pension Systems, which is a cost-sharing multiple-employer defined benefit plan sponsored and administered by the State Retirement and Pension System of Maryland. The Employees Retirement and Pension Systems were created by the Maryland General Assembly and provide retirement, disability, and death benefits to participants and their beneficiaries. The State Retirement and Pension System of Maryland issues a publicly available financial report that includes financial statements and supplementary information. The financial report may be obtained by writing to State Retirement Agency, 120 East Baltimore Street, Baltimore, Maryland 21202 or on their website: <http://sra.maryland.gov/agency/downloads/cafr/default.aspx>.

Plan members are required to contribute 7% of their annual earnable compensation and the Town is required to contribute at rates established annually. The current rate is 10% of covered payroll.

The Town's contributions to the Systems, which were equal to 100% of the required contribution, for the years ended June 30, 2014, 2013, and 2012 were \$119,328, \$103,459, and \$130,176, respectively.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE I – OTHER POSTEMPLOYMENT BENEFITS - HEALTH CARE

Plan Description

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

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

To be eligible for this retiree medical plan:

- Employees hired before June 30, 2009: the active participant must retire after age 65 with 20 or more years of service.
- Employees hired after July 1, 2009 and before January 1, 2013: the active participant must retire after age 65 with 30 or more years of service.

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

Funding Policy

These benefits are financed on a pay-as-you-go basis.

An actuarial valuation was performed as of July 1, 2012 to determine the Net OPEB obligation. The plan is not funded. The valuation used the projected unit cost method, with linear pro-ration to assumed benefit commencement.

Annual OPEB Cost and Net OPEB Obligation

The Town of Mount Airy's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceed thirty years. The following table shows the components of the Town of Mount Airy's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town of Mount Airy's net OPEB obligation.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE I – OTHER POSTEMPLOYMENT BENEFITS - HEALTH CARE (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (continued)

	Fiscal Year Ended June 30, 2014
Annual required contribution	\$145,000
Interest on net OPEB obligation	13,000
Adjustment to annual required contribution	<u>(23,000)</u>
Annual OPEB cost (expense)	135,000
Contributions made	<u>(9,049)</u>
Increase in net OPEB obligation	125,951
Net OPEB obligation – beginning of year	<u>413,428</u>
 Net OPEB obligation – end of year	 <u>\$539,379</u>

The Town of Mount Airy’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u>Fiscal Year Ended</u>	<u>OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
June 30, 2012	\$120,000	9%	\$295,661
June 30, 2013	\$129,000	9%	\$413,428
June 30, 2014	\$135,000	7%	\$539,379

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. As of July 1, 2013, the unfunded actuarial accrued liability (UAAL) was \$1,155,000. As of July 1, 2013, the covered payroll (annual payroll of active employees covered by the plan) was \$1,177,712 and the ratio of the UAAL to the covered payroll was 98.07%.

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

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE I – OTHER POSTEMPLOYMENT BENEFITS - HEALTH CARE (CONTINUED)

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, gradually decreasing over time. By 2030, the rate of increase is 5.7%, and by 2050 5.0%. The rates include a 2.9% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis over thirty years (as of July 1, 2012).

NOTE J – OTHER EMPLOYEE BENEFITS

Health and Life Insurance

The Town provides health, life and disability insurance benefits to its employees and their dependents. The Town paid premiums of \$310,243 for employee insurance benefits for the year ended June 30, 2014. The Town also provides benefits for supplemental insurance coverage and flexible spending accounts under a cafeteria plan whereby premiums are fully funded by pre-tax payroll deductions and the only direct costs incurred by the Town are minimal fees for plan administration.

NOTE K – RISK MANAGEMENT

The Town is a member in the Local Government Insurance Trust (LGIT). The Trust is a consortium of Maryland local governments created July 1, 1987 to provide an alternative to the diminishing availability of insurance coverages to municipal governments and the increasing premium costs in the municipal insurance market. The Trust is owned and directed by the local governments (participants) that subscribe to its insurance coverages. The Trust's objectives are to 1.) offer broader insurance coverages and, in certain cases, coverages not otherwise available from commercial insurance providers, 2.) provide coverage to members at competitive rates, and 3.) develop programs and provide specific loss control and risk management assistance to local governments. The Trust 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 Trust's operations.

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE K – RISK MANAGEMENT (CONTINUED)

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The maximum coverage under the liability pool of the Trust is \$1,000,000 per occurrence. The trust has the right to assess its members an amount up to twice their annual premium if the Trust experiences a deficit. At June 30, 2014, the Trust was not in a deficit position. Settled claims resulting from these risks have not exceeded insurance coverage for each of the past three years. During the year ended June 30, 2014 the Town paid premiums of \$58,216 to the Trust.

NOTE L – FUND BALANCE AND NET POSITION

Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the General Fund are as follows:

Committed to:	
Parks fee-in-lieu	\$ 131,515
Twin Ridge ball field	6,802
Center Street improvements	<u>63,617</u>
Total committed	<u>201,934</u>
Assigned to:	
Capital improvements	3,707,920
Mt. Airy resident troopers	271
Office and building improvements	49,431
Park reserve	384,147
Future land acquisition	314,496
Sidewalk improvements	6,618
Special events	555
Street and road repair	766,846
Truck and equipment replacement	<u>121,388</u>
Total assigned	<u>5,351,672</u>
Unassigned	<u>1,285,109</u>
Total fund balances	<u><u>\$6,838,715</u></u>

Net Position

Net position in the proprietary fund is unrestricted. Designations of portions of the unrestricted net position are established to indicate tentative plans for financial resource utilization in future periods. The unrestricted net position of the proprietary fund at June 30, 2014 was \$6,992,828 designated as follows:

TOWN OF MOUNT AIRY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE L – FUND BALANCE AND NET POSITION (CONTINUED)

Net Position (continued)

Water system expansion	\$ 670,274
Well system expansion	1,131,468
Well system capital improvement	406,908
Sewerage system reserve	9,201
Treatment plant expansion	<u>2,800,729</u>
Total designated	5,018,580
Undesignated	<u>1,974,248</u>
Unrestricted net position	<u>\$6,992,828</u>

NOTE M – LEASE AGREEMENTS

The Town has entered into communication tower lease agreements with various unrelated parties. These lease agreements are renewable for additional successive five-year periods at the lessees' discretion at various dates through 2038. Rental income for the year ended June 30, 2014, was \$66,725, reported in the Water and Sewer Fund. Future minimum rental payments to be received under the leases for the next five years, as of June 30, 2014, are as follows:

Year Ending	Amount
<u>June 30</u>	<u>Amount</u>
2015	\$ 48,084
2016	42,459
2017	43,732
2018	45,044
2019	<u>46,396</u>
Total	<u>\$225,715</u>

NOTE N – CONCENTRATIONS AND ECONOMIC DEPENDENCIES

The Town provides various services to its residents. Credit is granted to the residents for taxes, and water and sewer bills. The Town may place a lien on any property associated with unpaid taxes and water and sewer services, therefore, an allowance for uncollectible amounts is not considered necessary.

The Town receives shared revenue from the counties and the state. The amounts of these funds are not guaranteed and may be reduced as a result of the current economic environment.

NOTE O – COMMITMENTS AND CONTINGENCIES

The Town is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Town.

TOWN OF MOUNT AIRY, MARYLAND

SUPPLEMENTAL SCHEDULES

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS - HEALTH CARE
For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2011	--	\$1,111,000	\$1,111,000	0.00%	\$1,232,290	90.16%
July 1, 2012	--	\$1,063,000	\$1,063,000	0.00%	\$1,254,313	84.75%
July 1, 2013	--	\$1,155,000	\$1,155,000	0.00%	\$1,177,712	98.07%

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:			
Taxes:			
Real property taxes	\$ 1,600,000	\$ 1,631,023	\$ 31,023
Personal property tax:			
Railroad and public utility	24,000	22,103	(1,897)
Ordinary business corporations	115,000	105,780	(9,220)
Penalties and interest	-	17,631	17,631
Income taxes	1,400,000	1,396,795	(3,205)
Admissions and amusement taxes	14,735	16,409	1,674
Highway taxes	291,881	286,218	(5,663)
Total taxes	<u>3,445,616</u>	<u>3,475,959</u>	<u>30,343</u>
Licenses and permits:			
Alcoholic beverage	7,100	4,773	(2,327)
Traders' licenses	23,000	22,228	(772)
Cable and video licenses	86,300	100,700	14,400
Total licenses and permits	<u>116,400</u>	<u>127,701</u>	<u>11,301</u>
Intergovernmental:			
State grants	-	18,664	18,664
County grants	734,083	666,730	(67,353)
Police protection	39,096	84,509	45,413
Financial corporation	90	86	(4)
Total intergovernmental	<u>773,269</u>	<u>769,989</u>	<u>(3,280)</u>
Fees and fines:			
Zoning and subdivision fees	41,000	31,657	(9,343)
Developer inspection fees	20,000	4,361	(15,639)
Parking citations and restitution	2,000	1,125	(875)
Code enforcement/property maintenance	-	19,480	19,480
Park fees	5,500	5,385	(115)
Skate park fees	4,000	4,807	807
Total fees and fines	<u>72,500</u>	<u>66,815</u>	<u>(5,685)</u>
Capital improvement assessments	273,000	247,000	(26,000)
Interest and other investment income	27,000	20,424	(6,576)
Miscellaneous	15,800	24,472	8,672
Total Revenues	<u>\$ 4,723,585</u>	<u>\$ 4,732,360</u>	<u>\$ 8,775</u>

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Expenditures:			
General government:			
Salaries	\$ 400,700	\$ 400,835	\$ (135)
Audit	21,120	21,120	-
Legal	45,000	36,323	8,677
Insurance: General	44,005	44,057	(52)
Office	26,364	29,415	(3,051)
Utilities	18,500	26,835	(8,335)
Repairs and maintenance	30,190	26,765	3,425
Computer maintenance	31,210	29,502	1,708
Dues, meetings and conventions	24,090	22,172	1,918
Telephone	12,900	13,908	(1,008)
Town codification	6,700	8,101	(1,401)
Other	25,770	25,305	465
Total general government	<u>686,549</u>	<u>684,338</u>	<u>2,211</u>
Planning and zoning:			
Salaries	154,600	155,274	(674)
Legal	20,000	10,018	9,982
Consultant fees	2,000	362	1,638
Advertising	4,000	3,478	522
Travel	600	-	600
Administration	21,444	19,307	2,137
Total planning and zoning	<u>202,644</u>	<u>188,439</u>	<u>14,205</u>
Public safety:			
Resident Trooper Program	680,000	663,671	16,329
Contribution to volunteer fire company	160,000	160,000	-
Emergency preparedness	500	-	500
Other	9,000	8,710	290
Total public safety	<u>849,500</u>	<u>832,381</u>	<u>17,119</u>

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014
(Continued)

	Budget	Actual	Variance - Favorable (Unfavorable)
Streets and roads:			
Salaries	126,000	102,940	23,060
Maintenance	71,800	57,749	14,051
Snow removal	78,000	107,302	(29,302)
Automotive	6,600	7,640	(1,040)
Fuel	17,000	18,992	(1,992)
Street lighting	167,000	158,563	8,437
Other	26,500	20,356	6,144
Total streets and roads	492,900	473,542	19,358
Waste collection:			
Sanitation collection	253,282	252,271	1,011
Landfill fees	165,000	134,956	30,044
Town clean-up days	-	-	-
Sanitation and recycling education	3,000	2,395	605
Other	3,100	2,381	719
Total waste collection	424,382	392,003	32,379
Parks and recreation:			
Salaries	186,200	179,825	6,375
Maintenance	14,000	13,222	778
Utilities	4,000	3,976	24
Fuel	17,000	18,992	(1,992)
Automotive	4,500	6,504	(2,004)
Recreation and culture	3,000	1,231	1,769
Sanitary facilities	2,400	2,525	(125)
Beautification program	11,385	11,340	45
Skate park	10,000	7,005	2,995
Other	11,550	5,159	6,391
Total parks and recreation	264,035	249,779	14,256
Economic development:			
Downtown revitalization	18,000	12,095	5,905
Other	3,400	3,276	124
Total economic development	21,400	15,371	6,029

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014
(Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Miscellaneous:			
Insurance: Medical and life	193,920	197,723	(3,803)
Payroll taxes	66,300	63,398	2,902
Retirement	85,900	80,778	5,122
Contingencies	<u>3,500</u>	<u>6,625</u>	<u>(3,125)</u>
Total miscellaneous	<u>349,620</u>	<u>348,524</u>	<u>1,096</u>
Capital expenditures:			
General government	102,500	86,601	15,899
Streets and roads	872,711	685,272	187,439
Parks and recreation	<u>379,510</u>	<u>140,271</u>	<u>239,239</u>
Total capital expenditures	<u>1,354,721</u>	<u>912,144</u>	<u>442,577</u>
Total Expenditures	<u>\$ 4,645,751</u>	<u>\$ 4,096,521</u>	<u>\$ 549,230</u>

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
WATER AND SEWER FUND
For the Year Ended June 30, 2014

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:			
Sewer system:			
Service charges	\$ 1,125,000	\$ 1,040,473	\$ (84,527)
Connection charges	71,400	76,500	5,100
Expansion fund charges	105,000	95,000	(10,000)
Total sewer system revenues	1,301,400	1,211,973	(89,427)
Water service:			
Service charges	1,125,000	1,188,330	63,330
Connection charges	71,400	76,500	5,100
Expansion fund charges	126,000	115,808	(10,192)
Total water service revenues	1,322,400	1,380,638	58,238
Well system:			
Exploration and development fees	63,000	67,500	4,500
Other revenues:			
Interest and other investment income	45,000	47,420	2,420
Benefit charge	225,000	228,626	3,626
Capital improvement assessments	80,000	77,136	(2,864)
Developer inspection fees	20,000	4,361	(15,639)
Penalties	8,500	11,650	3,150
Water tower revenue	67,464	66,725	(739)
Miscellaneous	15,000	20,899	5,899
Total other revenues	460,964	456,817	(4,147)
Total Revenues	\$ 3,147,764	\$ 3,116,928	\$ (30,836)

TOWN OF MOUNT AIRY, MARYLAND
SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
WATER AND SEWER FUND
For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Expenses:			
Sewer system:			
Salaries	\$ 225,500	\$ 220,826	\$ 4,674
Chemicals and supplies	111,800	115,787	(3,987)
Electricity	149,000	157,466	(8,466)
Maintenance and repairs	62,000	79,823	(17,823)
Fuel	12,000	12,504	(504)
Other	199,698	210,711	(11,013)
Total sewer system expenses	<u>759,998</u>	<u>797,117</u>	<u>(37,119)</u>
Water service:			
Salaries	225,500	220,829	4,671
Chemicals and supplies	52,300	49,397	2,903
Electricity	81,000	85,465	(4,465)
Maintenance and repairs	60,900	41,764	19,136
Fuel	12,000	12,504	(504)
Consulting fees	1,000	-	1,000
Other	28,970	24,785	4,185
Total water service expenses	<u>461,670</u>	<u>434,744</u>	<u>26,926</u>
Administrative and other expenses:			
Audit	17,280	17,280	-
Legal	5,000	5,233	(233)
Insurance: General	42,839	45,804	(2,965)
Insurance: Medical and life	121,800	121,568	232
Other postemployment benefits	-	41,303	(41,303)
Payroll taxes	34,000	32,190	1,810
Retirement	44,500	38,550	5,950
Motor vehicle	5,000	5,995	(995)
Computer maintenance	9,450	17,541	(8,091)
Office	10,300	11,788	(1,488)
Telephone	14,433	16,901	(2,468)
Certification and training	3,000	2,712	288
Bond interest	137,462	102,920	34,542
Depreciation	-	1,056,308	(1,056,308)
Loss on disposal of capital assets	-	441	(441)
Other	7,720	6,515	1,205
Total administrative and other expenses	<u>452,784</u>	<u>1,523,049</u>	<u>(1,070,265)</u>
Total Expenses	<u>\$ 1,674,452</u>	<u>\$ 2,754,910</u>	<u>\$ (1,080,458)</u>