

**CITY OF FROSTBURG, MARYLAND**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2021**

**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, 2021, 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, 2021, 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 53 – 54, the "Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System" on page 55, the "Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System" on page 56, and the "Schedule of Changes in City of Frostburg, Maryland's Total OPEB Liability and Related Ratios" on page 57 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 December 9, 2021, 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 solely 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 effectiveness of the City of Frostburg, Maryland's 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 Michaels + Company*

Cumberland, Maryland  
December 9, 2021

**CITY OF FROSTBURG, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2021**

## **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, 2021. 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**

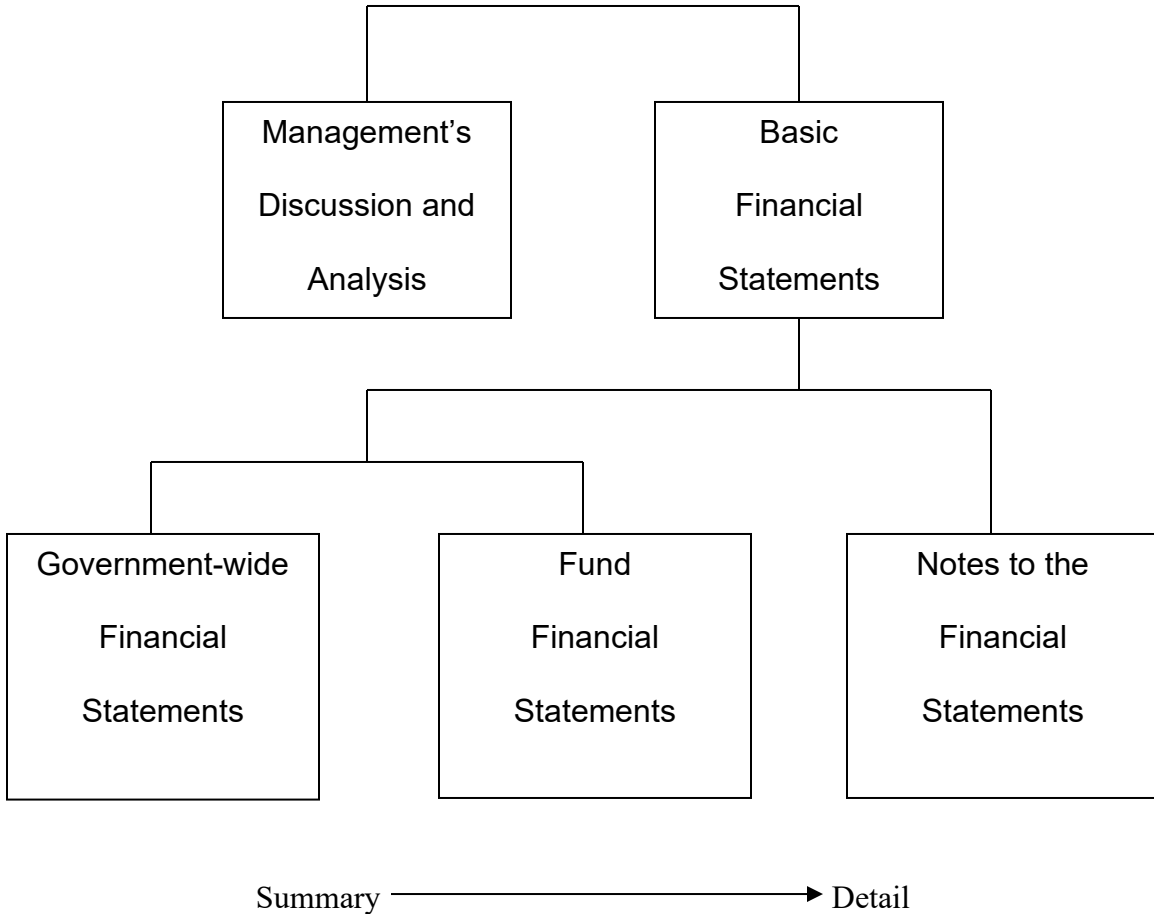
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$41,019,735.
- The government's total net position increased by \$3,096,561. This increase is partially attributed to grant revenues and contributions to support governmental activities. An increase in net revenue of the Water and Sewer funds also contributed to the increase in net position.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$5,753,721 which is a decrease of \$1,260,125 compared with the prior year. Approximately 77 percent of the total fund balance, or \$4,405,729, 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 \$4,405,729 or 55 percent of total general fund expenditures for the fiscal year.
- The long-term bonds and notes payable of the City of Frostburg decreased by \$815,167 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$825,512.

#### **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 – 52). 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 readily assets can 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 garbage 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 Special Project 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 - 52 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	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 6,350,774	\$ 7,836,667	\$ 2,889,172	\$ 2,530,635	\$ 9,239,946	\$ 10,367,302
Non-current assets	-	-	-	-	-	-
Capital assets	14,412,586	11,687,303	28,387,254	28,193,412	42,799,840	39,880,715
Total assets	20,763,360	19,523,970	31,276,426	30,724,047	52,039,786	50,248,017
Deferred outflows of resources	436,953	360,137	178,331	149,845	615,284	509,982
Long-term liabilities	4,783,713	4,618,689	4,730,175	5,442,706	9,513,888	10,061,395
Other liabilities	488,812	714,375	1,453,466	1,777,803	1,942,278	2,492,178
Total liabilities	5,272,525	5,333,064	6,183,641	7,220,509	11,456,166	12,553,573
Deferred inflows of resources	133,592	208,789	45,577	72,463	179,169	281,252
Net position:						
Invested in capital assets, net of related debt	12,824,947	11,687,303	23,714,758	22,762,090	36,539,705	34,449,393
Restricted	1,252,868	2,963,067	-	-	1,252,868	2,963,067
Unrestricted	1,716,381	(308,116)	1,510,781	818,830	3,227,162	510,714
Total net position	\$ 15,794,196	\$ 14,342,254	\$ 25,225,539	\$ 23,580,920	\$ 41,019,735	\$ 37,923,174

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 \$41,019,735 as of June 30, 2021. 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, approximately 3%, represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$3,096,561 for the fiscal year ended June 30, 2021. Several particular aspects of the City financial operations positively influenced the total governmental net position:

- An increase in property tax revenue and highway use tax revenue.

## Management Discussion and Analysis

### City of Frostburg

- An increase in net revenue from water, sewer, and garbage activities.
- An increase in grants and contributions for governmental activities.

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 340,443	\$ 297,255	\$ 4,942,328	\$ 4,377,841	\$ 5,282,771	\$ 4,675,096
Operating grants and contributions	408,351	483,408	-	-	408,351	483,408
Capital grants and contributions	1,578,310	289,813	1,612,922	1,628,680	3,191,232	1,918,493
General revenues:						
Property taxes	2,755,960	2,602,889	-	-	2,755,960	2,602,889
Other taxes	1,033,876	918,776	-	-	1,033,876	918,776
Other	157,090	181,416	904	(4,068)	157,994	177,348
Total revenues	<u>6,274,030</u>	<u>4,773,557</u>	<u>6,556,154</u>	<u>6,002,453</u>	<u>12,830,184</u>	<u>10,776,010</u>
<b>Expenses:</b>						
General government	1,083,133	977,924	-	-	1,083,133	977,924
Public safety	2,006,101	1,956,566	-	-	2,006,101	1,956,566
Public works	1,180,569	1,091,146	-	-	1,180,569	1,091,146
Recreation and parks	618,598	634,676	-	-	618,598	634,676
Community development	85,215	84,975	-	-	85,215	84,975
Code enforcement	108,792	107,678	-	-	108,792	107,678
Water, sewer and garbage	-	-	4,651,215	4,695,344	4,651,215	4,695,344
Total expenses	<u>5,082,408</u>	<u>4,852,965</u>	<u>4,651,215</u>	<u>4,695,344</u>	<u>9,733,623</u>	<u>9,548,309</u>
Change in net position before transfers and donations	1,191,622	(79,408)	1,904,939	1,307,109	3,096,561	1,227,701
Transfers	260,320	279,720	(260,320)	(279,720)	-	-
Change in net position	<u>1,451,942</u>	<u>200,312</u>	<u>1,644,619</u>	<u>1,027,389</u>	<u>3,096,561</u>	<u>1,227,701</u>
Net position, July 1	14,342,254	14,141,942	23,580,920	22,553,531	37,923,174	36,695,473
Net position, June 30	<u>\$ 15,794,196</u>	<u>\$ 14,342,254</u>	<u>\$ 25,225,539</u>	<u>\$ 23,580,920</u>	<u>\$ 41,019,735</u>	<u>\$ 37,923,174</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 \$1,451,942. The key elements of this increase are as follows:

- State agency grant revenue and Allegany County forgiveness of indebtedness to support the Center Street Redevelopment project.

## **Management Discussion and Analysis**

### **City of Frostburg**

- State bond bills and a capital grant for the Municipal Center renovations and additions.
- Receipt of Federal pass-through grant funds in response to the COVID-19 pandemic.
- An increase in property tax revenue and highway use tax revenue.

**Business-type Activities:** Business-type activities increased the net position of the City of Frostburg by \$1,644,619. The key elements of this increase are as follows:

- Grant funding received for the Phase IX-B CSO project.
- Increases in service revenue in the water and sewer funds due to rate increases.
- A decrease in operating expenses of the sewer, water surcharge, and garbage funds compared to the prior year.

### **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.

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 \$4,405,729 while the total fund balance was \$5,681,590. 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, 2021, the governmental funds of the City of Frostburg reported a combined fund balance of \$5,753,721, a decrease of 18 percent over last year. Included in this change in fund balance is a decrease in fund balance in the General Fund primarily due to expenses incurred in the completion of the Municipal Center and a minimal 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, 2021 as Ordinance 2020-03. The budget was amended through Resolution 2021-01 and Resolution 2021-17. Of note among the amendments in the Corporate Fund were increases in income tax revenue and special revenue from the Federal CARES Act passed through Allegany County to the City. Amendments to increase the budgeted expenses for eligible uses of the CARES Act

## **Management Discussion and Analysis**

### **City of Frostburg**

funding were also reflected in the Resolutions. Impacted accounts included salaries, digital engagement, board expense, computer expense, and reserve for contingencies.

Community development grant revenue and community legacy project expense also increased due to the closing date for acquisition of four properties moving into the 2021 fiscal year after a delay from the prior fiscal year. The Public Works Administration budget was increased for temporary staffing expense during the transition period following a staff retirement.

In the sewer fund, the budgeted CSO project reimbursement revenue and CSO capital outlay expense were also decreased as a result of changes in CSO project timelines.

Overall, health insurance expense was less than originally budgeted during the year as a result of partial year employment vacancies and underutilization of health insurance compared to the original budget.

During the year, actual revenues were less than the budget by \$1,278,316. Grant income was less than budget due to administrative processing delays experienced with State agencies even though eligibility requirements were completed prior to June 30, 2021. Transfers from other funds exceeded the budget as a result of transactions for the Center Street Redevelopment Project between the Corporate Fund and the Community Development Special Projects Fund. In addition, income tax revenue and highway use tax revenue both exceeded budget estimates and projections that had previously been provided by the State.

General fund expenditures were less than the budgetary estimates by \$29,127 which is less than 1% of the total budgeted expenditures. Administration expenses exceeded the budget by \$171,855 due to capital outlay expenses. Offsetting this increase in expenses was a positive variance of public safety, street, and recreation department expenses which were less than the budget by \$76,880, \$81,330 and \$42,772, respectively. Salaries, health insurance and pension expenses were under budget for the year in the police department. Salaries, health insurance, and street maintenance repairs were under budget in the street department. In the recreation department, salaries and insurance expense were under budget.

**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 \$1,510,781. Current year operations of the proprietary funds positively affected net position in total by \$1,644,619. Water, sewer, and garbage operations reflected a positive change in net position during the year. 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, 2021 totals \$42,799,840, 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:

- Completion of Phase IX-A CSO project of \$2,152,524.
- Work in progress on the Phase IX-B CSO project of \$708,555.
- Completion of the Municipal Center of \$3,310,461.
- Purchase of furniture and equipment for the Municipal Center of \$200,598.
- Completion of the 2020/21 street paving of \$85,341.
- Purchase and demolition of four properties on Center Street for \$759,197.

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

	(net of depreciation)				Total	
	Governmental		Business-Type			
	2021	2020	2021	2020	2021	2020
Land and construction in progress	\$ 4,038,940	\$ 4,109,638	\$ 989,146	\$ 1,265,959	\$ 5,028,086	\$ 5,375,597
Buildings and systems	5,636,234	2,658,028	1,770,397	2,042,358	7,406,631	4,700,386
Improvements other than buildings	597,310	614,290	5,064,164	5,461,269	5,661,474	6,075,559
Machinery and equipment	651,068	586,572	592,804	666,966	1,243,872	1,253,538
Intangible assets	144,426	154,743	-	-	144,426	154,743
Infrastructure	3,344,608	3,564,032	19,970,743	18,756,860	23,315,351	22,320,892
<b>Total</b>	<b>\$ 14,412,586</b>	<b>\$ 11,687,303</b>	<b>\$ 28,387,254</b>	<b>\$ 28,193,412</b>	<b>\$ 42,799,840</b>	<b>\$ 39,880,715</b>

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

**Long-term Debt.** As of June 30, 2021 the City of Frostburg had total bonded debt outstanding of \$7,450,686. Of this total bonded debt, \$6,927,734 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.

**Management Discussion and Analysis  
City of Frostburg**

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

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ 2,500,500	\$ 2,549,500	-	-	\$ 2,500,500	\$ 2,549,500
Bond premium	277,690	285,031	-	-	277,690	285,031
Revenue bonds	-	-	\$ 4,672,496	\$ 5,431,322	\$ 4,672,496	\$ 5,431,322
<b>Total</b>	<b>\$ 2,778,190</b>	<b>\$ 2,834,531</b>	<b>\$ 4,672,496</b>	<b>\$ 5,431,322</b>	<b>\$ 7,450,686</b>	<b>\$ 8,265,853</b>

The City of Frostburg’s long-term total debt decreased by \$815,167 (10%) during the past fiscal year. Debt principal payments during the past fiscal year were \$807,826.

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 – 2021**

Allegany County continues to lag behind Maryland and national metrics for measuring wealth, including median family income. The unemployment rate in Allegany County is in line with regional unemployment rates which remains higher than it has been since the Great Recession due to the COVID-19 pandemic. For Frostburg, as the pandemic wanes, the economic impact of COVID-19 has been minimal, and the City has overall been insulated from significant revenue shortfalls. Additionally, with the influx of the American Rescue Plan Act funds in fiscal years 2022 through 2025, the City will make long-term infrastructure investments that will have a positive long-term effect on the City’s water and sewer operations.

The economy of the City is impacted by regional industries and businesses, 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). 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. The pandemic has also negatively affected enrollment at the University and it is difficult to predict what the enrollment trends will be post-pandemic. Nevertheless, FSU continues to invest in capital projects and workforce development so that the University may remain competitive as the standards for higher education transform.

## **Management Discussion and Analysis**

### **City of Frostburg**

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. As a result of the COVID-19 pandemic, many of the employees within call centers are now working remotely. The future of the building leases by these call centers and the physical presence within the City remains uncertain as remote working becomes more prevalent.

The City also has two business parks and the existing structures within these parks are largely occupied. In the fall of 2020, construction began on a \$3.5 million contract for a new office/manufacturing space in the Frostburg Business Park that will increase both tax revenue and jobs in Frostburg; this building will open in late 2021. Another business expansion within the park is doubling the square footage of a light manufacturing facility and will be completed in 2022. The Main Street commercial district remains fairly strong. Although a few businesses have likely closed permanently due to the COVID-19 pandemic, several new businesses have also opened. Continued modest commercial investment is expected over the next year.

There is opportunity for new commercial development near the interstate interchanges, but there have been no proposals for developing those properties at this time. In terms of residential development, two subdivisions are in the process of infrastructure construction and single family home construction. The City expects ten to twenty new homes will be built in Frostburg in 2022.

Overall, the economy in the City seems relatively stable, and there is reason for optimism that the City will grow.

### **Budget Highlights for the Fiscal Year Ending June 30, 2022**

**Governmental Activities:** Property tax revenue, the largest source of general government revenue, is expected to remain stable with modest increases in assessments and a two cent increase in the real estate tax rate compared to the prior year. 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. Hotel motel tax revenue is budgeted to increase as this industry recovers from the impact of the COVID-19 pandemic.

Budgeted expenditures in the General Fund are expected to decrease by 36 percent. The majority of the decrease is attributable to completion of the Municipal Center and community development projects in the prior fiscal year. An across the board salary increase for full time city employees in July 2021 increases budgeted salary and benefit expenses in all funds compared to the prior year. The vehicle fleet lease agreement which began in 2021 will continue to expand with more leased vehicles and the disposal of older City-owned vehicles.

## **Management Discussion and Analysis**

### **City of Frostburg**

**Business – type Activities:** The water, sewer, and garbage rates are unchanged for the year ending June 30, 2022. The bulk water rate charged to Allegany County customers increased based on the triennial calculation of rates in accordance with the Public Service Commission formula. The water surcharge rates increased for customers residing outside City limits resulting in an increase in budgeted revenue assuming a consistent number of billing units.

Capital projects included in the budget of the Sewer Fund are the continuation of the combined sewer overflow elimination projects with construction of Phase IX-B and Phase IX-C. The design of Phase X-A will continue. Design and replacement of the Centennial Hill sewer pumping station is also a budgeted capital outlay for the Sewer Fund.

Notification of American Rescue Plan Act funding for the City from the United States Treasury had not been received at the time the budget ordinance was adopted in May 2021. Budget amendments are anticipated to reflect the receipt of this revenue and the corresponding expenses for qualifying use of the funds.

### **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, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 3,672,712	\$ 1,578,605	\$ 5,251,317
Certificate of deposit	100,461	-	100,461
Certificate of deposit - restricted	36,430	-	36,430
Accounts receivable	2,446,047	1,292,895	3,738,942
Prepaid expenses	95,124	17,672	112,796
<b>Total Current Assets</b>	<b>6,350,774</b>	<b>2,889,172</b>	<b>9,239,946</b>
<b>Capital Assets</b>			
Non-depreciable	4,038,940	989,146	5,028,086
Depreciable, net of accumulated depreciation	10,373,646	27,398,108	37,771,754
<b>Total Capital Assets, net of accumulated depreciation</b>	<b>14,412,586</b>	<b>28,387,254</b>	<b>42,799,840</b>
<b>TOTAL ASSETS</b>	<b>20,763,360</b>	<b>31,276,426</b>	<b>52,039,786</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	380,480	156,298	536,778
Deferred outflows of resources related to OPEB	56,473	22,033	78,506
<b>Total Deferred Outflows of Resources</b>	<b>436,953</b>	<b>178,331</b>	<b>615,284</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	339,655	492,442	832,097
Salaries and benefits payable	62,226	18,895	81,121
Unearned revenue	36,431	167,117	203,548
Current portion of bonds and notes payable	50,500	775,012	825,512
<b>Total Current Liabilities</b>	<b>488,812</b>	<b>1,453,466</b>	<b>1,942,278</b>
<b>Noncurrent Liabilities:</b>			
Compensated absences	335,042	193,697	528,739
Accrued post employment health insurance	410,162	170,887	581,049
Net pension liability	1,310,819	468,107	1,778,926
Bonds and notes payable (net of current portion and premium)	2,727,690	3,897,484	6,625,174
<b>Total Noncurrent Liabilities</b>	<b>4,783,713</b>	<b>4,730,175</b>	<b>9,513,888</b>
<b>TOTAL LIABILITIES</b>	<b>5,272,525</b>	<b>6,183,641</b>	<b>11,456,166</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	127,199	43,108	170,307
Deferred inflows of resources related to OPEB	6,393	2,469	8,862
<b>Total Deferred Inflows of Resources</b>	<b>133,592</b>	<b>45,577</b>	<b>179,169</b>
<b>NET POSITION</b>			
Net investment in capital assets	12,824,947	23,714,758	36,539,705
Restricted	1,252,868	-	1,252,868
Unrestricted	1,716,381	1,510,781	3,227,162
<b>TOTAL NET POSITION</b>	<b>\$ 15,794,196</b>	<b>\$ 25,225,539</b>	<b>\$ 41,019,735</b>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		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	\$ 1,083,133	\$ 231,953	\$ -	\$ 711,407	\$ (139,773)	\$ -	\$ (139,773)
Public safety	2,006,101	16,640	399,820	-	(1,589,641)	-	(1,589,641)
Public works	1,180,569	-	-	-	(1,180,569)	-	(1,180,569)
Recreation and parks	618,598	90,100	6,995	68,623	(452,880)	-	(452,880)
Community development	85,215	-	1,536	798,280	714,601	-	714,601
Code enforcement	108,792	1,750	-	-	(107,042)	-	(107,042)
<b>Total Governmental Activities</b>	<b>5,082,408</b>	<b>340,443</b>	<b>408,351</b>	<b>1,578,310</b>	<b>(2,755,304)</b>	<b>-</b>	<b>(2,755,304)</b>
<b>Business-type Activities:</b>							
Water	1,267,405	1,446,457	-	-	-	179,052	179,052
Sewer	2,116,608	2,278,734	-	1,612,922	-	1,775,048	1,775,048
Water Surcharge	919,042	853,186	-	-	-	(65,856)	(65,856)
Garbage	348,160	363,951	-	-	-	15,791	15,791
<b>Total Business-type Activities</b>	<b>4,651,215</b>	<b>4,942,328</b>	<b>-</b>	<b>1,612,922</b>	<b>-</b>	<b>1,904,035</b>	<b>1,904,035</b>
<b>Total Primary Government</b>	<b>\$ 9,733,623</b>	<b>\$ 5,282,771</b>	<b>\$ 408,351</b>	<b>\$ 3,191,232</b>	<b>(2,755,304)</b>	<b>1,904,035</b>	<b>(851,269)</b>
<b>General Revenues:</b>							
Taxes							
Net property taxes					2,755,960	-	2,755,960
Income taxes					598,067	-	598,067
Highway use tax					328,279	-	328,279
Hotel motel tax					105,029	-	105,029
Admission taxes					2,501	-	2,501
Rental income					108,690	-	108,690
Licenses and permits					26,162	-	26,162
Interest earnings					912	211	1,123
Miscellaneous revenues					262,381	-	262,381
Gain (loss) on disposal of fixed assets					(241,055)	693	(240,362)
Transfers					260,320	(260,320)	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>4,207,246</b>	<b>(259,416)</b>	<b>3,947,830</b>
<b>Change in Net Position</b>					<b>1,451,942</b>	<b>1,644,619</b>	<b>3,096,561</b>
<b>Net Position - July 1, 2020</b>					<b>14,342,254</b>	<b>23,580,920</b>	<b>37,923,174</b>
<b>Net Position - June 30, 2021</b>					<b>\$ 15,794,196</b>	<b>\$ 25,225,539</b>	<b>\$ 41,019,735</b>

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



**CITY OF FROSTBURG, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2021**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,600,581	\$ 72,131	\$ 3,672,712
Certificate of deposit	100,461	-	100,461
Certificate of deposit - restricted	36,430	-	36,430
Accounts receivable	2,446,047	-	2,446,047
Prepaid expenses	95,124	-	95,124
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 6,278,643</b>	<b>\$ 72,131</b>	<b>\$ 6,350,774</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 313,676	\$ -	\$ 313,676
Salaries and benefits payable	62,226	-	62,226
Advanced revenue	36,431	-	36,431
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>412,333</b>	<b>-</b>	<b>412,333</b>
	<hr/>	<hr/>	<hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	184,720	-	184,720
	<hr/>	<hr/>	<hr/>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>184,720</b>	<b>-</b>	<b>184,720</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES</b>			
Nonspendable - Prepaid expenses	95,124	-	95,124
Restricted - Capital projects	1,180,737	-	1,180,737
Restricted - Community Development Block Grants	-	72,131	72,131
Unassigned	4,405,729	-	4,405,729
	<hr/>	<hr/>	<hr/>
<b>TOTAL FUND BALANCE</b>	<b>5,681,590</b>	<b>72,131</b>	<b>5,753,721</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 6,278,643</b>	<b>\$ 72,131</b>	<b>\$ 6,350,774</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2021**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 5,753,721</b>
 <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		14,412,586
Deferred outflows of resources related to pensions are not recognized in the fund statements.		380,480
Deferred outflows of resources related to OPEB are not recognized in the fund statements.		56,473
Accrued interest is recorded on fund statements only when due		(25,979)
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Bonds and notes payable	(2,500,500)	
Premium on bonds (to be amortized as interest expense)	(277,690)	
Accrued post employment health insurance	(410,162)	
Net pension liability	(1,310,819)	
Compensated absences	<u>(335,042)</u>	
		(4,834,213)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		184,720
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(127,199)
Deferred inflows of resources related to OPEB plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(6,393)
 <b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>		 <b><u>\$ 15,794,196</u></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, 2021**

	<b>General Fund</b>	<b>Special Revenue</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes			
Net property tax revenue	\$ 2,755,049	\$ -	\$ 2,755,049
Income taxes	598,067	-	598,067
Hotel motel tax	105,029	-	105,029
Highway use tax	328,279	-	328,279
Other taxes	100,235	-	100,235
Police protection grant	134,822	-	134,822
Public safety revenue	30,277	-	30,277
Licenses and permits	55,016	-	55,016
Police grants	34,998	-	34,998
Rental program revenue	76,760	-	76,760
Recreational activities	90,100	-	90,100
Grant income - federal	355,357	-	355,357
Grant income - other	1,631,419	-	1,631,419
Other income	30,488	80,000	110,488
Interest	883	29	912
	<b>6,326,779</b>	<b>80,029</b>	<b>6,406,808</b>
<b>EXPENDITURES</b>			
Administration	1,078,151	-	1,078,151
Public safety	1,903,785	-	1,903,785
Street department	800,395	-	800,395
Recreation department	504,537	-	504,537
Debt service: Principal	49,000	-	49,000
Interest and issue costs	100,405	-	100,405
Capital outlays	3,640,720	-	3,640,720
	<b>8,076,993</b>	<b>-</b>	<b>8,076,993</b>
	<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>		
	<b>(1,750,214)</b>	<b>80,029</b>	<b>(1,670,185)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers	351,285	(90,965)	260,320
Proceeds from sale of capital assets	41,050	-	41,050
Rental income	108,690	-	108,690
	<b>501,025</b>	<b>(90,965)</b>	<b>410,060</b>
	<b>NET CHANGE IN FUND BALANCES</b>		
	<b>(1,249,189)</b>	<b>(10,936)</b>	<b>(1,260,125)</b>
	<b>FUND BALANCE - JULY 1, 2020</b>		
	<b>6,930,779</b>	<b>83,067</b>	<b>7,013,846</b>
	<b>FUND BALANCE - JUNE 30, 2021</b>		
	<b>\$ 5,681,590</b>	<b>\$ 72,131</b>	<b>\$ 5,753,721</b>

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, 2021**

**Total Net Change in Fund Balance - Governmental Funds** \$ (1,260,125)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	3,640,720	
Less current year depreciation	<u>(632,007)</u>	
		3,008,713

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	(283,430)
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Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

49,000

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	912
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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	89,760
Change in deferred outflows of resources related to OPEB	(12,944)
Change in accrued interest	383
Change in accrued post employment health insurance	1,531
Change in compensated absences	(49,218)
Change in accrued pension liability	(175,178)
Amortization of premium on debt	7,341
Change in deferred inflows of resources related to OPEB	1,557
Change in deferred inflows of resources related to pensions	<u>73,640</u>

**TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 1,451,942

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Water Surcharge</u>	<u>Garbage</u>	<u>Total</u>
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 227,191	\$ 844,556	\$ 334,875	\$ 171,983	\$ 1,578,605
Accounts receivable	276,574	833,750	105,969	76,602	1,292,895
Prepaid expenses	7,429	7,231	-	3,012	17,672
<b>Total Current Assets</b>	<u>511,194</u>	<u>1,685,537</u>	<u>440,844</u>	<u>251,597</u>	<u>2,889,172</u>
<b>Capital Assets</b>					
Non-depreciable	-	875,124	114,022	-	989,146
Depreciable, net of accumulated depreciation	713,942	15,949,636	10,592,423	142,107	27,398,108
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>713,942</u>	<u>16,824,760</u>	<u>10,706,445</u>	<u>142,107</u>	<u>28,387,254</u>
<b>TOTAL ASSETS</b>	<u>1,225,136</u>	<u>18,510,297</u>	<u>11,147,289</u>	<u>393,704</u>	<u>31,276,426</u>
<b>Deferred Outflows of Resources</b>					
Deferred outflows of resources related to pensions	66,907	57,336	-	32,055	156,298
Deferred outflows of resources related to OPEB	10,110	7,225	-	4,698	22,033
<b>Total Deferred Outflows of Resources</b>	<u>77,017</u>	<u>64,561</u>	<u>-</u>	<u>36,753</u>	<u>178,331</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	92,681	378,099	14,712	6,950	492,442
Salaries and benefits payable	8,407	7,993	-	2,495	18,895
Unearned revenue	-	54,067	66,998	46,052	167,117
Current portion of long-term debt	-	22,927	752,085	-	775,012
<b>Total Current Liabilities</b>	<u>101,088</u>	<u>463,086</u>	<u>833,795</u>	<u>55,497</u>	<u>1,453,466</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	93,363	70,482	-	29,852	193,697
Accrued post employment health insurance	79,778	56,943	-	34,166	170,887
Net pension liability	201,742	162,045	-	104,320	468,107
Notes payable, less current portion	-	262,966	3,634,518	-	3,897,484
<b>Total Noncurrent Liabilities</b>	<u>374,883</u>	<u>552,436</u>	<u>3,634,518</u>	<u>168,338</u>	<u>4,730,175</u>
<b>TOTAL LIABILITIES</b>	<u>475,971</u>	<u>1,015,522</u>	<u>4,468,313</u>	<u>223,835</u>	<u>6,183,641</u>
<b>Deferred Inflows of Resources</b>					
Deferred inflows of resources related to pensions	18,040	16,493	-	8,575	43,108
Deferred inflows of resources related to OPEB	1,132	809	-	528	2,469
<b>Total Deferred Inflows of Resources</b>	<u>19,172</u>	<u>17,302</u>	<u>-</u>	<u>9,103</u>	<u>45,577</u>
<b>Net Position</b>					
Net investment in capital assets	713,942	16,538,867	6,319,842	142,107	23,714,758
Unrestricted - undesignated	93,068	1,003,167	359,134	55,412	1,510,781
<b>Total Net Position</b>	<u>\$ 807,010</u>	<u>\$ 17,542,034</u>	<u>\$ 6,678,976</u>	<u>\$ 197,519</u>	<u>\$ 25,225,539</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, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Water Surcharge (Restricted)</u>	<u>Garbage</u>	<u>Total</u>
<b>OPERATING REVENUES</b>	\$ 1,446,457	\$ 2,278,734	\$ 853,186	\$ 363,951	\$ 4,942,328
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	62,792	788,036	807,577	23,465	1,681,870
Sewer operating	-	1,013,146	-	-	1,013,146
Salaries and wages	278,962	195,777	-	115,517	590,256
Filtration contract payments	459,105	-	-	-	459,105
Employee benefits	102,893	88,147	-	50,792	241,832
Other	136,379	13,375	161	14,491	164,406
Landfill charges	-	-	-	129,263	129,263
Distribution	104,747	-	-	-	104,747
Pumping system	65,760	-	-	-	65,760
Payroll taxes	20,502	14,141	-	9,982	44,625
Meters expense	36,265	-	-	-	36,265
Sanitation operating	-	-	-	4,650	4,650
<b>Total Operating Expenses</b>	<u>1,267,405</u>	<u>2,112,622</u>	<u>807,738</u>	<u>348,160</u>	<u>4,535,925</u>
<b>Operating Income (Loss)</b>	<u>179,052</u>	<u>166,112</u>	<u>45,448</u>	<u>15,791</u>	<u>406,403</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Project reimbursements	-	1,612,922	-	-	1,612,922
Interest revenue	11	89	78	33	211
Gain (loss) on disposal of assets	693	-	-	-	693
Interest expense	-	(3,986)	(111,304)	-	(115,290)
<b>Total Non-operating Revenues (Expenses)</b>	<u>704</u>	<u>1,609,025</u>	<u>(111,226)</u>	<u>33</u>	<u>1,498,536</u>
<b>Income (Loss) Before Transfers</b>	179,756	1,775,137	(65,778)	15,824	1,904,939
Transfers to general fund	(79,530)	(167,650)	-	(13,140)	(260,320)
<b>Change in Net Position</b>	100,226	1,607,487	(65,778)	2,684	1,644,619
<b>TOTAL NET POSITION - JULY 1, 2020</b>	<u>706,784</u>	<u>15,934,547</u>	<u>6,744,754</u>	<u>194,835</u>	<u>23,580,920</u>
<b>TOTAL NET POSITION - JUNE 30, 2021</b>	<u>\$ 807,010</u>	<u>\$ 17,542,034</u>	<u>\$ 6,678,976</u>	<u>\$ 197,519</u>	<u>\$ 25,225,539</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, 2021

	Water	Sewer	Water Surcharge	Garbage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 1,409,485	\$ 2,199,375	\$ 862,995	\$ 366,284	\$ 4,838,139
Payments to vendors	(879,592)	(1,361,789)	(161)	(215,739)	(2,457,281)
Payments to employees	(277,653)	(196,885)	-	(138,775)	(613,313)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>252,240</u>	<u>640,701</u>	<u>862,834</u>	<u>11,770</u>	<u>1,767,545</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out	(79,530)	(167,650)	-	(13,140)	(260,320)
Change in due to/from other funds	(1,376)	42	28	16	(1,290)
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<u>(80,906)</u>	<u>(167,608)</u>	<u>28</u>	<u>(13,124)</u>	<u>(261,610)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of capital assets	-	(1,982,816)	-	-	(1,982,816)
Proceeds from sale of capital assets	693	-	-	-	693
Principal paid on loans	-	(22,718)	(736,108)	-	(758,826)
Project reimbursements	-	1,747,136	-	-	1,747,136
Interest paid on loans	-	(4,702)	(114,134)	-	(118,836)
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<u>693</u>	<u>(263,100)</u>	<u>(850,242)</u>	<u>-</u>	<u>(1,112,649)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	11	89	78	33	211
<b>Net change in Cash</b>	172,038	210,082	12,698	(1,321)	393,497
<b>Cash and cash equivalents, beginning of year</b>	<u>55,153</u>	<u>634,474</u>	<u>322,177</u>	<u>173,304</u>	<u>1,185,108</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 227,191</u>	<u>\$ 844,556</u>	<u>\$ 334,875</u>	<u>\$ 171,983</u>	<u>\$ 1,578,605</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
<b>Operating Income (Loss)</b>	\$ 179,052	\$ 166,112	\$ 45,448	\$ 15,791	\$ 406,403
<b>Adjustments Not Affecting Cash</b>					
Depreciation	62,792	788,036	807,577	23,465	1,681,870
Pension expense	30,792	21,520	-	14,699	67,011
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	(36,972)	(74,791)	15,322	(404)	(96,845)
Prepaid expenses	(870)	(153)	-	533	(490)
Accounts payable and accrued expenses	30,581	(241,594)	-	(13,612)	(224,625)
Salaries and benefits payable	919	1,808	-	(1,217)	1,510
Unearned revenue	-	(4,568)	(5,513)	2,737	(7,344)
Accrued health insurance	5,899	4,156	-	2,471	12,526
Compensated absences	390	(2,916)	-	(22,041)	(24,567)
Deferred outflows of resources - pension contributions	(22,496)	(18,446)	-	(11,256)	(52,198)
Deferred outflows of resources - post employment health	2,448	1,747	-	688	4,883
Deferred inflows of resources - post employment health	(295)	(210)	-	(84)	(589)
<b>Total Adjustments</b>	<u>73,188</u>	<u>474,589</u>	<u>817,386</u>	<u>(4,021)</u>	<u>1,361,142</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ 252,240</u>	<u>\$ 640,701</u>	<u>\$ 862,834</u>	<u>\$ 11,770</u>	<u>\$ 1,767,545</u>

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 Special Projects 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.

**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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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 \$10,000 for machinery, equipment, buildings, and improvements and \$50,000 for infrastructure. 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. 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. The City estimates that 65% of the accumulated sick leave will be paid as termination benefits.

No current portion of compensated absences has been recorded 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 within the governmental and business-type activities are recorded as long-term. The long-term portion of this liability of \$528,739 has been recorded in the government-wide statement of net position, of which \$193,697 is from business-type activities. This represents an increase of \$7,936 from the prior year total of \$520,803. The change in compensated absences for business-type activities was a decrease of \$24,567.

**I. 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.

Interfund transfers for the year ended June 30, 2020 consisted of transfers of \$88,860 from the Water Fund, \$176,700 from the Sewer Fund, and \$14,160 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

**J. 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 balances as of June 30, 2021.

**K. 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.

**L. 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.

**M. 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.

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – Continued

##### **N. 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, 2021, the City had a real estate tax rate of \$0.68 per \$100 of assessed value.

##### **O. 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.

##### **P. Credit Risk**

As of June 30, 2021, 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.

##### **Q. 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.

##### **R. 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 \$12,066 from the Authority during the year ended June 30, 2021. 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.



## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### **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, 2021, the reconciled balances of the City's deposits were \$5,388,208 and the bank balances were \$5,454,354. Of the bank balances, \$636,893 was covered by federal depository insurance, \$4,667,557 was covered by collateral held by the financial institutions in the City's name, and \$149,904 was covered by collateral held by the agent of the financial institution but not 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, 2021, the City had a certificate of deposit in the amount of \$100,461 held at a local financial institution with a maturity date of February, 6, 2022. The City also had certificates of deposit in the amounts of \$25,710 and \$10,720 held at a local financial institution and restricted for specified purposes. These certificates of deposit mature on September 26, 2021 and February 6, 2022, respectively. All certificates of deposit are included in the City's deposit figure of \$5,388,208.

***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, collateralized with securities held by the financial institution in the City's name, and collateralized with securities held by the financial institution's agent, but not 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, 2021 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 216,370					\$ 16,370
Intergovernmental	2,198,809		296,630			2,495,439
Charge for services		273,455	501,568	103,451	73,731	952,205
Interest		1,428	4,146	2,518	2,871	10,963
Other	30,868	1,691	31,406			63,965
Total	<u>\$ 2,446,047</u>	<u>\$ 276,574</u>	<u>\$ 833,750</u>	<u>\$ 105,969</u>	<u>\$ 76,602</u>	<u>\$ 3,738,942</u>

At the end of the current fiscal year, \$167,117 of unearned revenues were recognized for billings done prior to June 30, 2021 that were for services after June 30, 2021 in the proprietary funds. In addition, \$184,720 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, 2021:

General Government	\$ 193,467
Public Safety	72,205
Public Works	258,763
Recreation and Parks	107,572
Total	<u>\$ 632,007</u>

(Note 5 continues of 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, 2021:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
<b>(Corporate)</b>					
Non-depreciable Assets					
Land	\$ 2,907,959	\$ 759,198	\$ -	\$ -	\$ 3,667,157
Construction-in-progress	1,201,679	2,681,163	-	(3,511,059)	371,783
Total Non-depreciable Assets	4,109,638	3,440,361	-	(3,511,059)	4,038,940
Depreciable Assets					
Land Improvements	1,575,725	54,860	(22,355)	-	1,608,230
Buildings and Improvements	5,266,721	38,440	(214,471)	3,310,461	8,401,151
Infrastructure	6,724,930	85,341	(313,190)	-	6,497,081
Machinery & equipment	1,841,481	21,718	(47,257)	200,598	2,016,540
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	15,615,180	200,359	(597,273)	3,511,059	18,729,325
Less, Accumulated Depreciation for:					
Land Improvements	961,433	69,607	(20,120)	-	1,010,920
Buildings and Improvements	2,608,694	199,759	(43,536)	-	2,764,917
Infrastructure	3,160,898	196,731	(205,156)	-	3,152,473
Machinery & equipment	1,254,909	155,594	(45,031)	-	1,365,472
Intangible assets	51,581	10,316	-	-	61,897
Total Accumulated Depreciation	8,037,515	632,007	(313,843)	-	8,355,679
Depreciable Assets, net of accumulated depreciation	7,577,665	(431,648)	(283,430)	3,511,059	10,373,646
Total Governmental Capital Assets, net of accumulated depreciation	\$11,687,303	\$ 3,008,713	\$ (283,430)	\$ -	\$ 14,412,586
<b>Business-type Activities</b>					
<b>(Water, Water Surcharge, Sewer, and Garbage)</b>					
Non-depreciable Assets					
Land	\$ 114,022	\$ -	\$ -	\$ -	\$ 114,022
Construction-in-progress	1,151,937	1,875,711	-	(2,152,524)	875,124
Total Non-depreciable Assets	1,265,959	1,875,711	-	(2,152,524)	989,146
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,388,460	-	-	-	8,388,460
Infrastructure	28,599,959	-	-	2,152,524	30,752,483
Machinery & equipment	1,797,265	-	(10,680)	-	1,786,585
Total Depreciable Assets	54,138,968	-	(10,680)	2,152,524	56,280,812
Less, Accumulated Depreciation for:					
Land Improvements	9,892,015	397,105	-	-	10,289,120
Buildings and Improvements	6,346,102	271,961	-	-	6,618,063
Infrastructure	9,843,099	938,641	-	-	10,781,740
Machinery & equipment	1,130,299	74,162	(10,680)	-	1,193,781
Total Accumulated Depreciation	27,211,515	1,681,869	(10,680)	-	28,882,704
Depreciable Assets, net of accumulated depreciation	26,927,453	(1,681,869)	-	2,152,524	27,398,108
Total Business-type Capital Assets, net of accumulated depreciation	\$28,193,412	\$ 193,842	\$ -	\$ -	\$ 28,387,254

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6 LONG TERM DEBT**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds & Notes Payable					
General Obligation Bond	\$2,549,500	\$ -	\$ (49,000)	\$ 2,500,500	\$ 50,500
Bond Premium	285,031	-	(7,341)	277,690	-
Total Governmental Activity Direct Placements	<u>\$2,834,531</u>	<u>\$ -</u>	<u>\$ (56,341)</u>	<u>\$ 2,778,190</u>	<u>\$ 50,500</u>
<b>Business-type Activities</b>					
Bonds & Notes Payable					
USDA – Raw Water Line/Hydro Electric	\$ 791,608	-	\$ (17,837)	\$ 773,771	\$ 18,241
MDE - CSO Phase VIIA	181,041	-	(14,354)	166,687	14,484
Suntrust - Piney Dam Project	2,994,839	-	(349,000)	2,645,839	355,000
Suntrust - CDA Refinancing	1,082,087	-	(352,153)	729,934	361,573
MDE – CSO Phase VIIB	55,254	-	(3,871)	51,383	3,906
MDE – Savage Raw Water	254,177	-	(17,118)	237,059	17,271
MDE – CSO Phase VIIB-2	72,316	-	(4,493)	67,823	4,537
Total Business-type Activity Direct Placements	<u>\$5,431,322</u>	<u>\$ -</u>	<u>\$(758,826)</u>	<u>\$ 4,672,496</u>	<u>\$ 775,012</u>

The City has additional long-term obligations in the form of compensated absences, other post-employment benefits and pension liability. The following schedule presents this information as of June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Other Obligations					
Compensated Absences	\$ 302,539	\$ 32,503	\$ -	\$ 335,042	\$ -
Accrued post employment health insurance	411,693	-	(1,531)	410,162	-
Net pension liability	1,135,641	175,178	-	1,310,819	-
Total Governmental Activity Other Obligations	<u>\$1,849,873</u>	<u>\$ 207,681</u>	<u>\$ (1,531)</u>	<u>\$ 2,056,023</u>	<u>\$ -</u>
<b>Business-type Activities</b>					
Other Obligations					
Compensated Absences	218,264	-	(24,567)	193,697	-
Accrued post employment health insurance	158,361	12,526	-	170,887	-
Net pension liability	393,628	74,479	-	468,107	-
Total Business-type Activity Other Obligations	<u>\$ 770,253</u>	<u>\$ 87,005</u>	<u>\$ (24,567)</u>	<u>\$ 832,691</u>	<u>\$ -</u>
<b>Total Debt and Obligations</b>	<u>\$10,885,979</u>	<u>\$ 294,686</u>	<u>\$ (841,265)</u>	<u>\$10,339,400</u>	<u>\$ 825,512</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

In November 2019, the City issued Local Government Infrastructure Bonds through the Community Development Administration in the amount of \$2,576,814 with an average interest rate of 3.39% for the construction of a new municipal center. The bond is payable in variable annual installments of principal plus semi-annual installments of interest and issuance fees. The issuance fees paid semi-annually range from \$611 to \$1,059 per payment. The bond is payable over a 30 year term and has 28 payments of principal, interest, and issuance costs and an additional 28 payments of interest and issuance costs only remaining. The unspent portion at June 30, 2021 was \$1,180,737 which is being held in an escrow account by the State of Maryland.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 124 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 has 11 installments of principal, interest, and issuance costs and an additional 11 installments of interest only remaining.

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 has 7 installments of principal and interest and an additional 7 installments of interest only remaining.

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 2 installments of principal and interest and an additional 2 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 has payable in 13 installments of principal, interest and issuance fees plus 13 semi-annual installments of interest only remaining. 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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 \$922. The loan has 13 installments of principal, interest and issuance fees plus 13 semi-annual installments of interest only remaining. 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.

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 has 14 installments of principal, interest and issuance fees plus 14 semi-annual installments of interest only remaining.

The annual requirements to amortize all direct placement debt, as of June 30, 2021 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2022	50,500	104,488	775,012	101,119	825,512	205,607	1,031,119
2023	52,000	102,897	789,534	83,326	841,534	186,223	1,027,757
2024	54,000	100,739	432,919	65,195	486,919	165,934	652,853
2025	56,000	98,498	438,674	55,860	494,674	154,358	649,032
2026	58,500	96,174	445,440	46,399	503,940	142,573	646,513
2027-2031	330,000	442,766	1,112,944	112,091	1,442,944	554,857	1,997,801
2032-2036	399,500	369,388	219,994	59,144	619,494	428,532	1,048,026
2037-2041	489,000	281,085	128,079	39,816	617,079	320,901	937,980
2042-2046	594,500	172,921	141,514	26,381	736,014	199,302	935,316
2047-2051	416,500	41,362	156,358	11,537	572,858	52,899	625,757
2052-2056	-	-	32,028	314	32,028	314	32,342
2057-2061	-	-	-	-	-	-	-
	<u>\$2,500,500</u>	<u>\$1,810,318</u>	<u>\$4,672,496</u>	<u>\$ 601,182</u>	<u>\$7,172,996</u>	<u>\$2,411,500</u>	<u>\$ 9,584,496</u>

The source of funds for debt retirement is as follows:

	<u>Debt Amount</u>
General revenue	\$ 2,500,500
Sewer charges	285,893
Water surcharges	4,386,603
	<u>\$ 7,172,996</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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 the employee absences in both the governmental funds and proprietary funds 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 for these funds.

The City incurred interest of \$92,680 in the General Fund which is included in Administration, and the City incurred interest of \$115,290 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 preceeds 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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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.

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 lessor 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, 2021 was 6.71% plus a 2.42% surcharge totaling 9.13% 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 \$198,366 for the year ended June 30, 2021.

***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions*** - At June 30, 2021, the City reported a liability of \$1,778,926 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2020, actuarially determined. At June 30, 2020, the City's proportion was 0.008 percent, and was 0.007 percent at June 30, 2019, representing an increase of 0.001 percent.

For the year ended June 30, 2021, the City recognized pension expense of \$224,456. At June 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources:



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Net difference between projected and actual earnings on pension plan investments	\$ 133,288	\$ -
Changes in assumptions	7,831	32,731
Difference between actual and expected experience		65,890
Change in Proportionate Share	197,293	71,686
City contributions subsequent to the measurement date	198,366	
TOTALS	<u>\$ 536,778</u>	<u>\$ 170,307</u>

The City reported \$198,366, 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, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended June 30,	Deferred Outflows	Deferred Inflows	TOTAL
<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
2022	\$ 84,442	\$ (92,208)	\$ (7,766)
2023	97,808	(49,937)	47,871
2024	90,947	(18,902)	72,045
2025	56,072	(8,939)	47,133
2026	9,143	(321)	8,822
Thereafter	-	-	-
Total	<u>\$ 338,412</u>	<u>\$ (170,307)</u>	<u>\$ 168,105</u>

**Actuarial Assumptions** - The total pension liability in the June 30, 2020 actuarial valuation, based on results of a prior actuarial experience study for the period July 1, 2014 to June 30, 2018, 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	2.60% General, 3.10% Wage
Salary Increases	3.10% to 11.60%, including inflation
Discount Rate	7.40%
Investment Rate of Return	7.40%
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience generational projections using MP-2018 (2-dimensional) mortality improvement scale.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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.

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	37.00%	5.20%
Private Equity	13.00%	6.50%
Rate Sensitive	19.00%	-0.30%
Credit Opportunity	9.00%	2.80%
Real Assets	14.00%	4.30%
Absolute Return	8.00%	1.80%
 TOTAL	 100.00%	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.40%, 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 7.40%, 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 (6.40%) or a percentage point higher (8.40%) than the current rate:

	1% Decrease 6.40%	Current Discount Rate 7.40%	1% Increase 8.40%
City’s proportionate share of the net pension liability	2,532,589	1,778,926	1,151,195

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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 \$21,498 towards the plan during the fiscal year ending June 30, 2021.

**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 and their dependents 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, 2020, the following employees were covered by the benefit terms:

Number of Active Employees	35
Number of Retirees	<u>3</u>
Total Number	<u><u>38</u></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 \$39,863 in benefits during the year ended June 30, 2021.

***OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources*** - At June 30, 2021, the City reported a liability of \$581,049. The net OPEB liability was measured as of June 30, 2021 using employee data as of June 30, 2020.

For the year ended June 30, 2021, the City recognized OPEB expense of \$66,539. At June 30, 2021, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 78,506	\$ -
Difference between expected and actual experience	-	8,862
TOTALS	<u>\$ 78,506</u>	<u>\$ 8,862</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the year ended June 30,</u>	<u>TOTAL</u>
2022	\$ 16,206
2023	16,206
2024	16,206
2025	16,206
2026	3,159
Thereafter	1,661
Total	<u>\$ 69,644</u>

**Actuarial Assumptions** - The total OPEB liability in the June 30, 2021 actuarial valuation was determined using plan provisions as of that date, employee data as of June 30, 2020, and the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Discount rate	2.16%, changed from 2.21% in the prior study.
Mortality	Pub-2010 General Headcount-weighted with fully generational MP-2020 scale. The Pub-2010 table represents the most recent mortality tables developed specifically for governmental employees by the Society of Actuaries which were released late in 2018.
Turnover	SOA Small Plan Age Table based on professional judgement.
Salary scale	3.00%
Core inflation assumption	2.00%
Retirement age	100% at Age 62 based on assumed rates of retirement,
Utilization	75% based on current medical election rates. Those active employees not currently enrolled were assumed to never enter the plan.
Per capita claims	Medical premium equivalent rates were age-adjusted based on actual ages of the enrolled participants and the aging factors derived from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The retiree pre-65 premium was \$625.30 for medical per month.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Trend	Premiums are assumed to increase initially at a rate of 6.75% per year, declining 25 basis points per year to an ultimate annual rate of increase of 4.5%.
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 2.16%. 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, 2021.

**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 2.16% 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 (1.16%) or a percentage point higher (3.16%) than the current rate.

	1% Decrease 1.16%	Current Discount Rate 2.16%	1% Increase 3.16%
City's net OPEB liability	<u>\$ 623,405</u>	<u>\$ 581,049</u>	<u>\$ 543,757</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 7.0% to 4.5%, 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 (6.0% to 3.5%) or a percentage point higher (8.0% to 5.5%) than the current rate:

	1% Decrease 6.0% to 3.5%	Current Discount Trend Rate 7.0% to 4.5%	1% Increase 8.0% to 5.5%
City's net OPEB liability	<u>\$ 535,796</u>	<u>\$ 581,049</u>	<u>\$ 634,229</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9** **OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)** - Continued  
*Changes in Net OPEB Liability*

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2020	\$570,054	\$ -	\$570,054
Changes for the year			
Service cost	38,173	-	38,173
Interest	12,160	-	12,160
Change of benefit terms			
Difference between expected & actual experience	-	-	-
Assumption changes	525	-	525
Contributions - employer	-	39,863	(39,863)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(39,863)	(39,863)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	<u>10,995</u>	<u>-</u>	<u>10,995</u>
City's net OPEB liability June 30, 2021	<u>\$ 581,049</u>	<u>\$ -</u>	<u>\$ 581,049</u>

**NOTE 10** **COMMUNITY DEVELOPMENT SPECIAL PROJECTS 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 one program 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 11** **TAX ABATEMENTS** - Continued

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, 2021, the City recorded EZ tax credits in the amount of \$1,932 and received \$966 from the State of Maryland.

**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, 2021 was \$942,360.

On October 23, 2020 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 is effective October 1, 2020 through September 30, 2025 with a monthly lease payment of \$850 for the first two years. The lease contains an annual escalator clause of 2% for the remaining 3 years. The City's cost of the building was \$557,262 and the related accumulated depreciation through June 30, 2021 was \$288,740.

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

2022	\$ 107,698
2023	107,851
2024	108,055
2025	108,259
2026	100,201
2027 and thereafter	<u>203,121</u>
Total	<u>\$ 735,185</u>

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 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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 12** OPERATING LEASES - Continued

On December 20, 2019, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$133 per month and is set to expire December 20, 2024.

On December 21, 2020, the City entered into an operating lease with Document Solutions, Inc. for 3 copy machines. The agreement includes paying off 2 of existing copier leases. The lease requires 63 monthly payments of \$644 per month and is set to expire March 21, 2026.

On January 15, 2021, the City entered into 2 operating leases with Enterprise Fleet Management for 2 Ram pickup trucks. The leases require 60 monthly installments of \$651 and \$721 per month and are set to expire January 15, 2026.

On March 10, 2021, the City entered into an operating lease with Enterprise Fleet Management for a Ram pickup truck. The lease requires 60 monthly installments of \$732 per month and is set to expire March 10, 2026.

On April 1, 2021, the City entered into an operating lease with Enterprise Fleet Management for a Chevy Bolt police vehicle. The lease requires 60 monthly installments of \$518 per month and is set to expire April 1, 2026.

On May 25, 2021, the City entered into an operating lease with Enterprise Fleet Management for a Ford dump/plow truck. The lease requires 60 monthly installments of \$925 per month and is set to expire May 25, 2026.

Subsequent to June 30, 2021, the City entered into 2 additional operating leases with Enterprise Fleet Management for a Ford cargo van and a Ram pickup truck. These leases require 60 monthly installments of \$384 and \$633 per month respectively. These leases are included in the future minimum lease payments below.

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

2022	\$ 68,441
2023	67,622
2024	64,098
2025	63,300
2026	49,549
2027	633
Total	<u>\$ 313,643</u>

Rental income for the Armory building and Community Center totaled \$108,690 for the year ended June 30, 2021. Rent expense for the copy machines, postage machine, and vehicles totaled \$31,581 for the year ended June 30, 2021.



## 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 \$8,905 of insurance recoveries during the current year.

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

As of June 30, 2021, the CSO Elimination Project, Phase IX-B, Stoyer Street Corridor was under construction. The total project cost is expected to be \$2,394,310. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$2,095,021, and City cash \$299,289. As of June 30, 2021, the City had incurred expenses of \$800,796.

As of June 30, 2021, the CSO Elimination Project, Phase IX-C, Beall Street Corridor had been bid but the contract was not awarded until October 2021. The total project cost is expected to be \$1,582,500. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$1,384,688 and City cash \$197,812. As of June 30, 2021, the City had incurred expenses of \$44,910.

As of June 30, 2021, design was underway for the Frostburg Gateway Improvement Project which includes a full sized roundabout at the intersection of Braddock Road, Center Street, Bowery Street, and Welsh Hill Road. Funding for the project is provided by three Appalachian Regional Commission (ARC) grants, including Phase I (\$ 450,000), Phase II (\$ 1,500,000), and Phase III (\$ 1,000,000). The full Phase I ARC grant and an additional \$ 450,000 from Phase II funds will be required to complete the design. The Maryland Department of Transportation State Highway Administration is administering the current grant directly on behalf of the City. As of June 30, 2021, design expenses totaled \$371,785.

On July 23, 2020, Allegany County Commissioners approved forgiveness of the \$80,000 liability of the City recorded in the Special Revenue Fund for the Center Street Redevelopment Project. The City pledged to return a ratable portion of the proceeds to the County when the Center Street properties are subsequently sold to a developer. A Request for Proposals for development of the site was advertised in November 2021.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

On July 28, 2021, the City of Frostburg received the first disbursement of American Rescue Plan Act of 2021 (ARPA) Coronavirus Local Fiscal Recovery Funds (CLFRF) in the amount of \$4,189,816. The remainder of the funds will be distributed in no less than twelve months from the initial disbursement. Fiscal Recovery Funds may only be used to cover eligible costs incurred during the period beginning March 3, 2021 and ending December 31, 2024. Any funds not obligated by December 31, 2024, and any funds not expended to cover such obligations by December 31, 2026 must be returned.

The City has entered into contracts for the following projects that may use ARPA funds:

- Purchase of a vacuum truck - \$520,974
- Replacement of the HVAC system at the water treatment plant - \$55,275
- Replacement of the chlorine tank at the water treatment plant - \$116,800
- Architectural/engineering services for a childcare facility - \$59,435
- Replacement of the Centennial Hill Pump Station - \$822,813; Grant funding from Maryland Smart Energy Communities (MSEC) is also available for this project in the amount of \$71,777.

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.

On December 17, 2020, the City signed a five-year agreement with Maryland Environmental Service for the operation of the Frostburg Water Filtration Plant. The remaining years on the contract have estimated budget totals as follows:

Fiscal Year	
2022	\$ 511,766
2023	563,721
2024	567,399
2025	583,993
2026	600,703

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the City's financial condition, liquidity, and future results of operations. City officials continue to monitor the situation. As such, the City's financial condition and services provided may be impacted for fiscal year 2022.

The City evaluated subsequent events through December 9, 2021 for possible inclusion in the financial statements and for potential required disclosures.

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 16** **NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2021 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 87, *Leases*, will be effective for the City for the year ending June 30, 2022. 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 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, 2022. 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 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 91, *Conduit Debt Obligations*, will be effective for the City for the year ending June 30, 2023. The primary objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related not disclosures. The Statement clarifies the existing definition of conduit debt obligations, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required noted disclosures.

GASB Statement Number 92, *Omnibus 2020*, addresses a variety of topics about GASB Statement Number 87, Statement Number 73, Statement Number 84, measurement of liabilities related to asset retirement obligations, reporting by public entity risk pools, reference to nonrecurring fair value measurements of assets or liabilities and terminology use to refer to derivatives. The effective dates depend on the applicable GASB being addressed.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

GASB Statement Number 93, *Replacement of Interbank Offered Rates*, will be effective for the City of the years ending June 30, 2022 and June 30, 2023. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR) and the London Interbank Offered Rate (LIBOR). The Statement achieves this objective by providing exceptions for certain hedging derivative instruments when an IBOR is replaced, clarifying certain hedge accounting termination provisions, clarifying uncertainty related to the IBOR's, removing LIBOR as an appropriate benchmark interest rate, identifies other types of rates are appropriate benchmark interest rates, and clarifies the definition of reference rate.

GASB Statement Number 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the City for the year ending June 30, 2024. The primary objective of the Statement is to improve financial reporting by addressing issues related to arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. The Statement also provides guidance for accounting and financial reporting for arrangements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying financial asset for a period of time in an exchange or exchange-like transaction. It is believed this Statement will improve financial reporting by establishing definitions of these transactions and providing uniform guidance on accounting and financial reporting transactions that meet those definitions.

GASB Statement Number 96, *Subscription-Based Information Technology Arrangements*, will be effective for the City for the year ending June 30, 2023. The Statement provides guidance on the accounting and reporting for subscription-based information technology arrangements (SBITAs) for government end users by defining a SBITA, establishing that a SBITA results in a right-to-use asset and a corresponding subscription liability, providing capitalization criteria, and requiring note related disclosures. The Statement is based on the standards established by GASB Statement Number 87, *Leases*. The Statement is believed to improve financial reporting by establishing a definition of this arrangement and providing uniform guidance for accounting and reporting transactions that meet that definition, thus creating greater consistency in practice.

GASB Statement Number 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement Number 32*, will be effective for the City of the year ending June 30, 2022. The primary objectives of this Statement are to increase consistency and comparability related to the reporting of certain fiduciary component units, mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements, and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet certain definitions. The requirements of this Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. The requirements will also enhance the relevance, consistency, and comparability relating to Section 457 deferred compensation plans.

GASB Statement Number 98, *The Annual Comprehensive Financial Report*, will be effective for fiscal year ending June 30, 2022. The statement was developed in response to concerns that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2021

	Unrestricted			
	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,682,800	\$ 2,734,800	\$ 2,755,049	\$ 20,249
Income taxes	425,000	550,000	598,067	48,067
Hotel motel tax	68,000	68,000	105,029	37,029
Highway use tax	275,000	275,000	328,279	53,279
Other taxes	104,900	96,900	100,235	3,335
Police protection grant	135,000	135,000	134,822	(178)
Public safety revenue	34,800	34,800	30,277	(4,523)
Licenses and permits	28,500	39,000	55,016	16,016
Police grants	32,000	32,000	34,998	2,998
Rental program revenue	72,000	73,000	76,760	3,760
Recreational activities	73,000	72,000	90,100	18,100
Grant income - other	2,850,450	3,366,600	1,986,776	(1,379,824)
Transfers from other funds	260,320	260,320	351,285	90,965
Other income	121,800	367,800	180,228	(187,572)
Interest	3,600	900	883	(17)
Fund balance	397,470	-	-	-
<b>TOTAL GENERAL FUND REVENUE</b>	<u>7,564,640</u>	<u>8,106,120</u>	<u>6,827,804</u>	<u>(1,278,316)</u>
<b>EXPENDITURES</b>				
Administration	3,769,040	4,510,320	4,682,175	(171,855)
Public safety	2,080,565	1,980,665	1,903,785	76,880
Street department	1,067,585	988,785	907,455	81,330
Recreation department	647,450	626,350	583,578	42,772
<b>TOTAL EXPENDITURES</b>	<u>7,564,640</u>	<u>8,106,120</u>	<u>8,076,993</u>	<u>29,127</u>
<b>EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,249,189)</u>	<u>\$ (1,249,189)</u>
<b>Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>				
<b>Sources/inflows of resources</b>				
Actual budgetary basis "general fund revenue" from the budgetary comparison schedule			\$ 6,827,804	
Differences - budget to GAAP:				
Transfers from other funds are inflows from budgetary resources but are not revenues for financial reporting purposes.			(351,285)	
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.			(108,690)	
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes.			(41,050)	
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>			<u>\$ 6,326,779</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**

Budget estimates for income tax revenue had been amended during the year based on revenues received through May 2021 however the final distribution of the year still exceeded the amended budget. Information provided by the State of Maryland with the June income tax distribution reported that the State was continuing to receive significant sums of withholding from unemployment even though the Federal RELIEF Act largely eliminated the taxation of unemployment benefits.

Budget estimates for hotel motel tax were conservative based on the potential impact of the COVID-19 pandemic on the travel industry. The revenue for April, May, and June of 2021 showed a significant increase compared to average monthly revenue earlier in the fiscal year.

Approximately 45% of the highway use revenue for the fiscal year was earned in the last month of the fiscal year. Budget estimates had been based on projections provided by the State Highway Administration throughout the year with the last updated projection of \$298,726 being provided in April 2021.

Grant income was less than budget due to administrative processing delays experienced with State agencies even though eligibility requirements were completed prior to June 30, 2021.

Transfers from other funds exceeded the budget as a result of transactions for the Center Street Redevelopment Project between the Corporate Fund and the Community Development Special Projects Fund.

Administration expenses exceeded the budget by \$171,855 due to capital outlay expenses. Actual expenses incurred in completion of the Municipal Center renovations and additions exceeded the budgeted estimates.

Public safety expenses were less than budgeted due to variances in salaries, health insurance and pension expenses. Salaries were impacted by a partial year vacancy following a retirement and utilization of the health insurance plan was less than budgeted. Also, not all eligible police department employees have elected to participate in the enhanced pension offered to certified officers.

Street department expenses were below the budget estimate. In particular, street maintenance repairs were under budget by \$16,758 as emergency repair contingencies were not incurred but were built into the budget. Salaries and health insurance were also under budget due to partial year vacancies and underutilization of health insurance.

Recreation department expenses were below budget for the department as a whole due to relatively small variances in several expense accounts including salaries and insurance

**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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0080%	0.0070%	0.0070%	0.0060%	0.0070%	0.0080%	0.0070%
City's proportionate share of the net pension liability	\$ 1,778,926	\$ 1,529,269	\$ 1,512,990	\$ 1,369,796	\$ 1,647,046	\$ 1,671,968	\$ 1,244,576
City's covered payroll - Employee Retirement System	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 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	87.18%	79.25%	78.39%	75.01%	89.87%	84.99%	63.27%
Plan fiduciary net position as a percentage of the total pension liability	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution - Employee Retirement System	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contributions in relation to the contractually required contribution	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll - Employee Retirement System	\$ 2,172,676	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223
Contributions as a percentage of covered-employee payroll - Employee Retirement System	9.13%	8.27%	7.89%	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 2020 actuarial valuation as compared to the 2019 actuarial valuation

Changes in the 2020 valuation

- Inflation assumption changed from 2.65% general and 3.15% wage to 2.60% general and 3.10% wage
- Salary increase assumption changed from a range of 3.10% to 9.10% to a range of 3.10% to 11.60%

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**

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Changes in OPEB Liability				
Service Cost	\$ 38,173	\$ 31,344	\$ 28,381	\$ 27,324
Interest	12,160	15,687	16,107	15,175
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	-	(13,154)	-	-
Assumption changes	525	105,100	10,620	-
Contributions - employer	-	-	-	-
Contributions - employee	-	-	-	-
Net investment income	-	-	-	-
Benefit payments	(39,863)	(33,947)	(12,449)	(24,295)
Administrative expense				
Other changes				
Net change in OPEB liability	<u>10,995</u>	<u>105,030</u>	<u>42,659</u>	<u>18,204</u>
Total OPEB liability, beginning of year	<u>570,054</u>	<u>465,024</u>	<u>422,365</u>	<u>404,161</u>
Total OPEB liability, end of year	<u>\$ 581,049</u>	<u>\$ 570,054</u>	<u>\$ 465,024</u>	<u>\$ 422,365</u>
City's covered employee payroll	\$ 1,532,693	\$ 1,391,124	\$ 1,185,691	\$ 1,151,156
Total OPEB liability as a percentage of covered employee payroll	37.91%	40.98%	39.22%	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 -**

Mortality tables changed from Pub-2010 General Headcount-weighted with fully generational MP-2019 scale to Pub-2010 General Headcount-weighted with fully generational MP-2020 scale.

Discount rate was changed from 2.21% in the prior study to 2.16%.

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