

**CITY OF FROSTBURG, MARYLAND**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2018**

# CITY OF FROSTBURG, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council  
City of Frostburg, Maryland

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity 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 on pages 4 – 15, the budgetary comparison information on pages 51 – 52, the "Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System" on page 53, the "Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System" on page 54, and the "Schedule of Changes in City of Frostburg, Maryland's Total OPEB Liability and Related Ratios" on page 55 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Frostburg, Maryland's internal control over financial reporting and compliance.

*Huber, Michael & Company*

Cumberland, Maryland  
November 30, 2018

**CITY OF FROSTBURG, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2018**

## **Management Discussion and Analysis City of Frostburg**

### **City of Frostburg Management's Discussion and Analysis**

The following discussion and analysis provides an overview of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2018. This information is designed to focus on the current year activities, resulting changes, and currently known facts. The discussion and analysis should be read in conjunction with the financial statements which follow this narrative.

#### **Financial Highlights**

- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$35,374,314.
- The government's total net position increased by \$1,041,933. This increase is partially attributed to general revenues which exceeded the net expenses from governmental activities. Primarily, the increase is attributed to the proprietary activities of the Water, Sewer, and Garbage funds.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$4,715,763 which is an increase of \$219,914 compared with the prior year. Approximately 97 percent of the total fund balance, or \$4,551,825, is available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$4,551,825 or 99 percent of total general fund expenditures for the fiscal year.
- The long-term bonds and notes payable of the City of Frostburg decreased by \$756,608 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$787,082.

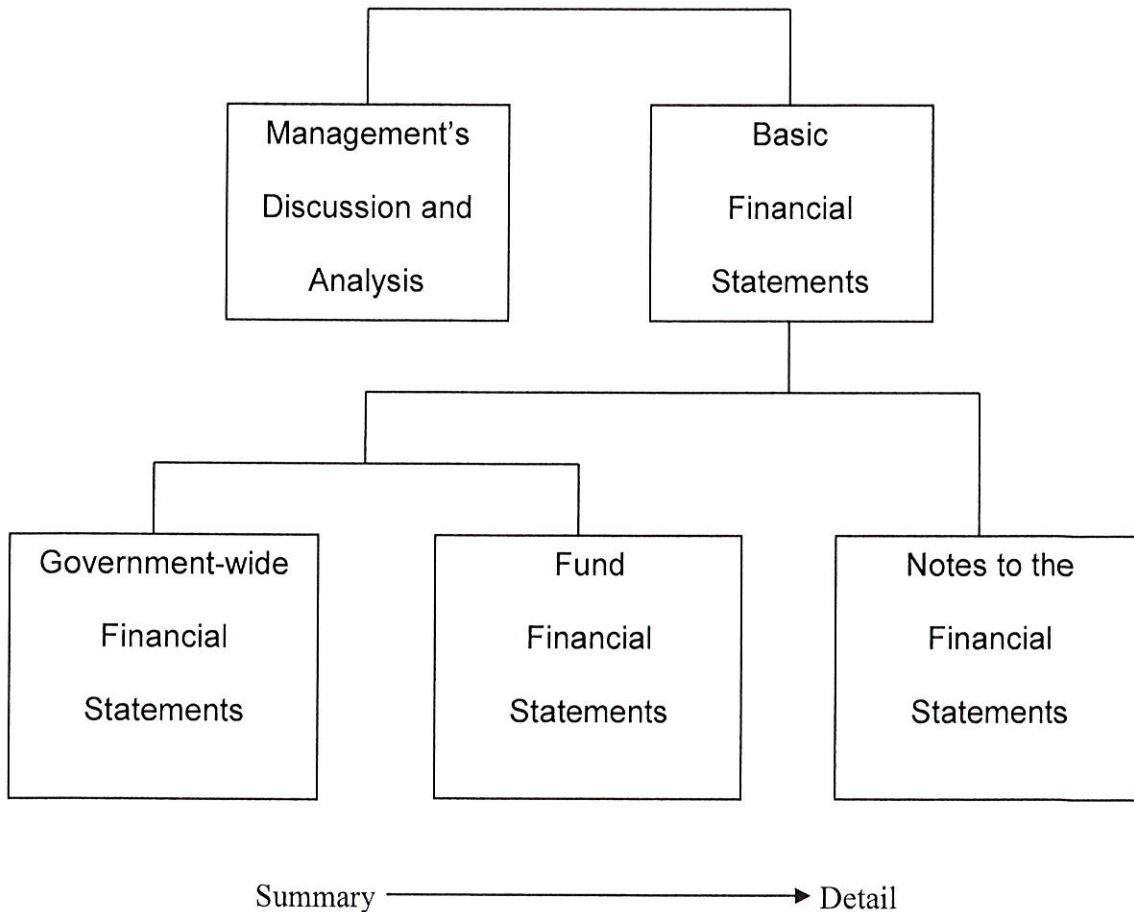
#### **Overview of the Financial Statements**

This discussion and analysis provides an introduction to the basic financial statements of the City of Frostburg. The basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the city through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Frostburg.



Required Components of Annual Financial Report

Figure 1



**Basic Financial Statements**

The first two statements (pages 16 - 17) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the financial status of the City of Frostburg.

The **Fund Financial Statements** (pages 18 - 24) focus on the activities of the individual parts of the city government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements** (pages 25 – 50). The notes explain, in detail, some of the data contained in the financial statements. After the notes, supplemental information is provided to show details about

## **Management Discussion and Analysis**

### **City of Frostburg**

the city's individual funds. Budgetary information, required by the General Statutes, is also included in this section of the statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the city finances in a similar format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the city's financial status as a whole.

The two government-wide statements report the city's net position and how they have changed. Net position is the difference between the city's total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources. Measuring net position is one way to gauge the city's financial condition.

The government-wide statements are divided into two categories: governmental activities and business-type activities. The governmental activities include most of the city's basic services such as public safety, street maintenance, parks and recreation, and general administration. Taxes and state and federal grant funds finance most of these activities. The business-type activities of the city are financed by user fees and include water, sewer and refuse service.

The government-wide financial statements are on pages 16 and 17 of this report.

### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the city's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Frostburg, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance or non-compliance with finance-related legal requirements such as the General Statutes or the city's budget ordinance. All of the funds of the City of Frostburg can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for functions which are reported as governmental activities in the government-wide financial statements. Most of the city's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view to determine if there are more, or less, financial resources available to finance the city's programs. The relationship between governmental activities, reported in the Statement of Net Position and the Statement of Activities, and governmental funds is described in a reconciliation that is a part of the fund financial statements.



## **Management Discussion and Analysis City of Frostburg**

The City of Frostburg adopts an annual budget for its General Fund, as required by the charter. The budget is a legally adopted document that incorporates input from the citizens of the city, the management of the city, and the decisions of the Mayor and Council about which services to provide and how to pay for them. The budget also authorizes the city to obtain funds from identified sources to finance current period activities. The budgetary statement for the General Fund demonstrates how well the city complied with the budget ordinance and whether or not the city succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Mayor and Council; 2) the final budget as amended by the Mayor and Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges. A reconciliation is presented at the end of the budgetary statement to account for the difference between the budgetary basis of accounting and the modified accrual basis.

**Proprietary Funds** – The City of Frostburg has two different kinds of proprietary funds. Enterprise Funds report the same functions which are presented as business-type activities in the government-wide financial statements. The City of Frostburg uses enterprise funds to account for water, water surcharge, sewer and refuse activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Special Revenue Funds are an accounting device used to accumulate and allocate costs internally among the functions of the City of Frostburg. The city uses a special revenue fund to account for its Community Development Block Grant activity. Because this activity benefits predominantly governmental rather than business-type activities, the special revenue fund has been included within the governmental activities in the government-wide financial statements.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25 - 50 of this report.

### **Government-Wide Financial Analysis**

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents information on all the assets of the City of Frostburg plus deferred outflows of resources compared to the liabilities of the City plus deferred inflows of resources. The difference between the two subtotals are reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities focuses on how the government's assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash



**Management Discussion and Analysis**  
**City of Frostburg**

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Examples of items that result in future cash flows are uncollected taxes and unused vacation leave. The Statement of Net Position and the Statement of Activities are on pages 16 - 17 of this report. A summary of this statement is provided below.

**City of Frostburg – Net Position**  
**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 5,277,228	\$ 5,086,567	\$ 2,135,279	\$ 1,656,757	\$ 7,412,507	\$ 6,743,324
Non-current assets	9,649	10,004	-	-	9,649	10,004
Capital assets	10,057,931	10,114,024	28,172,820	28,541,052	38,230,751	38,655,076
Total assets	15,344,808	15,210,595	30,308,099	30,197,809	45,652,907	45,408,404
Deferred outflows of resources	284,397	336,652	116,203	141,615	400,600	478,267
Long-term liabilities	1,655,382	1,578,120	6,825,039	7,606,570	8,480,421	9,184,690
Other liabilities	399,260	506,695	1,609,842	1,429,052	2,009,102	1,935,747
Total liabilities	2,054,642	2,084,815	8,434,881	9,035,622	10,489,523	11,120,437
Deferred inflows of resources	141,248	83,060	48,422	30,310	189,670	113,370
Net position:						
Invested in capital assets, net of related debt	10,039,618	10,072,056	21,229,173	20,864,452	31,268,791	30,936,508
Restricted	191,636	224,978	-	-	191,636	224,978
Unrestricted	3,202,061	3,082,338	711,826	409,040	3,913,887	3,491,378
Total net position	\$ 13,433,315	\$ 13,379,372	\$ 21,940,999	\$ 21,273,492	\$ 35,374,314	\$ 34,652,864

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Frostburg exceeded liabilities and deferred inflows by \$35,374,314 as of June 30, 2018. The majority of the net position is invested in capital assets. Capital assets are used to provide services to citizens but they are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position of the City of Frostburg, less than 1%, represents resources that are subject to external restrictions on how they may be used.

**Management Discussion and Analysis**  
**City of Frostburg**

The city's total net position increased by \$1,041,933 for the fiscal year ended June 30, 2018. Several particular aspects of the City financial operations positively influenced the total governmental net position:

- An increase in net revenue from water, sewer, and garbage activities.
- A significant decrease in workers compensation insurance premiums.
- Public safety and Street Department expenses were under budget for the year.

**City of Frostburg - Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 361,000	\$ 393,583	\$ 4,505,609	\$ 4,646,358	\$ 4,866,609	\$ 5,039,941
Operating grants and contributions	857,364	2,431,652	-	-	857,364	2,431,652
Capital grants and contributions	-	141,300	998,323	661,568	998,323	802,868
General revenues:						
Property taxes	2,558,847	2,506,212	-	-	2,558,847	2,506,212
Other taxes	695,870	681,560	-	-	695,870	681,560
Other	127,429	238,169	(30,215)	14,809	97,214	252,978
Total revenues	<u>4,600,510</u>	<u>6,392,476</u>	<u>5,473,717</u>	<u>5,322,735</u>	<u>10,074,227</u>	<u>11,715,211</u>
<b>Expenses:</b>						
General government	736,351	670,636	-	-	736,351	670,636
Public safety	1,782,112	1,753,295	-	-	1,782,112	1,753,295
Public works	1,024,581	2,485,642	-	-	1,024,581	2,485,642
Recreation and parks	586,529	492,712	-	-	586,529	492,712
Community development	324,487	450,911	-	-	324,487	450,911
Code enforcement	157,510	161,739	-	-	157,510	161,739
Water, sewer and garbage	-	-	4,420,724	4,753,027	4,420,724	4,753,027
Total expenses	<u>4,611,570</u>	<u>6,014,935</u>	<u>4,420,724</u>	<u>4,753,027</u>	<u>9,032,294</u>	<u>10,767,962</u>
Change in net position before transfers and donations	(11,060)	377,541	1,052,993	569,708	1,041,933	947,249
Transfers	289,975	275,243	(289,975)	(275,243)	-	-
Change in net position	<u>278,915</u>	<u>652,784</u>	<u>763,018</u>	<u>294,465</u>	<u>1,041,933</u>	<u>947,249</u>
Net position, July 1, as restated	13,154,400	12,726,588	21,177,981	20,979,027	34,332,381	33,705,615
Net position, June 30	<u>\$ 13,433,315</u>	<u>\$ 13,379,372</u>	<u>\$ 21,940,999</u>	<u>\$ 21,273,492</u>	<u>\$ 35,374,314</u>	<u>\$ 34,652,864</u>

Additionally, the City implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during FY 18. This change resulted in a reduction in beginning net position for FY 18 as shown in the following table. Additional information on the implementation of new accounting standards may be found in the Notes to the Financial Statements.

**Management Discussion and Analysis  
City of Frostburg**

**Restatement of Beginning Net Position  
For the Fiscal Year Ended June 30, 2018**

	Governmental Activities	Business-type Activities
Net Position, June 30, 2017	\$ 13,379,372	\$ 21,273,492
Net effect of change in OPEB Liability	(224,972)	(95,511)
Net Position, as restated	<u>\$ 13,154,400</u>	<u>\$ 21,177,981</u>

**Governmental activities:** The Statement of Activities is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Expenses are listed in the first column on the left side with revenues for that particular program reported to the right. The result is a Net Revenue/(Expense). This format highlights the relative financial burden of each function on the City's taxpayers. This presentation also identifies whether the function draws from the general revenues or if it is self-financing through fees and grants.

Governmental activities increased the city's net position by \$278,915. The key elements of this increase are as follows:

- An increase in property tax revenues.
- An increase in income tax revenue.
- A decrease in public works expenses.

**Business-type activities:** Business-type activities increased the net position of the City of Frostburg by \$763,018. The key elements of this increase are as follows:

- Grant funding received for the Phase VIII-B CSO project.
- A decrease in garbage operating expenses.
- A decrease in water operating expenses.
- A decrease in sewer operating expenses.

**Financial Analysis of the City Funds**

As noted earlier, the City of Frostburg uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds:** The focus of the City of Frostburg's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the financing requirements of the City of Frostburg. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.



## **Management Discussion and Analysis City of Frostburg**

The general fund is the chief operating fund of the City of Frostburg. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,551,825 while the total fund balance was \$4,593,776. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

At June 30, 2018, the governmental funds of the City of Frostburg reported a combined fund balance of \$4,715,763, a 5 percent increase over last year. Included in this change in fund balance is an increase in fund balance in the General Fund and a decrease in fund balance in the Special Revenue Fund.

**General Fund Budgetary Highlights:** The Mayor and City Council publicly approved the budget for the year ending June 30, 2018 as Ordinance 2017-01. The budget was amended through Resolution 2017-49 and Resolution 2018-20. Of note among the amendments was a decrease in Maryland Income Tax revenue based on lower distributions of income tax that had been received during the year compared to the original budgeted projections. Also, Grant income was amended to decrease the budgeted revenue based on revised projections of the estimated completion of grant funded projects prior to the end of the fiscal year.

During the year, actual revenues exceeded the budget by \$154,095. A contribution to the general fund from the special revenue fund was unbudgeted in the amount of \$175,166. Net property tax revenue was below budget by \$50,616 however this budget shortfall was offset by Income Tax revenue and Hotel/Motel Tax revenue exceeding budget in total by \$59,423.

General fund expenditures were below the budgetary estimates by \$182,043 which is approximately 4% of the total budgeted expenditures. Administration expenses exceeded the budget by \$206,501 mainly as the result of additional capital outlays. Offsetting this increase in expenses was a positive variance of public safety and street department expenses which were less than the budget by \$151,437 and \$232,587 respectively. Health insurance, pension and training expenses were all under budget for the year in the police department. In the street department, salaries, health insurance, salt and abrasives, and street maintenance expenses were all under budget for the year.

**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year was \$711,826. Current year operations of the proprietary funds positively affected net position by \$763,018. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Management Discussion and Analysis  
City of Frostburg**

**Capital Asset and Debt Administration**

**Capital assets:** The City of Frostburg’s investment in capital assets for its governmental and business-type activities as of June 30, 2018 totals \$38,230,751, net of accumulated depreciation. These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

- Work in progress on the Phase VIII-B CSO project of \$1,120,741.
- Completion of the 2017/18 street paving of \$109,181.
- Purchase of a building on Main Street intended for resale and redevelopment at a cost of \$166,098.
- Replacement of part of the armory roof for \$72,000.
- Improvements at the Street Department shop totaling \$26,160.
- Purchase of a Kubota zero-turn mower for the Recreation Department for \$14,894.
- Purchase of a new server and related equipment and software at City Hall for \$12,402.

**City of Frostburg - Capital Assets  
Figure 4**

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land and construction in progress	\$ 2,224,153	\$ 2,215,085	\$ 1,261,134	\$ 223,825	\$ 3,485,287	\$ 2,438,910
Buildings and systems	2,810,103	2,646,809	2,544,024	2,780,868	5,354,127	5,427,677
Improvements other than buildings	700,974	768,566	6,446,942	6,842,187	7,147,916	7,610,753
Machinery and equipment	513,387	590,406	696,977	699,346	1,210,364	1,289,752
Intangible assets	175,375	185,691	-	-	175,375	185,691
Infrastructure	3,633,939	3,707,467	17,223,743	17,994,826	20,857,682	21,702,293
<b>Total</b>	<b>\$ 10,057,931</b>	<b>\$ 10,114,024</b>	<b>\$ 28,172,820</b>	<b>\$ 28,541,052</b>	<b>\$ 38,230,751</b>	<b>\$ 38,655,076</b>

Additional information on the City’s capital assets can be found in note 5 of the Basic Financial Statements.



**Management Discussion and Analysis  
City of Frostburg**

**Long-term Debt.** As of June 30, 2018 the City of Frostburg had total bonded debt outstanding of \$6,981,960. Of this total bonded debt, \$6,303,531 is debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources.

**City of Frostburg - Outstanding Debt  
General Obligation and Revenue Bonds  
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 38,313	\$ 61,968			\$ 38,313	\$ 61,968
Revenue bonds			\$ 6,943,647	\$ 7,676,600	\$ 6,943,647	\$ 7,676,600
<b>Total</b>	<b>\$ 38,313</b>	<b>\$ 61,968</b>	<b>\$ 6,943,647</b>	<b>\$ 7,676,600</b>	<b>\$ 6,981,960</b>	<b>\$ 7,738,568</b>

The City of Frostburg’s long-term total debt decreased by \$1,014,227 (10%) during the past fiscal year. Debt principal payments during the past fiscal year were \$756,608.

Additional information regarding the City of Frostburg’s long-term debt can be found in note 6 beginning on page 35 of this report.

**Economic Factors – 2018**

Allegany County continues to lag behind Maryland and national metrics for measuring wealth, including median family income. The unemployment rate in Allegany County, while following the national trend, is low but it still is significantly higher than Maryland and National unemployment rates, but it is comparable to many communities in Appalachia.

The economy of the City is impacted by regional industry and business, including major manufacturers, healthcare, government services, education, correctional facilities, and natural resources. Many residents of Frostburg live within the City and commute elsewhere in the County or region to work. Frostburg is known for a high-quality of life and desirable schools.

The City is home to one of the county’s larger employers, Frostburg State University. FSU is the primary contributor to the economy in Frostburg based on the number of full time jobs, ongoing capital investments, and residents of the community that attend or work for the school. Enrollment projections do not expect significant growth, however, capital investment is ongoing and will continue and enable the University to remain competitive



## **Management Discussion and Analysis City of Frostburg**

as the standards for higher education transform. Additionally, the University is transitioning to a Division II school which may make a significant regional economic impact in terms of investment in the community typical of other Division II college towns. Those transformations are expected to be seen over the next 3 years.

The other significant employment sector within City limits are call centers. Currently, there are three operations and, as contracts change and employment numbers increase or decrease at each call center, the employees tend to be able to be absorbed by another center. These companies employ, on average, about 600 to 700 people collectively.

The City also has two business parks, and recently a vacant 115,000 square foot warehouse space was put back into use and there are prospects for additional new construction within the Frostburg Business Park that would increase both tax revenue and jobs in Frostburg.

New commercial development near the interstate interchanges has not occurred since the recession, however, based on recent information, new development may occur in 2019 should national economic trends continue in their current trajectory. Two residential subdivisions came online for development in 2018 and construction of new single family homes may begin as soon as 2019.

The Main Street commercial district remains fairly strong. In the past 5 years, 60% of the businesses that have opened in the Central Business District remain open which exceeds the national average for small business success rate. Investments are continuing to be made to rehabilitate historic structures and vacancy rates of storefronts available for rent remain low.

Overall, the economic base of the community remains stable and there is reason for optimism for growth.

### **Budget Highlights for the Fiscal Year Ending June 30, 2019**

**Governmental Activities:** Property tax revenue, the largest source of general government revenue, is expected to remain stable as the real estate tax rate is unchanged from the prior year and assessments reflect only a modest increase. The City will continue to receive \$200,000 annually from Frostburg State University to enhance public safety salaries and training and to provide support for first responders. A special grant from the State of Maryland is budgeted to supplement the highway user revenue in providing resources for street maintenance. Reimbursements from grant agencies will provide significant revenue resources to fund community development projects.

Budgeted expenditures in the General Fund are expected to increase by 3 percent. Part of this increase is attributable to the retirement payout for police officers, a one-ton dump truck for the Recreation department, seasonal employees in the Recreation department, and new financial management software.

## **Management Discussion and Analysis City of Frostburg**

**Business – type Activities:** All surcharges rates will remain unchanged for the fiscal year ending June 30, 2019 however the water and sewer rates for consumption increased for consumption under 50,000 gallons per billing. Per the Public Service Commission ruling, the water rate charged to Allegany County for bulk water sales was recalculated on a triannual basis and reflects an increase of \$0.68 per 1,000 gallons which is effective for fiscal year 2019.

Capital projects included in the budget are the continuation of the combined sewer overflow elimination projects with continued work on Phase VIII-B and design of Phase IX-A in the Sewer Fund. Project Open Space grants will also be used to fund improvements at Glendening Park and at City Place.

### **Requests for Information**

This report is designed to provide an overview of the City finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Elaine Jones, CPA, PO Box 440, Frostburg, MD 21532, 301-689-6000 extension 103, [ejones@frostburgcity.org](mailto:ejones@frostburgcity.org).

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION  
JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 4,753,982	\$ 1,002,563	\$ 5,756,545
Certificate of deposit	99,478	-	99,478
Certificate of deposit - restricted	36,137	-	36,137
Accounts receivable	345,680	1,120,329	1,466,009
Prepaid expenses	41,951	12,387	54,338
Internal balances	-	-	-
<b>Total Current Assets</b>	<u>5,277,228</u>	<u>2,135,279</u>	<u>7,412,507</u>
<b>Capital Assets</b>			
Non-depreciable	2,224,153	1,261,134	3,485,287
Depreciable, net of accumulated depreciation	7,833,778	26,911,686	34,745,464
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>10,057,931</u>	<u>28,172,820</u>	<u>38,230,751</u>
<b>Non-current Assets</b>			
Notes receivable	9,649	-	9,649
<b>Total Non-current Assets</b>	<u>9,649</u>	<u>-</u>	<u>9,649</u>
<b>TOTAL ASSETS</b>	<u>15,344,808</u>	<u>30,308,099</u>	<u>45,652,907</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	284,397	116,203	400,600
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	292,398	680,730	973,128
Salaries and benefits payable	32,903	11,074	43,977
Unearned revenue	35,646	169,269	204,915
Current portion of long-term debt	38,313	748,769	787,082
<b>Total Current Liabilities</b>	<u>399,260</u>	<u>1,609,842</u>	<u>2,009,102</u>
<b>Noncurrent Liabilities:</b>			
Compensated absences	310,182	183,200	493,382
Accrued post employment health insurance	300,529	121,836	422,365
Net pension liability	1,044,671	325,125	1,369,796
Long-term debt	-	6,194,878	6,194,878
<b>Total Noncurrent Liabilities</b>	<u>1,655,382</u>	<u>6,825,039</u>	<u>8,480,421</u>
<b>TOTAL LIABILITIES</b>	<u>2,054,642</u>	<u>8,434,881</u>	<u>10,489,523</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	141,248	48,422	189,670
<b>NET POSITION</b>			
Net investment in capital assets	10,039,618	21,229,173	31,268,791
Restricted	191,636	-	191,636
Unrestricted	3,202,061	711,826	3,913,887
<b>TOTAL NET POSITION</b>	<u>\$ 13,433,315</u>	<u>\$ 21,940,999</u>	<u>\$ 35,374,314</u>

The accompanying notes are an integral part of these financial statements.



**CITY OF FROSTBURG, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General government	\$ 736,351	\$ -	\$ -	\$ (515,178)	\$ -	\$ (515,178)
Public safety	1,782,112	407,373	-	(1,340,897)	-	(1,340,897)
Public works	1,024,581	185,847	-	(838,734)	-	(838,734)
Recreation and parks	586,529	5,714	-	(477,394)	-	(477,394)
Community development	324,487	258,430	-	(66,057)	-	(66,057)
Code enforcement	157,510	-	-	(154,946)	-	(154,946)
<b>Total Governmental Activities</b>	<b>4,611,570</b>	<b>857,364</b>	<b>-</b>	<b>(3,393,206)</b>	<b>-</b>	<b>(3,393,206)</b>
<b>Business-type Activities:</b>						
Water	1,041,100	-	-	-	158,518	158,518
Sewer	2,152,842	-	954,823	-	882,121	882,121
Water Surcharge	958,378	-	43,500	-	(34,332)	(34,332)
Garbage	268,404	-	-	-	76,901	76,901
<b>Total Business-type Activities</b>	<b>4,420,724</b>	<b>-</b>	<b>998,323</b>	<b>-</b>	<b>1,083,208</b>	<b>1,083,208</b>
<b>Total Primary Government</b>	<b>\$ 9,032,294</b>	<b>\$ 857,364</b>	<b>\$ 998,323</b>	<b>(3,393,206)</b>	<b>1,083,208</b>	<b>(2,309,998)</b>
<b>General Revenues:</b>						
Taxes						
Net property taxes				2,558,847	-	2,558,847
Income taxes				475,071	-	475,071
Highway use tax				67,542	-	67,542
Hotel motel tax				144,352	-	144,352
Admission taxes				8,905	-	8,905
Rental income				84,104	-	84,104
Licenses and permits				25,516	-	25,516
Interest earnings				265	138	403
Miscellaneous revenues				16,859	-	16,859
Gain (loss) on disposal of fixed assets				685	(30,353)	(29,668)
Transfers				289,975	(289,975)	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>				<b>3,672,121</b>	<b>(320,190)</b>	<b>3,351,931</b>
<b>Change in Net Position</b>				<b>278,915</b>	<b>763,018</b>	<b>1,041,933</b>
<b>Net Position - July 1, 2017, as restated</b>				<b>13,154,400</b>	<b>21,177,981</b>	<b>34,332,381</b>
<b>Net Position - June 30, 2018</b>				<b>\$ 13,433,315</b>	<b>\$ 21,940,999</b>	<b>\$ 35,374,314</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FROSTBURG, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,554,495	\$ 199,487	\$ 4,753,982
Certificate of deposit	99,478	-	99,478
Certificate of deposit - restricted	36,137	-	36,137
Accounts receivable	343,180	2,500	345,680
Prepaid expenses	41,951	-	41,951
<b>TOTAL ASSETS</b>	<u>\$ 5,075,241</u>	<u>\$ 201,987</u>	<u>\$ 5,277,228</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 212,389	\$ 80,000	\$ 292,389
Salaries and benefits payable	32,903	-	32,903
Advanced revenue	35,646	-	35,646
<b>TOTAL LIABILITIES</b>	<u>280,938</u>	<u>80,000</u>	<u>360,938</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	200,527	-	200,527
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>200,527</u>	<u>-</u>	<u>200,527</u>
<b>FUND BALANCES</b>			
Nonspendable - Prepaid expenses	41,951	-	41,951
Restricted - Community Development Block Grants	-	121,987	121,987
Unassigned	4,551,825	-	4,551,825
<b>TOTAL FUND BALANCE</b>	<u>4,593,776</u>	<u>121,987</u>	<u>4,715,763</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 5,075,241</u>	<u>\$ 201,987</u>	<u>\$ 5,277,228</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

<b>Total Fund Balances - Governmental Funds</b>		\$ 4,715,763
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		10,057,931
Notes receivable do not provide current resources and are not reported in the governmental funds.		9,649
Deferred outflows of resources related to pensions are not recognized in the fund statements.		284,397
Accrued interest is recorded on fund statements only when due.		(9)
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Current portion of long-term debt	(38,313)	
Accrued post employment health insurance	(300,529)	
Net pension liability	(1,044,671)	
Compensated absences	(310,182)	
		(1,693,695)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		200,527
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(141,248)
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>		<b>\$ 13,433,315</b>

The accompanying notes are an integral part of these financial statements.



CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes			
Net property tax revenue	\$ 2,486,019	\$ -	\$ 2,486,019
Income taxes	475,071	-	475,071
Hotel motel tax	144,352	-	144,352
Highway use tax	67,542	-	67,542
Other taxes	116,546	-	116,546
Police protection grant	138,415	-	138,415
Public safety revenue	56,137	-	56,137
Licenses and permits	31,348	-	31,348
COPS grants	25,579	-	25,579
Rental program revenue	77,554	-	77,554
Recreational activities	103,421	-	103,421
Grant income - federal	11,880	-	11,880
Grant income - other	599,990	80,000	679,990
Other income	32,424	-	32,424
Interest	182	83	265
	<u>4,366,460</u>	<u>80,083</u>	<u>4,446,543</u>
<b>TOTAL REVENUES</b>			
	<u>4,366,460</u>	<u>80,083</u>	<u>4,446,543</u>
<b>EXPENDITURES</b>			
Administration	1,196,407	21,141	1,217,548
Public safety	1,751,853	-	1,751,853
Street department	718,637	-	718,637
Recreation department	466,961	-	466,961
Debt service	23,655	-	23,655
Capital outlays	422,054	-	422,054
	<u>4,579,567</u>	<u>21,141</u>	<u>4,600,708</u>
<b>TOTAL EXPENDITURES</b>			
	<u>4,579,567</u>	<u>21,141</u>	<u>4,600,708</u>
<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(213,107)</u>	<u>58,942</u>	<u>(154,165)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers	465,141	(175,166)	289,975
Rental income	84,104	-	84,104
	<u>549,245</u>	<u>(175,166)</u>	<u>374,079</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
	<u>549,245</u>	<u>(175,166)</u>	<u>374,079</u>
<b>NET CHANGE IN FUND BALANCES</b>	336,138	(116,224)	219,914
<b>FUND BALANCE - JULY 1, 2017</b>	<u>4,257,638</u>	<u>238,211</u>	<u>4,495,849</u>
<b>FUND BALANCE - JUNE 30, 2018</b>	<u>\$ 4,593,776</u>	<u>\$ 121,987</u>	<u>\$ 4,715,763</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

<b>Total Net Change in Fund Balance - Governmental Funds</b>		\$ 219,914
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	422,054	
Less current year depreciation	<u>(475,181)</u>	(53,127)
Governmental funds report the proceeds from the sale of capital assets as income; however, in the statement of activities the sale of capital assets are reported net of the remaining book value of the assets as either gain or loss.		
Net book value of disposed capital assets in the statement of activities		(2,965)
Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		23,655
Governmental funds report notes issued to citizens for capital improvements as expenditures and the subsequent repayments of these notes as income; however, these transactions are not reported in the statement of activities.		
Write-off of old notes receivable	<u>(356)</u>	(356)
Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.		
Change in deferred inflows of resources from taxes		72,828
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in deferred outflows of resources related to pensions		(52,255)
Change in accrued interest		12
Change in accrued post employment health insurance		(12,953)
Change in compensated absences		20,065
Change in accrued pension liability		122,285
Change in deferred inflows of resources related to pensions	<u>(58,188)</u>	
<b>TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<u><u>\$ 278,915</u></u>

The accompanying notes are an integral part of these financial statements.

## CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018

	Water	Sewer	Water Surcharge	Garbage	Total
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 119,922	\$ 368,454	\$ 379,705	\$ 134,482	\$ 1,002,563
Accounts receivable	209,490	764,443	89,762	56,634	1,120,329
Prepaid expenses	5,251	5,333	-	1,803	12,387
<b>Total Current Assets</b>	<u>334,663</u>	<u>1,138,230</u>	<u>469,467</u>	<u>192,919</u>	<u>2,135,279</u>
<b>Capital Assets</b>					
Non-depreciable	-	1,147,112	114,022	-	1,261,134
Depreciable, net of accumulated depreciation	843,906	12,909,778	12,945,501	212,501	26,911,686
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>843,906</u>	<u>14,056,890</u>	<u>13,059,523</u>	<u>212,501</u>	<u>28,172,820</u>
<b>TOTAL ASSETS</b>	<u>1,178,569</u>	<u>15,195,120</u>	<u>13,528,990</u>	<u>405,420</u>	<u>30,308,099</u>
<b>Deferred Outflows of Resources</b>					
Deferred outflows of resources related to pensions	49,704	40,305	-	26,194	116,203
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	34,825	612,567	22,937	10,401	680,730
Salaries and benefits payable	4,757	3,974	-	2,343	11,074
Unearned revenue	35,000	49,247	54,913	30,109	169,269
Current portion of long-term debt	-	40,730	708,039	-	748,769
<b>Total Current Liabilities</b>	<u>74,582</u>	<u>706,518</u>	<u>785,889</u>	<u>42,853</u>	<u>1,609,842</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	77,325	62,603	-	43,272	183,200
Accrued post employment health insurance	56,857	40,612	-	24,367	121,836
Net pension liability	140,014	116,780	-	68,331	325,125
Notes payable, less current portion	-	349,744	5,845,134	-	6,194,878
<b>Total Noncurrent Liabilities</b>	<u>274,196</u>	<u>569,739</u>	<u>5,845,134</u>	<u>135,970</u>	<u>6,825,039</u>
<b>TOTAL LIABILITIES</b>	<u>348,778</u>	<u>1,276,257</u>	<u>6,631,023</u>	<u>178,823</u>	<u>8,434,881</u>
<b>Deferred Inflows of Resources</b>					
Deferred inflows of resources related to pensions	20,505	17,068	-	10,849	48,422
<b>Net Position</b>					
Net investment in capital assets	843,906	13,666,416	6,506,350	212,501	21,229,173
Unrestricted - undesignated	15,084	275,684	391,617	29,441	711,826
<b>Total Net Position</b>	<u>\$ 858,990</u>	<u>\$ 13,942,100</u>	<u>\$ 6,897,967</u>	<u>\$ 241,942</u>	<u>\$ 21,940,999</u>

The accompanying notes are an integral part of these financial statements.



## CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
<b>OPERATING REVENUES</b>	\$ 1,199,618	\$ 2,080,140	\$ 880,546	\$ 345,305	\$ 4,505,609
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	68,818	612,553	806,664	24,961	1,512,996
Sewer operating	-	1,310,252	-	-	1,310,252
Salaries and wages	240,912	166,257	-	112,004	519,173
Filtration contract payments	417,152	-	-	-	417,152
Employee benefits	28,244	33,630	-	(6,604)	55,270
Other	80,559	12,193	-	13,962	106,714
Landfill charges	-	-	-	109,598	109,598
Distribution	95,647	-	-	-	95,647
Pumping system	66,833	-	-	-	66,833
Payroll taxes	16,716	11,036	-	8,349	36,101
Meters expense	26,219	-	-	-	26,219
Sanitation operating	-	-	-	6,134	6,134
<b>Total Operating Expenses</b>	<u>1,041,100</u>	<u>2,145,921</u>	<u>806,664</u>	<u>268,404</u>	<u>4,262,089</u>
<b>Operating Income (Loss)</b>	<u>158,518</u>	<u>(65,781)</u>	<u>73,882</u>	<u>76,901</u>	<u>243,520</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Project reimbursements	-	954,823	43,500	-	998,323
Timber sales	-	-	-	-	-
Interest revenue	138	-	-	-	138
Gain (loss) on disposal of assets	(228)	-	(30,125)	-	(30,353)
Interest expense	-	(6,921)	(151,714)	-	(158,635)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(90)</u>	<u>947,902</u>	<u>(138,339)</u>	<u>-</u>	<u>809,473</u>
<b>Income (Loss) Before Transfers</b>	158,428	882,121	(64,457)	76,901	1,052,993
Transfers to general fund	<u>(101,010)</u>	<u>(172,460)</u>	<u>-</u>	<u>(16,505)</u>	<u>(289,975)</u>
<b>Change in Net Position</b>	57,418	709,661	(64,457)	60,396	763,018
<b>TOTAL NET POSITION - JULY 1, 2017, as restated</b>	<u>801,572</u>	<u>13,232,439</u>	<u>6,962,424</u>	<u>181,546</u>	<u>21,177,981</u>
<b>TOTAL NET POSITION - JUNE 30, 2018</b>	<u>\$ 858,990</u>	<u>\$ 13,942,100</u>	<u>\$ 6,897,967</u>	<u>\$ 241,942</u>	<u>\$ 21,940,999</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

	Water	Sewer	Water Surcharge	Garbage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 1,220,504	\$ 2,057,446	\$ 868,616	\$ 347,576	\$ 4,494,142
Payments to vendors	(787,608)	(1,454,406)	-	(167,964)	(2,409,978)
Payments to employees	(229,483)	(155,168)	-	(113,400)	(498,051)
Net Cash Provided By Operating Activities	203,413	447,872	868,616	66,212	1,586,113
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out	(101,010)	(172,460)	-	(16,505)	(289,975)
Change in due to/from other funds	(37,500)	-	-	-	(37,500)
Net Cash Provided By (Used In) Noncapital Financing Activities	(138,510)	(172,460)	-	(16,505)	(327,475)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of capital assets	(6,054)	(756,925)	(194,642)	(43,935)	(1,001,556)
Proceeds from sale of capital assets	50	-	41,050	-	41,100
Principal paid on loans	-	(39,951)	(693,002)	-	(732,953)
Project reimbursements	-	648,470	43,500	-	691,970
Timber sales	-	-	-	-	-
Interest paid on loans	-	(7,024)	(151,382)	-	(158,406)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(6,004)	(155,430)	(954,476)	(43,935)	(1,159,845)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	138	-	-	-	138
Net change in Cash	59,037	119,982	(85,860)	5,772	98,931
Cash and cash equivalents, beginning of year	60,885	248,472	465,565	128,710	903,632
Cash and cash equivalents, end of year	\$ 119,922	\$ 368,454	\$ 379,705	\$ 134,482	\$ 1,002,563
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating Income (Loss)	\$ 158,518	\$ (65,781)	\$ 73,882	\$ 76,901	\$ 243,520
<b>Adjustments Not Affecting Cash</b>					
Depreciation	68,818	612,553	806,664	24,961	1,512,996
Pension expense (benefit)	(34,933)	(14,573)	-	(27,805)	(77,311)
<b>Change in assets, liabilities, and deferred outflows and inflows</b>					
Accounts receivable	(9,114)	(20,767)	(9,983)	3,320	(36,544)
Prepaid expenses	981	(123)	-	(52)	806
Accounts payable and accrued expenses	(10,039)	(62,090)	-	(2,545)	(74,674)
Salaries and benefits payable	22	65	-	(457)	(370)
Unearned revenue	30,000	(1,927)	(1,947)	(1,049)	25,077
Accrued health insurance	2,451	1,750	-	1,050	5,251
Compensated absences	11,407	11,024	-	(939)	21,492
Deferred outflows of resources - pension contributions	(14,698)	(12,259)	-	(7,173)	(34,130)
Total Adjustments	44,895	513,653	794,734	(10,689)	1,342,593
Net Cash Provided By Operating Activities	\$ 203,413	\$ 447,872	\$ 868,616	\$ 66,212	\$ 1,586,113

The accompanying notes are an integral part of these financial statements.

# CITY OF FROSTBURG

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 REPORTING ENTITY

The City of Frostburg, Maryland (the "City") was incorporated in 1870 and adopted its first Charter in 1885. The City operates under a Council-Administrator form of government per Charter Revision Resolution No. 23 adopted July 1, 1981. The City of Frostburg adopted Charter Revision Resolution No. 2001-17 on December 21, 2001, effective February 2, 2002 which repealed the 1981 edition and also provides the following services as authorized by its Charter: public safety (police and fire), public works (maintenance, sewer, streets, and water), recreation, community development and general administrative services.

In evaluating how to define the City of Frostburg, Maryland, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibility. Based upon the application of these criteria, no potential component units were identified for inclusion in the reporting entity.

### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### **A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-Wide Financial Statements*** The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental (primarily supported by taxes, County appropriations and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**     **SIGNIFICANT ACCOUNTING POLICIES** - Continued

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each enterprise and governmental fund was a major fund and is presented in a separate column.

**B. Fund Accounting**

The accounts of the City are organized on the basis of funds that are each considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenses or expenditures. The following funds are used by the City:

***Governmental Fund Types***

General Fund

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

Special Revenue Funds

The Community Development Block Grant Fund is a special revenue fund used to account for the revenue from Community Development Block Grants received by the City of Frostburg. In the event an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are used first.

***Proprietary Fund Types***

Water, Sewer, Water Surcharge, and Garbage Funds

The Water, Sewer, Water Surcharge, and Garbage Funds are enterprise funds used to account for the operations which are financed and operated in a manner similar to private businesses.

The intent is that the cost of providing the services to the public is to be financed or recovered primarily through user charges.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**     **SIGNIFICANT ACCOUNTING POLICIES** – Continued

**C. Measurement Focus**

*Government-wide Financial Statements* The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

*Fund Financial Statements* All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its enterprise funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and in the presentation of expenses versus expenditures.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Penalties and interest and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually collected. Expenditures are recorded when the related fund liability is incurred.

The proprietary funds are accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by the proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All GASB pronouncements are followed in the proprietary funds. FASB, APB Opinions and ARB's issued before November 30, 1989 are followed to the extent they do not contradict GASB. FASB pronouncements issued after November 30, 1989 that are developed for business entities are followed to the extent that they do not contradict GASB.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**      **SIGNIFICANT ACCOUNTING POLICIES** - Continued

The City reports unearned revenue on its combined balance sheet. Unearned revenues arise when resources are billed or received by the City before it has a legal claim to them, such as when utility surcharges are billed for future periods or grant monies are received prior to qualifying expenditures being incurred. In subsequent periods, where both revenue recognition criteria are met and when the City has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

**E. Budgets and Budgetary Accounting**

Formal budgetary accounting, as set forth in the City Charter, is employed as a management control for the General Fund and the Water, Sewer, Water Surcharge, and Garbage enterprise funds. Annual operating budgets are adopted by the City each fiscal year through passage of an annual budget and amended as required for all funds. Budget amendments requiring a change between categories requires approval by the Mayor and City Council. The budget reconciliation has been provided to reflect the differences between budgetary inflows and outflows and GAAP revenues and expenses/expenditures. Budgets presented in the financial statements reflect all amendments.

The budget for the Enterprise Funds is adopted under the GAAP basis of accounting except that depreciation is not considered and fixed assets additions are treated as an expense. The City does not budget for the Special Revenue Fund since budgetary control is maintained on an individual grant basis.

**F. Cash and Equivalents**

For financial statement purposes, the City considers all short-term, highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

**G. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds.

General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost). When a capital asset is disposed or retired, the cost and related accumulated depreciation are removed from the books with any gain or loss reflected as income. The City maintains a capitalization threshold of \$5,000. Public domain ("infrastructure") general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Intangible assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a year are capitalized.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**      **SIGNIFICANT ACCOUNTING POLICIES** - Continued

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Intangible assets are depreciated (amortized) over the estimated useful life of any asset or project if may be closely associated with. Depreciation is computed using the straight-line method over the following useful lives.

Land improvements	10-20 years
Building and improvements	25-40 years
Machinery and equipment	5-10 years
Infrastructure and utility systems	20-40 years
Intangible assets	10-40 years

**H. Capitalized Interest**

Interest costs incurred by proprietary funds on debt where the proceeds were used to finance the construction of assets are capitalized unless interim financing is not required.

**I. Compensated Absences**

The City has implemented the provisions of the Governmental Accounting Standards Board's Accounting for Compensated Absences. This statement requires the recording of accumulated unused sick leave, compensatory time, and vacation leave if such amounts will be paid as termination benefits. The liability is calculated by taking the total hours of time outstanding at June 30 times the current rate of pay for each employee. One paid sick day is accrued for each month of service after the probationary period. Upon termination of employment, the accumulated sick leave is lost. Upon reaching the age of 60 and retirement, the employee is paid for up to 90 days of unused sick leave at the employee's current rate of pay.

At June 30, 2018, no liability has been recorded for the current portion of compensated absences as the City feels that absences used during the next year will not materially exceed the absences earned during the next year. Therefore, all compensated absences are recorded as long-term. The long-term portion of this liability of \$493,382 has been recorded in the government-wide statement of net position, of which \$183,200 is from business-type activities. This represents an increase of \$1,427 from the prior year total of \$491,955. The change in compensated absences for business-type activities was an increase of \$21,492.

**J. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**      **SIGNIFICANT ACCOUNTING POLICIES** - Continued

Interfund transfers for the year ended June 30, 2018 consisted of transfers of \$101,010 from the Water Fund, \$172,460 from the Sewer Fund, and \$16,505 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

**K. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Interfund balances have no set repayment schedule and are generally not expected to be repaid within one year. There were no interfund receivable/payable balances as of June 30, 2018.

**L. Deferred Outflows and Inflows of Resources**

In addition to assets and liabilities, the statement of net position/balance sheet will sometimes report separate sections for deferred outflows and inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. The City has two types of these items. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred outflows and inflows relating to pensions are described in Note 8. Deferred inflows and outflows related to the post-employment benefit program are described in Note 9.

**M. Fund Balance**

The City is required to report its fund balance within the following classifications on the governmental fund financial statements: nonspendable, restricted, committed, assigned, and unassigned. The City Council is the City's highest level of decision-making authority and a formal resolution by them at the City Council meeting is required to be taken to establish, modify, or rescind a fund balance commitment. The resolution must be approved or rescinded by them prior to the last day of the fiscal year for which the commitment is made. The amount subject to the restraint may be determined in the subsequent period.

The City Council has authorized the City's Finance Director to assign fund balance amounts to a specific purpose as approved by the City's fund balance policy.

In the event the City incurs expenditures where restricted and unrestricted resources can be used, the City will use restricted resources first. In the event an expenditure is made from multiple unrestricted resources, the City's order of spending will be committed, assigned, and unassigned.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2**      **SIGNIFICANT ACCOUNTING POLICIES** - Continued

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are for services primarily provided by the Water, Water Surcharge, Sewer, and Garbage Funds to the general public. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

**O. Property Taxes**

The City bills and collects its own real property taxes. These taxes are levied each July 1 for all real property located within City boundaries which receives substantially all City services. Taxes are payable without interest until September 30 of the year billed. City property tax revenues are recognized when levied to the extent that they result in current receivables. The Maryland Department of Assessments and Taxation assesses property value based on estimates of fair market value. A revaluation of property values is completed every three years by the Department and any increase in assessed value is phased in over a three year period. For the year ended June 30, 2018, the City had a real estate tax rate of \$0.66 per \$100 of assessed value.

**P. Pensions**

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System ("the System") and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Q. Credit Risk**

As of June 30, 2018, the City has recorded receivables from various entities and individuals. As these receivables are believed to be completely collectable, an allowance for doubtful accounts is not recorded. If an account is determined to be uncollectible, the direct write-off method is used. This does not produce a result materially different from the allowance method of accounting.

**R. Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.



# CITY OF FROSTBURG

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **S. Related Organization**

Organizations for which the primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered to be related organizations. The Frostburg Housing Authority is a related organization of the City. The City appoints the members of the board of directors and their executive director but has no further accountability. The City received \$13,209 from the Authority during the year ended June 30, 2018. The payment is based on dwelling rent charged by the Authority to its tenants and is paid to the City in lieu of real estate taxes on the properties owned by the Authority.

### NOTE 3 CASH AND INVESTMENTS

The cash deposits of the City of Frostburg are governed by Maryland Article 95-22. The City may establish official depositories with any bank or savings and loan located in the state of Maryland. The City may also establish time deposits and certificates of deposit. As of June 30, 2018, the reconciled balances of the City's deposits were \$5,892,160 and the bank balances were \$5,999,560. Of the bank balances, \$385,811 was covered by federal depository insurance and \$5,613,749 was covered by collateral held by the financial institutions in the City's name.

The investment policy of the City is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, and return on investment.

At June 30, 2018, the City had a certificate of deposit in the amounts of \$99,478 held at a local financial institution with a maturity date of April 2019. The City also had certificates of deposit in the amounts of \$25,491 and \$10,646 held at a local financial institution and restricted for specified purposes. These certificates of deposit mature in November 2018 and February 2019, respectively. All certificates of deposit are included in the City's deposit figure of \$5,892,160.

***Interest Rate Risk*** – In accordance with its investment policy, the City manages its exposure to declines in fair values arising from interest rates by limiting the maturity date of securities to no more than one year from the date of purchase, unless it is matched to a specific cash flow requirement.

***Credit Risk*** – The City's investment policy limits the investments of the portfolio to 5% commercial paper, 50% money market mutual funds, 40% bankers' acceptance, 40% collateralized certificates of deposit, 90% repurchase agreements, and 90% U.S. government agency and U.S. government sponsored instruments.

***Custodial Credit Risk*** – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-city's name. All of the City's deposits are covered by depository insurance and collateralized with securities held by the financial institution in the City's name, therefore mitigating custodial credit risk.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4**      **ACCOUNTS RECEIVABLE**

The City's accounts receivable as of June 30, 2018 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 213,637	\$	\$	\$	\$	\$ 213,637
Intergovernmental	70,660		306,353			377,013
Charge for services		207,733	419,399	88,006	53,325	768,463
Interest		256	1,669	1,756	2,029	5,710
Other	61,383	1,501	37,022		1,280	101,186
Total	\$ 345,680	\$ 209,490	\$ 764,443	\$ 89,762	\$ 56,634	\$ 1,466,009

At the end of the current fiscal year, \$134,269 of unearned revenues were recognized for billings done prior to June 30, 2018 that were for services after June 30, 2018 in the proprietary funds. In addition, \$200,527 of deferred inflows of resources were recognized as a result of unavailable revenue from property taxes in the governmental fund statements.

**NOTE 5**      **CAPITAL ASSETS**

Depreciation and amortization expense for governmental capital assets was charged to the following accounts as follows for the year ended June 30, 2018:

General Government	\$ 109,003
Public Safety	26,511
Public Works	236,502
Recreation and Parks	103,165
Total	<u>\$ 475,181</u>

(Note 5 continues on page 34.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 5**      **CAPITAL ASSETS** – Continued

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2018:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
<b>(Corporate)</b>					
Non-depreciable Assets					
Land	\$ 2,215,085	\$ 9,068	\$ -	\$ -	\$ 2,224,153
Construction-in-progress	-	-	-	-	-
Total Non-depreciable Assets	2,215,085	9,068	-	-	2,224,153
Depreciable Assets					
Land Improvements	1,505,800	6,500	-	-	1,512,300
Buildings and Improvements	4,952,011	264,258	-	-	5,216,269
Infrastructure	6,297,026	109,181	-	-	6,406,207
Machinery & equipment	1,641,187	33,046	(58,083)	-	1,616,150
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	14,602,347	412,985	(58,083)	-	14,957,249
Less, Accumulated Depreciation for:					
Land Improvements	737,234	74,092	-	-	811,326
Buildings and Improvements	2,305,202	100,964	-	-	2,406,166
Infrastructure	2,589,559	182,709	-	-	2,772,268
Machinery & equipment	1,050,781	107,100	(55,118)	-	1,102,763
Intangible assets	20,632	10,316	-	-	30,948
Total Accumulated Depreciation	6,703,408	475,181	(55,118)	-	7,123,471
Depreciable Assets, net of accumulated depreciation	7,898,939	(62,196)	(2,965)	-	7,833,778
Total Governmental Capital Assets, net of accumulated depreciation	\$10,114,024	\$ (53,128)	\$ (2,965)	\$ -	\$ 10,057,931
<b>Business-type Activities</b>					
<b>(Water, Water Surcharge, Sewer, and Garbage)</b>					
Non-depreciable Assets					
Land	\$ 48,299	\$ 65,723	\$ -	\$ -	\$ 114,022
Construction-in-progress	175,526	971,586	-	-	1,147,112
Total Non-depreciable Assets	223,825	1,037,309	-	-	1,261,134
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,320,504	107,614	(73,629)	-	8,354,489
Infrastructure	25,611,978	6,053	-	-	25,618,031
Machinery & equipment	1,662,530	65,241	(3,700)	-	1,724,071
Total Depreciable Assets	50,948,296	178,908	(77,329)	-	51,049,875
Less, Accumulated Depreciation for:					
Land Improvements	8,511,097	395,245	-	-	8,906,342
Buildings and Improvements	5,539,636	273,283	(2,454)	-	5,810,465
Infrastructure	7,617,152	777,136	-	-	8,394,288
Machinery & equipment	963,184	67,332	(3,422)	-	1,027,094
Total Accumulated Depreciation	22,631,069	1,512,996	(5,876)	-	24,138,189
Depreciable Assets, net of accumulated depreciation	28,317,227	(1,334,088)	(71,453)	-	26,911,686
Total Business-type Capital Assets, net of accumulated depreciation	\$28,541,052	\$ (296,779)	\$ (71,453)	\$ -	\$ 28,172,820



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6      LONG TERM DEBT**

The following is a summary of the changes in long-term debt for the year ended June 30, 2018:

	Outstanding 6/30/2017 As restated	Additions	Reductions	Outstanding 6/30/2018	Due Within One Year
<b>Governmental Activities</b>					
Bonds & Notes Payable					
Susquehanna Bank – Plow Truck	\$ 41,968	\$ -	\$ (23,655)	\$ 18,313	\$ 18,313
State of MD - DHCD	20,000	-	-	20,000	20,000
Subtotal	61,968	-	(23,655)	38,313	38,313
Other Obligations					
Compensated Absences	330,247	-	(20,065)	310,182	-
Accrued post employment health insurance	287,576	12,953	-	300,529	-
Net pension liability	1,166,956	-	(122,285)	1,044,671	-
Total Governmental Activity Long-term Obligations	<u>\$ 1,846,747</u>	<u>\$ 12,953</u>	<u>\$ (166,005)</u>	<u>\$ 1,693,695</u>	<u>\$ 38,313</u>
<b>Business-type Activities</b>					
Bonds & Notes Payable					
MDE - Emergency Sewer Project	\$ 54,893	-	\$ (17,849)	\$ 37,044	\$ 18,424
USDA - Raw Water Line/Hydro Electric	843,159	-	(16,842)	826,317	17,182
MDE - CSO Phase VIIA	223,341	-	(13,974)	209,367	14,099
Suntrust - Piney Dam Project	4,000,000	-	(328,161)	3,671,839	335,000
Suntrust - CDA Refinancing	2,098,398	-	(331,336)	1,767,062	339,044
MDE – CSO Phase VIIB	66,662	-	(3,768)	62,894	3,803
MDE – Savage Raw Water	304,618	-	(16,663)	287,955	16,813
MDE – CSO Phase VIIB-2	85,529	-	(4,360)	81,169	4,404
Subtotal	7,676,600	-	(732,953)	6,943,647	748,769
Other Obligations					
Compensated Absences	161,708	21,492	-	183,200	-
Accrued post employment health insurance	116,585	5,251	-	121,836	-
Net pension liability	480,090	-	(154,965)	325,125	-
Total Business-type Activity Long-term Obligations	<u>\$ 8,434,983</u>	<u>\$ 26,743</u>	<u>\$ (887,918)</u>	<u>\$ 7,573,808</u>	<u>\$ 748,769</u>

The capital lease payable to Susquehanna Bank is payable in 60 monthly installments of \$2,066 including interest at 3.63% on the outstanding balance. The lease has 9 monthly installments remaining and is collateralized by a plow truck. The original cost of the vehicle was \$116,161 with a current book value of \$77,441. The related amortization of the truck is included in depreciation expense.

On May 15, 2009, the City received a \$100,000 loan from the Maryland Department of Housing and Community Development (a portion of which, up to \$80,000 may be forgiven) for the purpose of funding Community Legacy Rehabilitation Projects. The City feels it has completed all the requirements for the maximum amount to be forgiven. The remaining \$20,000 portion of the loan not subject to forgiveness carries a 0.0% interest rate and had a maturity date of December 31, 2014. The City has not discounted the loan for the below market interest rate being carried on the loan. The City intends to repay the \$20,000 when the funds are requested by the state.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6**     **LONG TERM DEBT** - Continued

The bond payable to the Maryland Department of Environment is payable in variable annual installments of principal and issuance fees plus semi-annual installments for interest at 2.50% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$979. The bond has 2 installments of principal, interest, and issuance costs and an additional 2 installments of interest only remaining.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 136 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan is payable in 14 installments of principal, interest, and issuance costs and an additional 14 installments of interest only.

The loan payable to Suntrust Bank for the Piney Dam project is payable in variable annual installments of principal and semi-annual installments of interest at 2.30% on the balance outstanding. The loan is payable in 10 installments of principal and interest and an additional 10 installments of interest only.

The CDA loan payable to Suntrust Bank is payable in variable annual installments of principal plus semi-annual installments of interest at 2.46% on the outstanding balance. The bond has 5 installments of principal and interest and an additional 5 installments of interest only remaining.

Maryland Department of the Environment provided forgivable loan funding of \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan is payable in 16 installments of principal, interest and issuance fees plus 16 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on April 25, 2023 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

On October 24, 2014 Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$972. The loan is payable in 16 installments of principal, interest and issuance fees plus 16 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on October 24, 2024 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6**     **LONG TERM DEBT** - Continued

On May 30, 2014, Maryland Department of the Environment provided loan funding of \$94,120 to the City for the Phase VIIB-2, Paul Street CSO Elimination Project. The loan is payable in annual installments of principal, interest, and issuance fees of \$5,216 plus semi-annual installments of interest only at 1.00% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$261. The loan is payable in 17 installments of principal, interest and issuance fees plus 17 semi-annual installments of interest only.

The annual requirements to amortize all general long-term debt, as of June 30, 2018 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2019	38,313	278	748,769	154,002	787,082	154,280	941,362
2020	-	-	763,557	137,373	763,557	137,373	900,930
2021	-	-	758,869	118,535	758,869	118,535	877,404
2022	-	-	775,012	101,119	775,012	101,119	876,131
2023	-	-	789,534	83,326	789,534	83,326	872,860
2024-2028	-	-	2,236,099	231,178	2,236,099	231,178	2,467,277
2029-2033	-	-	311,312	75,679	311,312	75,679	386,991
2034-2038	-	-	152,262	49,291	152,262	49,291	201,553
2039-2043	-	-	133,292	34,602	133,292	34,602	167,894
2044-2048	-	-	147,275	20,621	147,275	20,621	167,896
2049-2053	-	-	127,666	5,415	127,666	5,415	133,081
2054-2058	-	-	-	-	-	-	-
	<u>\$ 38,313</u>	<u>\$ 278</u>	<u>\$ 6,943,647</u>	<u>\$ 1,011,141</u>	<u>\$ 6,981,960</u>	<u>\$ 1,011,419</u>	<u>\$ 7,993,379</u>

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 18,313
Community legacy note repayments	20,000
Sewer charges	390,474
Water surcharges	6,553,173
	<u>\$ 6,981,960</u>

All compensated absences in the governmental activities will be paid out of the general fund. All compensated absences in the proprietary funds will be paid out of the funds where the liability was incurred. The City feels employee absences for the next year will not exceed the leave accrued by the employees during the year, thus the entire balance of compensated absences is considered to be long-term.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6**     **LONG TERM DEBT** - Continued

The City incurred interest of \$1,121 in the General Fund which is included in Public Works, and the City incurred interest of \$158,635 in the Proprietary Funds.

**NOTE 7**     **RESTRICTED ASSETS - WATER SURCHARGE FUND**

The Water Surcharge Fund is a restricted fund to be used for the improvements, construction, debt service, and other capital projects of the Piney Dam and the Water Treatment Plant. Fund income is derived from a surcharge to water service customers.

**NOTE 8**     **PENSION PLAN**

***Plan Description*** - The City contributes to the Maryland State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland for all employees working more than 500 hours in a year. The SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 120 East Baltimore Street, Baltimore, Maryland 21202 or at [www.sra.state.md.us](http://www.sra.state.md.us).

***Benefits Provided*** - For all individuals who are members, pension allowances are computed using both the highest three-consecutive year's Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. Various pension options are available under the SRPS which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

An individual who is a member of the SRPS is eligible for full pension benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Members who attain age 55 with at least 15 years of service eligibility are also eligible for early service pension benefits. The early service benefit is at a reduced rate based on the number of months the retirement dates precedes the date on which the member reaches age 62. Members employed before July 1, 2011 who terminate employment before attaining age 62 must have accumulated 5 years of eligible service to be eligible for a vested pension allowance. Members employed on or after July 1, 2011 who terminate employment before attaining age 62 must have 10 years of eligible service to be eligible for a vested pension allowance. Members who terminate employment before attaining age 55 with at least 15 years of eligibility service are eligible for a reduced vested pension allowance if they elect to receive benefits prior to attaining retirement age 62.

Employees who are permanently and totally disabled as the result of an accident occurring in the line of duty are eligible for disability regardless of length of service. Five years of service is required for non-service related disability eligibility. Accidental disability benefits are determined as a percentage of AFC. Non-service related disability payments are calculated as though members had accrued service credits up until attaining age 62.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**      **PENSION PLAN** - Continued

All members who have accumulated at least one year of service eligibility prior to date of death or died in the line of duty are eligible for death benefits. Death benefits are generally equal to the member's annual salary as of the date of death plus accumulated contributions. Under certain circumstances, additional death benefit options are available.

All member benefits are adjusted each year on July 1 based on the Consumer Price Index (CPI). The increase is limited to 3% for an individual who is a member of the SRPS prior to July 1, 2011. The increase is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market rate of return was greater than or equal to the assumed rate. Retirement allowances will not be adjusted in years when there is a decline in CPI.

**Contributions** - Members of the contributory pension systems are required to make contributions of 2% of earnable compensation. The City is required to contribute annually at an actuarially determined rate. The contribution rate for the year ending June 30, 2018 was 5.03% plus a 2.42% surcharge totaling 7.45% of covered payroll. The contribution requirements of plan members and the City are established and may be amended by the SRPS Board of Trustees. The City contribution to SRPS was \$143,794 for the year ended June 30, 2018.

**Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions** - At June 30, 2018, the City reported a liability of \$1,369,796 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan relative to the total contributions made by all participating employers to the plan for the year ended June 30, 2017, actuarially determined. At June 30, 2017, the City's proportion was 0.007 percent, and was 0.007 percent at June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$35,044. At June 30, 2018, the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 196,164	\$ 88,785
Changes in assumptions	60,643	
Difference between actual and expected experience		100,886
City contributions subsequent to the measurement date	143,794	
TOTALS	\$ 400,601	\$ 189,671



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**     **PENSION PLAN** - Continued

The City reported \$143,794 as deferred outflows of resources related to pensions resulting from City contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>For the year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>TOTAL</u>
2019	\$ 100,774	\$ (72,367)	\$ 28,407
2020	96,273	(38,310)	57,963
2021	57,222	(37,396)	19,826
2022	1,427	(30,778)	(29,351)
2023	1,110	(10,819)	(9,709)
Thereafter	-	-	-
Total	<u>\$ 256,806</u>	<u>\$ (189,670)</u>	<u>\$ 67,136</u>

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

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.65% General, 3.15% Wage
Salary Increases	3.15% to 9.15%, including inflation
Discount Rate	7.50%
Investment Rate of Return	7.50%
Mortality	RP-2014 with generational mortality Improvements based on MP-2014 2-, Dimensional mortality improvement scale

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



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**     **PENSION PLAN** - Continued

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	36.00%	5.30%
Private Equity	11.00%	7.00%
Rate Sensitive	21.00%	1.20%
Credit Opportunity	9.00%	3.60%
Real Assets	15.00%	5.70%
Absolute Return	8.00%	3.10%
 TOTAL	100.00%	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50%, which is based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is a percentage point lower (6.50%) or a percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
City's proportionate share of the net pension liability	\$ 1,941,277	\$ 1,369,796	\$ 896,635

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**     **PENSION PLAN** – Continued

Prior to the City’s enrollment in the Maryland State Retirement and Pension System (SRPS), the City participated in a money purchase pension plan through ICMA that covered substantially all of its employees. The plan allowed employees to contribute up to 10% of their annual compensation with the City also contributing 9% of total compensation. Upon enrollment in the SRPS, the City discontinued contributions to the ICMA plan but allowed employees to continue their voluntary contributions. On July 21, 2016 the City approved the Frostburg Police Officers Pension Enhancement Plan. For certified police officers who complete their enrollment in the plan, the City contributes 2% of the officer’s base salary towards a qualifying retirement account. For years ending after June 30, 2018, the City increased this contribution to 3% of the officer’s base salary. In addition, if an enrolled officer elects to contribute at least 1% of their base salary, the City will match with an additional 1% of base salary. The City contributed \$14,533 towards the plan during the fiscal year ending June 30, 2018.

**NOTE 9**     **OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)**

***Plan Description*** – The City sponsors a defined benefit single-employer post-retirement medical plan. The OPEB provides medical and prescription benefits to eligible retirees and their spouses. The plan does not issue stand-alone financial statements.

***Benefits Provided*** – Coverage is available for active employees who retire at age 60 until they are eligible for Medicare benefits. Also included are employees who retire on Accidental Disability with the State Pension System between the age of 58 ½ and age 60. Plan members contribute 20% of the premium for medical and prescription benefits and the City contributes 80% of the premium until such time as the member qualifies for Medicare benefits. Once a member or spouse qualifies for Medicare benefits, the medical and prescription benefit through the City expires. As of June 30, 2018, the following employees were covered by the benefit terms:

Number of Active Employees	31
Number of Retirees	<u>2</u>
Total Number	<u>33</u>

***Contributions*** – The plan is funded on a pay as you go basis and is expected to continue on this basis. The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. The City pays all benefits from its general fund. The City paid \$24,295 in benefits during the year ended June 30, 2018.

***OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources*** - At June 30, 2018, the City reported a liability of \$422,365. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the City recognized OPEB expense of \$42,499. At June 30, 2018, the City reported \$0 deferred inflows and \$0 deferred outflows of resources related to OPEB.

***Actuarial Assumptions*** - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9**      **OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)** – Continued

Actuarial cost method	Entry Age Normal
Discount rate	3.87%
Mortality	RP-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality with Scale MP-2017 generational improvement.
Turnover	Termination prior to retirement is assumed to occur at 5.0% per year based on approximate annual turnover.
Salary scale	3.00%
Core inflation assumption	3.00%
Retirement age	100% at Age 62 based on assumed rates of retirement,
Utilization	65% based on current medical election rates. Those active employees not currently enrolled were assumed to never enter the plan.
Per capita claims	Claims were developed by adjusting the underlying medical and dental premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using morbidity adjustments from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The retiree pre-65 premium was \$625.31 for medical per month.
Trend	Premiums are assumed to increase initially at a rate of 8.00% per year, declining 50 basis points per year to an ultimate annual rate of increase of 5%.
Marriage assumption	60% married with husbands assumed to be 3 years older than wives. For current retirees actual spousal information and coverage was used.
Cost sharing	The plan's current cost sharing percentages are 80% paid by the employer and 20% paid by the employee.

Due to the relatively small number of plan participants, certain demographic assumptions are set based on the professional judgement of the Plan’s independent actuary as opposed to being based on a formal actuarial experience study. The assumptions are reviewed by the actuary on a biannual basis.

The City funds the OPEB using a pay as you go method. The City has no assets accumulated in a trust that meets the criteria in GASB Statement 75, paragraph 4. As such, there is no asset class target allocation or expected long-term expected real rate of return.

**Discount Rate** - The discount rate used to measure the total OPEB liability was 3.87%. As the OPEB is unfunded, the discount rate is based on a twenty-year municipal bond index. The GO Bond Buyer Index was used to approximate those yields as of June 30, 2018.

**Sensitivity of the City’s Net OPEB Liability to Changes in the Discount Rate** - The following presents the City’s net OPEB liability calculated using the discount rate of 3.87% as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is a percentage point lower (2.87%) or a percentage point higher (4.87%) than the current rate.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 **OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)** - Continued

**Sensitivity of the City’s Net OPEB Liability to Changes in the Discount Rate** – Continued

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
City's net OPEB liability	<u>\$ 452,460</u>	<u>\$ 422,365</u>	<u>\$ 395,106</u>

**Sensitivity of the City’s Net OPEB Liability to Changes in the Healthcare Cost Trend Rate** - The following presents the City’s net OPEB liability calculated using the healthcare cost trend rate of 8.0% to 5.0%, as well as what the City’s net OPEB liability would be if it were calculated using a healthcare cost trend rate that is a percentage point lower (7.0% to 4.0%) or a percentage point higher (9.0% to 6.0%) than the current rate:

	1% Decrease 7.0% to 4.0%	Current Discount Trend Rate 8.0% to 5.0%	1% Increase 9.0% to 6.0%
City's net OPEB liability	<u>\$ 389,831</u>	<u>\$ 422,365</u>	<u>\$ 460,312</u>

**Changes in Net OPEB Liability**

	Increase/(Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2017	\$ 404,161	\$ -	\$ 404,161
Changes for the year			
Service cost	27,324	-	27,324
Interest	15,175	-	15,175
Change of benefit terms	-	-	-
Difference between expected & actual experience	-	-	-
Assumption changes	-	-	-
Contributions - employer	-	24,295	(24,295)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(24,295)	(24,295)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	<u>18,204</u>	<u>-</u>	<u>18,204</u>
City's net OPEB liability	<u>\$ 422,365</u>	<u>\$ -</u>	<u>\$ 422,365</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10**     **COMMUNITY DEVELOPMENT BLOCK GRANT FUND - INDIRECT COSTS**

The City does not charge indirect costs against Community Development Block Grant Funds, and accordingly, no Statement of Indirect Costs has been prepared.

**NOTE 11**     **TAX ABATEMENTS**

The City has two programs through which tax abatements are provided:

***Enterprise Zone Tax Credit Program*** – Maryland’s Enterprise Zone (EZ) Tax Credit Program is a joint effort between the State and local governments to provide tax incentives to businesses and property owners located in some of the State’s most economically distressed communities. The Secretary of the Maryland Department of Business and Economic Development approved application by the City of Frostburg for designation of the Frostburg Enterprise Zone for a ten-year term expiring December 14, 2024.

Eligible businesses in an EZ may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80% of the eligible assessment increase during the first five years. The credit then decreases 10% annually thereafter to 30% in the tenth year. In order to claim the credit, the business must be certified by the local enterprise zone administrator as eligible for the credit. The City of Frostburg certifies the properties eligible for the property tax credit under the State of Maryland’s Enterprise Zone program by Resolution each year. The local office of the Maryland Department of Assessments and Taxations provides the annual report to the City of the approved EZ properties, the eligible assessment increase, and the applicable credit percentage.

Enterprise Zone tax credits are reflected as an adjustment to the original real estate tax bills issued to the property owners if the credit exceeds \$1,000. For credits less than \$1,000, the property owner receives a refund of the tax credit after their original real estate tax bill has been paid.

The City requests annual reimbursement from the Maryland Department of Assessments and Taxation for 50% of the approved EZ tax credits during the fiscal year. For the fiscal year ending June 30, 2018, the City recorded EZ tax credits in the amount of \$21,569 and received \$10,829 from the State of Maryland.

***Residential Sprinkler System Incentive Program*** – Resolution 2012-16 of the City of Frostburg approved a residential sprinkler system incentive program to ease the financial burden to homeowners created by the requirement of the Maryland General Assembly that all new construction of one and two unit residential projects must include a sprinkler system. The Resolution offered an incentive towards utility connection fees and a real estate tax reduction for a period of not more than three years. The amount of the real estate tax reduction for a new construction project built upon a vacant lot is equal to 80% of the increase in the property’s new assessed value minus the assessed value of the land alone. Only one property owner took advantage of this incentive program during the year ended June 30, 2018 and the incentive created a reduction in the real estate tax assessable base of \$143,200 and a reduction of real estate tax revenue of \$945. By Resolution 2012-16, the incentive program expired in May 2017 so no new construction will fall under this incentive going forward.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 12**     **OPERATING LEASES**

The City leases the Armory building to the State of Maryland for space utilized by the Water Resource Administration. The City utilizes the remainder of the building. On July 20, 2018, the City renewed the lease for a 10 year period effective August 1, 2018 through July 31, 2028 with a monthly lease payment of \$8,125. The City's cost of the building was \$2,114,612 and the related accumulated depreciation through June 30, 2018 was \$836,774.

On September 17, 2015 the City renewed its lease with the Allegany County Human Resources Development Commission (HRDC) for the front section of the Community Center building on Water Street. The lease was effective October 1, 2015 through September 30, 2020 with a monthly lease payment of \$767 for the first year. The lease contains an annual escalator clause of 2% for the first two years and 3% for the remaining years. The City's cost of the building was \$541,722 and the related accumulated depreciation through June 30, 2018 was \$254,211.

Future minimum yearly lease payments are expected to be as follows:

2019	\$ 99,165
2020	107,589
2021	100,039
2022	97,498
2023	97,498
2024 and thereafter	<u>495,615</u>
Total	<u>\$ 997,404</u>

On April 25, 2018, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$259 per month and is set to expire on April 25, 2023.

On October 19, 2017, the City entered into an operating lease with Pitney Bowes for a postage machine to begin on December 30, 2017. The lease requires 60 monthly payments of \$156 per month and is set to expire December 30, 2022.

On September 18, 2015, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$168 per month and is set to expire September 18, 2020.

Future minimum yearly lease payments are expected to be as follows:

2019	\$ 6,992
2020	6,992
2021	5,480
2022	4,976
2023	3,524
2024	<u>-</u>
Total	<u>\$ 27,964</u>

Rental income for the Armory building and Community Center totaled \$97,313 for the year ended June 30, 2018. Rent expense for the copy machines and postage machine totaled \$7,170 for the year ended June 30, 2018.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 13**     **RISK OF LOSS**

The City utilizes commercial insurance for employee health, workers' compensation, and property and liability insurance. Life and disability benefits are provided through participation in the Maryland State Retirement System. The City retains the risk of loss for Maryland Unemployment Compensation. The City feels that the commercial insurance provides adequate coverage and that the potential loss from Maryland Unemployment Compensation is immaterial to the City's overall financial position.

**NOTE 14**     **INSURANCE RECOVERIES**

The City may receive insurance recoveries during the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements. The City received \$3,650 of insurance recoveries during the current year.

**NOTE 15**     **COMMITMENTS AND SUBSEQUENT EVENTS**

As of June 30, 2018, the CSO Elimination Project, Phase VIII-B, Grant Street Corridor was under construction. The total project cost is expected to be \$3,036,879. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$2,135,875; State Highway Administration, \$671,000, and City Cash \$230,004. As of June 30, 2018, the City had incurred expenses of \$1,120,741 for this project.

As of June 30, 2018, the CSO Elimination Project, Phase IX-A was in design. Grant funds totaling \$1,779,049 have been appropriated in the Fiscal Year 2019 Capital Budget from the State of Maryland. The Maryland Board of Public Works must approve the funding for this project before construction can begin. As of June 30, 2018, the City had incurred design expenses of \$26,371 towards this project.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the State of Maryland. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City contracts with Maryland Environmental Service for the operation of the Frostburg Water Filtration Plant. On November 16, 2015, the City signed a five-year extension. The remaining years on the contract have estimated budget totals as follows:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 15**     **COMMITMENTS AND SUBSEQUENT EVENTS** - Continued

Fiscal Year	
2019	\$ 481,928
2020	495,201
2021	509,599
2022	-
2023	-

The City evaluated subsequent events through November 30, 2018 for possible inclusion in the financial statements and for potential required disclosures.

**NOTE 16**     **RESTATEMENT OF NET POSITION**

Effective for fiscal year ending June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures for other postemployment benefits. The Statement also requires enhanced note disclosures and schedules of required supplementary information on the postemployment benefit plan. Implementation of GASB 75 required restatement of beginning net position as follows:

	Governmental Activities	Water Fund	Sewer Fund	Garbage Fund
Net Position, June 30, 2017, as previously stated	\$ 13,379,372	\$ 848,499	\$ 13,261,004	\$ 201,565
Removal of GASB #45 OPEB liability	62,604	7,479	10,297	3,298
Recognition of GASB #75 OPEB liability	(287,576)	(54,406)	(38,862)	(23,317)
Net Position, June 30, 2017, as restated	<u>\$ 13,154,400</u>	<u>\$ 801,572</u>	<u>\$ 13,232,439</u>	<u>\$ 181,546</u>

**NOTE 17**     **NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2018 that have effective dates that impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

GASB Statement Number 83, *Certain Asset Retirement Obligations*, will be effective for the City for the year ending June 30, 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The Statement provides guidance to a government that has legal obligations to perform future asset retirement activities to its tangible capital assets by



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 16**    **NEW PRONOUNCEMENTS** – Continued

establishing criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. It is believed this Statement will enhance comparability of financial statements among governments by establishing uniform criteria to recognize and measure certain AROs, including obligations that may not have been previously reported. It is also believed it will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

GASB Statement Number 84, *Fiduciary Activities*, will be effective for the City for the year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities of all state and local governments. It is believed the Statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The greater consistency and comparability is believed to enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship.

GASB Statement Number 87, *Leases*, will be effective for the City for the year ending June 30, 2021. The objective of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. It is believed this Statement will increase the usefulness of financial statements by requiring reporting of certain lease liabilities that are currently not reported by requiring lessees and lessors to report leases under a single model. The Statement will also require certain notes to the financial statements related to the timing, significance, and purpose of leasing arrangements.

GASB Statement Number 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, will be effective for the City for the year ending June 30, 2019. The objective of this Statement is to improve the information that is disclosed in the notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. The Statement requires disclosures including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to certain significant events or clauses. It is believed this Statement will improve financial reporting by providing users of financial statements with essential information that is currently not consistently provided and will give users better information to understand the effects of debt on a government's future resource flows.

GASB Statement Number 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, will be effective for the City for the year ending June 30, 2021. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The Statement establishes accounting requirements for



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 16**    **NEW PRONOUNCEMENTS** – Continued

interest cost incurred before the end of a construction period. It is believed the Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period.

GASB Statement Number 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, will be effective for the City for the year ending June 30, 2020. The primary objective is to improve the consistency and comparability of reporting a government’s majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It is believed this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously were reported inconsistently and by requiring the reporting of the cost of services to be provided by certain component units in relation to the consideration provided to acquire the component unit.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive (Negative)
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,536,635	\$ 2,536,635	\$ 2,486,019	\$ (50,616)
Income taxes	475,000	440,000	475,071	35,071
Hotel motel tax	120,000	120,000	144,352	24,352
Highway use tax	67,580	67,580	67,542	(38)
Other taxes	119,400	119,400	116,546	(2,854)
Police protection grant	140,000	140,000	138,415	(1,585)
Public safety revenue	51,200	51,200	56,137	4,937
Licenses and permits	26,500	26,500	31,348	4,848
COPS grants	9,000	9,000	25,579	16,579
Rental program revenue	73,500	73,500	77,554	4,054
Recreational activities	86,000	90,000	103,421	13,421
Grant income - other	604,900	636,100	611,870	(24,230)
Transfers from other funds	289,975	289,975	465,141	175,166
Other income	122,010	122,010	116,528	(5,482)
Interest	300	300	182	(118)
Fund balance	30,410	39,410	-	(39,410)
<b>TOTAL GENERAL FUND REVENUE</b>	<u>4,752,410</u>	<u>4,761,610</u>	<u>4,915,705</u>	<u>154,095</u>
<b>EXPENDITURES</b>				
Administration	1,213,735	1,249,475	1,455,976	(206,501)
Public safety	1,950,665	1,903,290	1,751,853	151,437
Street department	1,108,345	1,115,970	883,383	232,587
Recreation department	479,665	492,875	488,355	4,520
<b>TOTAL EXPENDITURES</b>	<u>4,752,410</u>	<u>4,761,610</u>	<u>4,579,567</u>	<u>182,043</u>
<b>EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,138</u>	<u>\$ 336,138</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual budgetary basis "general fund revenue" from the budgetary comparison schedule	\$ 4,915,705
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(465,141)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.	(84,104)
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>	<u>\$ 4,366,460</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 1**      **BUDGET TO ACTUAL VARIANCES**

Net property tax revenue was less than budget due to the timing of real estate tax collections and the recognition of deferred tax revenue. Grant income was under budget since the grant funded projects were not completed as early as was expected which delayed the grant reimbursement revenue.

Administration expenses exceeded the budget as a result of the unbudgeted purchase of a property on Main Street for redevelopment and resale. Funding for this purchase was provided through the CDBG fund which corresponds with the variance in the Transfers from other funds in General fund revenues. Code enforcement and rental housing expenses also exceeded budget as a result of additional actions taken to reduce public safety and health hazards in areas of town.

Public safety expenses were below the budget as a result in the delayed delivery of a new police cruiser that was budgeted for purchase in the fiscal year. School and training expenses were under budget as the City continues to experience difficulty recruiting qualified applicants to send to the police academy to fill staffing needs. Underutilization of health insurance benefits and lower pension expenses than were expected also contributed to the positive budget to actual variance in the police department.

Street department expenses were below the budget as a result of understaffing during the year as there were gaps in full employment between resignations of employees and the ability to hire qualified individuals to fill those vacancies. Expenditures for the annual paving project, street maintenance repairs, and salt and abrasives were also under budget. The nature of weather conditions varies from year to year affecting the quantity of materials needed to treat the roads and the necessity of repairs. Underutilization of health insurance benefits also produced savings in the Street department.



CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF CITY OF FROSTBURG, MARYLAND'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0060%	0.0070%	0.0080%	0.0070%
City's proportionate share of the net pension liability	\$ 1,369,796	\$ 1,647,046	\$ 1,671,968	\$ 1,244,576
City's covered payroll - Employee Retirement System	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223	\$ 1,838,338
City's proportionate share of the net pension liability as a percentage of its covered payroll	75.01%	89.87%	84.99%	63.27%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the City will present the information for the years that are available.

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF CITY OF FROSTBURG, MARYLAND'S CONTRIBUTIONS TO  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution - Employee Retirement System	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contributions in relation to the contractually required contribution	<u>\$ 143,794</u>	<u>\$ 128,933</u>	<u>\$ 136,106</u>	<u>\$ 169,575</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll - Employee Retirement System	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223
Contributions as a percentage of covered-employee payroll - Employee Retirement System	7.45%	7.06%	7.43%	8.62%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the City will present the information for the years that are available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**Changes in Benefit Terms** - There were no benefit changes during the year.

**Changes in Assumptions** - Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2017 actuarial valuation as compared to the 2016 actuarial valuation

Changes in the 2017 valuation

- Inflation assumption changed from 2.70% general and 3.20% wage to 2.65% general and 3.15% wage
- Salary increase assumption changed from a range of 3.20% to 9.20% to a range of 3.15% to 9.15%
- Investment rate of return changed from 7.55% to 7.50%
- Mortality tables were changed from RP-2014 with generational mortality projections using scale MP-2014, calibrated to MSRPS experience to RP-2014 Mortality Tables with generational mortality improvements based on the MP 2014 2-dimensional improvement scale

The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN CITY OF FROSTBURG, MARYLAND'S TOTAL  
OPEB LIABILITY AND RELATED RATIOS

	6/30/2018
Changes in OPEB Liability	
Service Cost	\$ 27,324
Interest	15,175
Changes in benefit terms	-
Difference between expected and actual experience	-
Assumption changes	-
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments	(24,295)
Administrative expense	
Other changes	
Net change in OPEB liability	18,204
Total OPEB liability, beginning of year	404,161
Total OPEB liability, end of year	\$ 422,365
City's covered employee payroll	\$ 1,151,156
Total OPEB liability as a percentage of covered employee payroll	36.69%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the City will present the information for the years that are available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

No assets are accumulated in a trust that meets the criteria in GASB Statement 75, paragraph 4, to pay related benefits.

**Changes in Benefit Terms** - There were no benefit changes during the year.

**Changes in Assumptions** - There were no changes in assumptions during the year.

The accompanying notes are an integral part of these financial statements.