

CITY OF FROSTBURG, MARYLAND
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2025

CITY OF FROSTBURG, MARYLAND

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CITY OF FROSTBURG, MARYLAND

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS

Mayor and City Council
City of Frostburg, Maryland

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Frostburg, Maryland (the City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance- budget and actual- general fund, the schedule of proportionate share of the net pension liability of the Maryland State Retirement and Pension System, schedule of contributions to the Maryland State Retirement and Pension System, and the schedule of changes in total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be



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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.

Owings Mills, Maryland
April 14, 2026

SB + Company, LLC

Management Discussion and Analysis City of Frostburg

City of Frostburg Management's Discussion and Analysis

The following discussion and analysis provide an overview of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2025. 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 \$51,865,524.
- The government's total net position increased by \$1,668,344. This increase is partially attributed to operating and capital grant revenues to support governmental and business-type activities. The American Rescue Plan Act continued to provide a significant source of funding for governmental and business-type activities. Interest earnings continued to be favorable.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$7,885,355 which is an increase of \$142,245 compared with the prior year. Approximately 98 percent of the total fund balance, or \$7,755,327, 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 \$7,755,327 or approximately 88 percent of total general fund expenditures for the fiscal year.
- The long-term leases, subscriptions, bonds, and notes payable of the City of Frostburg decreased by \$623,971 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$689,772.

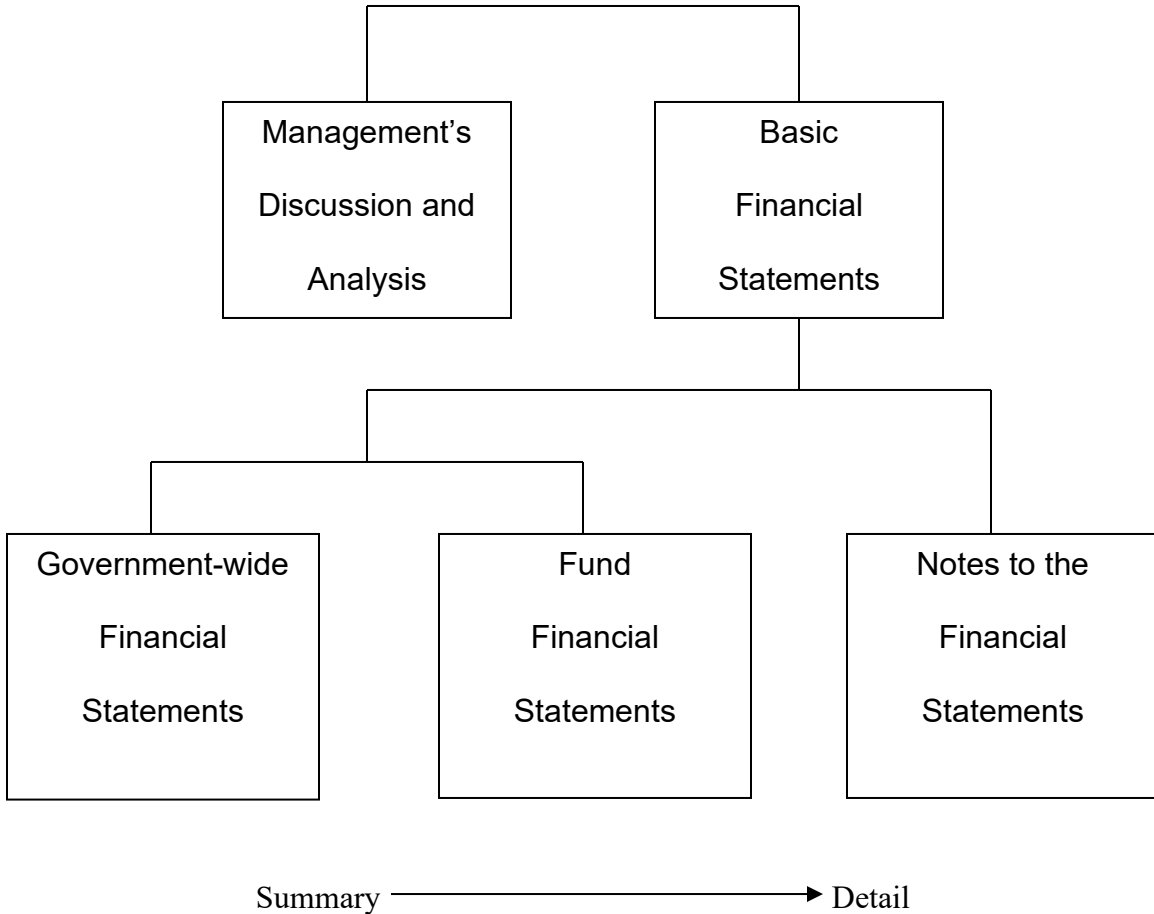
Overview of the Financial Statements

This discussion and analysis introduce 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 using 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.

**Management Discussion and Analysis
City of Frostburg**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Management Discussion and Analysis

City of Frostburg

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

Government-wide Financial Statements

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

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 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 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 special revenue funds to account for its Community Development Special Project activity and Opioid Settlement receipts. Because these activities benefit predominantly governmental rather than business-type activities, the special revenue funds have been included within the governmental activities in the government-wide financial statements.

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

Government-Wide Financial Analysis

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents information on all the assets of the City of Frostburg plus deferred outflows of resources compared to the liabilities of the City plus deferred inflows of resources. The difference between the two subtotals is 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	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 10,397,440	\$ 13,595,506	\$ 5,652,808	\$ 4,880,716	\$ 16,050,248	\$ 18,476,222
Capital assets	19,032,104	17,740,366	28,257,813	28,937,337	47,289,917	46,677,703
Total assets	29,429,544	31,335,872	33,910,621	33,818,053	63,340,165	65,153,925
Deferred outflows of resources	677,644	696,342	397,909	279,683	1,075,553	976,025
Long-term liabilities	5,028,536	5,258,969	3,228,068	3,414,972	8,256,604	8,673,941
Other liabilities	1,893,702	5,176,074	1,441,022	986,057	3,334,724	6,162,131
Total liabilities	6,922,238	10,435,043	4,669,090	4,401,029	11,591,328	14,836,072
Deferred inflows of resources	873,105	998,137	85,761	98,561	958,866	1,096,698
Net position:						
Invested in capital assets, net of related debt	16,100,334	14,712,903	26,102,480	26,107,427	42,202,814	40,820,330
Restricted	63,351	55,170	-	-	63,351	55,170
Unrestricted	6,148,160	5,830,961	3,451,199	3,490,719	9,599,359	9,321,680
Total net position	\$ 22,311,845	\$ 20,599,034	\$ 29,553,679	\$ 29,598,146	\$ 51,865,524	\$ 50,197,180

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 \$51,865,524 as of June 30, 2025. Most of the net position is invested in capital assets. Capital assets are used to provide services to citizens, but they are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position of the City of Frostburg, less than 1%, represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$1,668,344 for the fiscal year ending June 30, 2025. Several aspects of the City financial operations positively influenced the total governmental net position including, but not limited to, the following:

Management Discussion and Analysis
City of Frostburg

- An increase in tax revenues
- An increase in net revenue from sewer activities
- Use of Coronavirus State and Local Fiscal Recovery Funds

City of Frostburg - Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 309,904	\$ 335,159	\$ 4,934,379	\$ 5,342,806	\$ 5,244,283	\$ 5,677,965
Operating grants and contributions	291,131	435,920	16,295	262,473	307,426	698,393
Capital grants and contributions	497,541	1,427,274	1,194,453	1,360,576	1,691,994	2,787,850
General revenues:						
Property taxes	3,273,636	3,192,375	-	-	3,273,636	3,192,375
Other taxes	1,464,840	1,527,535	-	-	1,464,840	1,527,535
Other	2,751,414	1,407,731	165,166	120,845	2,916,580	1,528,576
Total revenues	8,588,466	8,325,994	6,310,293	7,086,700	14,898,759	15,412,694
Expenses:						
General government	1,871,871	1,321,683	-	-	1,871,871	1,321,683
Public safety	1,778,221	2,053,016	-	-	1,778,221	2,053,016
Public works	2,014,107	1,702,411	-	-	2,014,107	1,702,411
Recreation and parks	970,072	900,566	-	-	970,072	900,566
Community development	419,512	274,125	-	-	419,512	274,125
Code enforcement	177,408	109,342	-	-	177,408	109,342
Water, sewer and garbage	-	-	5,999,224	5,858,757	5,999,224	5,858,757
Total expenses	7,231,191	6,361,143	5,999,224	5,858,757	13,230,415	12,219,900
Change in net position before transfers and donations	1,357,275	1,964,851	311,069	1,227,943	1,668,344	3,192,794
Transfers	355,536	352,350	(355,536)	(352,350)	-	-
Change in net position	1,712,811	2,317,201	(44,467)	875,593	1,668,344	3,192,794
Net position, July 1	20,599,034	18,281,833	29,598,146	28,722,553	50,197,180	47,004,386
Net position, June 30	\$ 22,311,845	\$ 20,599,034	\$ 29,553,679	\$ 29,598,146	\$ 51,865,524	\$ 50,197,180

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 program reported to the right. The result is 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 \$1,712,811. The key elements of this increase are as follows:

Management Discussion and Analysis

City of Frostburg

- Coronavirus State and Local Fiscal Recovery Funds (SLFRF) that were unrestricted for general government activities.
- Increases in property, income, highway use, and hotel motel tax revenue.

Business-type Activities: Business-type activities decreased the net position of the City of Frostburg by \$44,467. The key elements of this change are as follows:

- Reduction in the use of SLFRF for water and sewer fund projects.
- Increase in the cost of water filtration and sewage treatment costs.
- Increased repairs to the water infrastructure.

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, the unassigned fund balance of the General Fund was \$7,755,327 while the total fund balance was \$7,822,004. 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, 2025, the governmental funds of the City of Frostburg reported a combined fund balance of \$7,885,355, an increase of approximately 2 percent over last year. Included in this change in fund balance is an increase in fund balance in the General Fund primarily due to tax revenues compared to the prior year.

General Fund Budgetary Highlights: The Mayor and City Council publicly approved the budget for the year ending June 30, 2025 as Ordinance 2025-01. The budget was amended through Resolution 2025-02 and Resolution 2025-25. Of note, among the amendments in the Corporate Fund was an increase in public utility taxes because of increased certified assessments and a decrease in project reimbursements due to changes to the project schedule for an Appalachian Regional Commission funded project. An increase in budgeted special revenue from the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) was included in the budget amendments and the previously budgeted use of fund balance was eliminated. Administrative capital outlays and contributions were amended due to changes in project timelines.

Management Discussion and Analysis

City of Frostburg

Health insurance expense in several departments including administration, finance, and public safety was reduced to reflect changes in enrollments and utilization. Pension expense for public safety was reduced to reflect actual billing for the fiscal year. In the street department, amendments included increases in salt and abrasives due to seasonal variances compared to the prior year and street equipment maintenance due to unexpected truck repairs and pollution control costs.

During the year, general fund revenues exceeded the budget by \$31,972. Key revenue sources including income tax and highway use tax revenue both exceeded budget estimates and the revenue projections that had previously been provided to the City by the State of Maryland. Net property tax revenue and grant income continue to provide significant revenue to support government operations.

General fund expenditures were less than the budgetary estimates by \$102,092 which is approximately 1% of the total budgeted expenditures. The accounting for capital assets acquired through leases and subscription arrangements differs for budgetary and financial reporting purposes which is part of the reported difference between actual expenses and budgetary estimates.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The unrestricted net position of the Water, Water Surcharge, Sewer, and Garbage Funds at the end of the fiscal year was \$3,451,199. Current year operations of the proprietary funds negatively affected net position in total by \$44,467. Sewer 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.

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, 2025 totals \$47,289,917, 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 a new downtown parking lot
- Completion of a childcare center
- Completion of a salt storage facility
- Completion of a storage building at the armory
- Significant paving projects
- Improvements at several City recreation facilities
- Completion of a water line replacement project
- Completion of the CSO Phase VIII-C and IX-D projects
- Work in progress on the CSO Phase X-A project

Management Discussion and Analysis
City of Frostburg

City of Frostburg - Capital Assets
Figure 4

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land and construction in progress	\$ 5,328,010	\$ 6,850,400	\$ 2,177,788	\$ 1,213,456	\$ 7,505,798	\$ 8,063,856
Buildings and systems	7,346,627	5,061,615	732,583	1,002,608	8,079,210	6,064,223
Improvements other than buildings	1,340,870	569,028	3,500,211	3,878,428	4,841,081	4,447,456
Machinery and equipment	870,078	974,779	1,032,634	1,158,632	1,902,712	2,133,411
Intangible assets	103,162	113,478	-	-	103,162	113,478
Subscription assets	106,118	151,449	-	-	106,118	151,449
Right of use assets	277,408	324,664	103,983	149,425	381,391	474,089
Infrastructure	3,659,831	3,694,953	20,710,614	21,534,788	24,370,445	25,229,741
Total	\$ 19,032,104	\$ 17,740,366	\$ 28,257,813	\$ 28,937,337	\$ 47,289,917	\$ 46,677,703

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, 2025, the City of Frostburg had total bonded debt outstanding of \$4,770,323. Of this total bonded debt, \$4,410,377 is debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources.

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

	Governmental Activities	
	2025	2024
	General obligation bonds	\$ 2,288,000
Bond premium	245,923	253,265
Revenue bonds	-	-
Total	\$ 2,533,923	\$ 2,597,265

Management Discussion and Analysis

City of Frostburg

The City of Frostburg's long-term total debt decreased by \$502,014 (approximately 9.5%) during the past fiscal year. Debt principal payments during the past fiscal year were \$494,673.

Additional information regarding the City of Frostburg's long-term debt can be found in note 8 beginning on page 37 of this report.

Economic Factors – 2025

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. Like most other local governments, the City received significant American Rescue Plan Act funds in FY 22-25. With this federal funding, the City has made long-term infrastructure investments that will have a positive long-term effect on the City's water and sewer utilities as well as general government operations.

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

The City is home to one of the county's larger employers, Frostburg State University. FSU is the primary contributor to the economy in Frostburg based on the number of full-time jobs, ongoing capital investments, and residents of the community that attend or work for the school. The pandemic and subsequent nationwide trends in higher education have also negatively affected enrollment at the University. At this point, stable or small modest increases in enrollment at the University are expected. Recently, FSU has faced very public fiscal challenges and an associated "Retrenchment Plan" which includes layoffs for various faculty and staff. The school's administration is confident that these actions position FSU to have a sustainable budget going forward through 2028.

In prior years, call centers made up another large employment sector within city limits. However, due to changing industry dynamics and the ability to telework, all three call centers have more or less ceased operations within the City, leaving underutilized office space. The City has two business parks, and investment and interest remains strong in the Frostburg Business Park near the I-68 and Route 36 interchange. A new light industrial building remains under construction and another facility is in the planning stages of an expansion to more than double their footprint – these will create jobs for the region and bolster the City's tax base. The Main Street commercial district remains relatively stable, but the market challenges of redeveloping the large vacant historic structures are becoming more challenging without government subsidy. Staff continue to work to find resources to ensure continued modest commercial investment in the coming year

Management Discussion and Analysis City of Frostburg

There is an 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 active with lots and new homes being sold. Real estate assessment occurred in a portion of Frostburg in 2022 which resulted in an increase in the City's tax base.

The overall economy in the City seems relatively stable; there is reason for optimism that the City will grow at a modest rate.

Budget Highlights for the Fiscal Year Ending June 30, 2026

Governmental Activities: Property tax revenue, the largest source of general government revenue, is budgeted to increase as real estate taxable assessments rose about \$26.8 million, or about 6%, compared to the prior year. The real estate tax rate for fiscal year 2026 is seventy cents per one hundred dollars of assessed value, consistent with the prior year tax rate. Maryland highway use tax is increased based on the funding notification provided by the State Highway Administration. Corporation taxes are budgeted to decrease based on a manufacturing equipment personal property tax exemption that was approved by Charter Amendment that was effective beginning in fiscal year 2025.

Original budgeted expenditures in the General Fund are expected to increase by about 13 percent compared to the amended prior year budget. Projects using SLFRF revenue comprise about \$700,000 of the Corporate Fund budgeted expenditures. SLFRF projects include purchase of a new plow truck and street sweeper and design work for the Roundabout project.

Salary enhancements for all full-time city employees in July 2025 increased budgeted salary expense in all funds compared to the prior year. Changes to the City's benefits package allowed for overall decreases in budgeted employee benefits. Participation in the Law Enforcement Officers' Pension System (LEOPS) of the Maryland State Retirement and Pension System for certified police officers of the City continues to require higher contributions as compared to contributions made when the officers participated in the

Business – type Activities: The water and sewer consumption rates as well as the CSO surcharge and garbage rates remain unchanged from the year ending June 30, 2025. The water rate for bulk water sales to Allegany County was due for update in FY24 per the triannual schedule however the rate was extended for one more year upon consensus with Allegany County. A second extension was also granted in FY25.

Capital projects included in the budget of the Sewer Fund are the continuation of the combined sewer overflow elimination projects with completion of North Grant and Center Street projects (Phase VIII-C and IX-D) which are funded primarily with CDBG grant funding. Final design of CSO Phase X-B and X-C should be completed in preparation for bidding and initial construction during the fiscal year.

Management Discussion and Analysis City of Frostburg

Budget amendments are anticipated in the year as staffing changes have resulted in cost savings in various departments. Additionally, health insurance costs which were projected to be lower than the prior year are proving to be even less than anticipated. The City will also reevaluate project priorities with the use of ARPA funding and assess CSO and administrative project timelines during the year and propose budget amendments as deemed appropriate.

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, Amy M. Phillips, CPA, PO Box 440, Frostburg, MD 21532, 301-689-6000 extension 103, or aphillips@frostburgcity.org.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,967,204	\$ 4,550,922	\$ 13,518,126
Restricted cash	20,519	-	20,519
Accounts receivable	612,576	1,096,217	1,708,793
Prepaid expenses	66,677	5,669	72,346
Accrued interest receivable	13,858	-	13,858
Leases receivable	716,606	-	716,606
Capital Assets			
Non-depreciable	5,328,010	2,177,788	7,505,798
Depreciable, net of accumulated depreciation	13,704,094	26,080,025	39,784,119
TOTAL ASSETS	29,429,544	33,910,621	63,340,165
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	536,692	344,574	881,266
Deferred outflows of resources related to OPEB	140,952	53,335	194,287
Total Deferred Outflows of Resources	677,644	397,909	1,075,553
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	252,095	865,455	1,117,550
Salaries and benefits payable	130,918	37,655	168,573
Unearned revenue	1,299,555	50,010	1,349,565
Current portion of leases, subscriptions, bonds, and notes payable	211,134	487,902	699,036
Noncurrent Liabilities:			
Compensated absences	397,717	245,263	642,980
Net OPEB liability	513,989	194,483	708,472
Net pension liability	1,442,806	927,980	2,370,786
Leases and subscriptions payable (net of current portion)	198,600	69,382	267,982
Bonds and notes payable (net of current portion)	2,475,424	1,790,960	4,266,384
TOTAL LIABILITIES	6,922,238	4,669,090	11,591,328
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	36,472	23,416	59,888
Deferred inflows of resources related to OPEB	164,769	62,345	227,114
Deferred inflows of resources related to leases	671,864	-	671,864
Total Deferred Inflows of Resources	873,105	85,761	958,866
NET POSITION			
Net investment in capital assets	16,100,334	26,102,480	42,202,814
Restricted	63,351	-	63,351
Unrestricted	6,148,160	3,451,199	9,599,359
TOTAL NET POSITION	\$ 22,311,845	\$ 29,553,679	\$ 51,865,524

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

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
Primary Government							
Governmental Activities:							
General government	\$ 1,871,871	\$ 183,685	\$ 8,125	\$ 497,541	\$ (1,182,520)	\$ -	\$ (1,182,520)
Public safety	1,778,221	5,210	201,745	-	(1,571,266)	-	(1,571,266)
Public works	2,014,107	-	-	-	(2,014,107)	-	(2,014,107)
Recreation and parks	970,072	118,409	-	-	(851,663)	-	(851,663)
Community development	419,512	-	81,261	-	(338,251)	-	(338,251)
Code enforcement	177,408	2,600	-	-	(174,808)	-	(174,808)
Total Governmental Activities	7,231,191	309,904	291,131	497,541	(6,132,615)	-	(6,132,615)
Business-type Activities:							
Water	1,800,835	1,660,514	8,345	74,500	-	(57,476)	(57,476)
Sewer	2,685,228	2,090,472	7,950	1,119,953	-	533,147	533,147
Water Surcharge	1,001,248	752,632	-	-	-	(248,616)	(248,616)
Garbage	511,913	430,761	-	-	-	(81,152)	(81,152)
Total Business-type Activities	5,999,224	4,934,379	16,295	1,194,453	-	145,903	145,903
Total Primary Government	\$ 13,230,415	\$ 5,244,283	\$ 307,426	\$ 1,691,994	(6,132,615)	145,903	(5,986,712)
General Revenues:							
Taxes							
Net property taxes					3,273,636	-	3,273,636
Income taxes					773,162	-	773,162
Highway use tax					496,844	-	496,844
Hotel motel tax					184,402	-	184,402
Admission taxes					10,432	-	10,432
Rental income					99,420	-	99,420
Licenses and permits					32,563	-	32,563
Grants and contributions not restricted to specific programs					2,088,414	-	2,088,414
Interest earnings					515,201	165,166	680,367
Miscellaneous revenues					17,234	-	17,234
Gain (loss) on disposal of fixed assets					(1,418)	-	(1,418)
Transfers					355,536	(355,536)	-
Total General Revenues and Transfers					7,845,426	(190,370)	7,655,056
Change in Net Position					1,712,811	(44,467)	1,668,344
Net Position - July 1, 2024					20,599,034	29,598,146	50,197,180
Net Position - June 30, 2025					\$ 22,311,845	\$ 29,553,679	\$ 51,865,524

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

CITY OF FROSTBURG, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2025**

	<u>General Fund</u>	<u>Special Revenue Comm Dev Special Project</u>	<u>Special Revenue Opioid Settlement</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 8,903,853	\$ 31,712	\$ 31,639	\$ 8,967,204
Restricted cash	20,519	-	-	20,519
Accounts receivable	612,576	-	-	612,576
Prepaid expenses	66,677	-	-	66,677
Leases receivable	716,606	-	-	716,606
TOTAL ASSETS	<u>\$ 10,320,231</u>	<u>\$ 31,712</u>	<u>\$ 31,639</u>	<u>\$ 10,383,582</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 228,183	\$ -	\$ -	\$ 228,183
Salaries and benefits payable	130,918	-	-	130,918
Unearned revenue	1,299,555	-	-	1,299,555
TOTAL LIABILITIES	<u>1,658,656</u>	<u>-</u>	<u>-</u>	<u>1,658,656</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	167,707	-	-	167,707
Unavailable revenue - Leases	671,864	-	-	671,864
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>839,571</u>	<u>-</u>	<u>-</u>	<u>839,571</u>
FUND BALANCES				
Nonspendable - Prepaid expenses	66,677	-	-	66,677
Restricted - Community Development Block Grants	-	31,712	-	31,712
Restricted - Opioid Settlement Fund	-	-	31,639	31,639
Unassigned	7,755,327	-	-	7,755,327
TOTAL FUND BALANCE	<u>7,822,004</u>	<u>31,712</u>	<u>31,639</u>	<u>7,885,355</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 10,320,231</u>	<u>\$ 31,712</u>	<u>\$ 31,639</u>	<u>\$ 10,383,582</u>

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

CITY OF FROSTBURG, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2025**

Total Fund Balances - Governmental Funds		\$ 7,885,355
 Amounts reported for governmental activities in the statement of net position are different because:		
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		19,032,104
Deferred outflows of resources related to pensions are not recognized in the fund statements.		536,692
Deferred outflows of resources related to OPEB are not recognized in the fund statements.		140,952
Accrued interest income is recorded on fund statements only when received		13,858
Accrued interest expense is recorded on fund statements only when due		(23,912)
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	(2,288,000)	
Premium on bonds (to be amortized as interest expense)	(245,924)	
Leases and subscriptions payable	(351,234)	
Accrued post employment health insurance	(513,989)	
Net pension liability	(1,442,806)	
Compensated absences	(397,717)	
		(5,239,670)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		167,707
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(36,472)
Deferred inflows of resources related to OPEB plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(164,769)
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		 \$ 22,311,845

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, 2025**

	<u>General Fund</u>	<u>Special Revenue Comm Dev Special Project</u>	<u>Special Revenue Opioid Settlement</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property tax revenue	\$ 3,252,140	\$ -	\$ -	\$ 3,252,140
Income taxes	773,162	-	-	773,162
Hotel motel tax	184,402	-	-	184,402
Highway use tax	496,844	-	-	496,844
Other taxes	89,833	-	-	89,833
Police protection grant	122,540	-	-	122,540
Public safety revenue	6,699	-	-	6,699
Licenses and permits	53,073	-	-	53,073
Police grants	39,205	-	-	39,205
Rental program revenue	81,310	-	-	81,310
Rental income	99,420	-	-	99,420
Recreational activities	118,409	-	-	118,409
Grant income - federal	2,604,621	-	-	2,604,621
Grant income - other	102,595	-	-	102,595
Other income	20,809	-	8,125	28,934
Interest	512,124	25	31	512,180
TOTAL REVENUES	<u>8,557,186</u>	<u>25</u>	<u>8,156</u>	<u>8,565,367</u>
EXPENDITURES				
Administration	2,062,858	-	-	2,062,858
Public safety	2,118,747	-	-	2,118,747
Street department	1,258,580	-	-	1,258,580
Recreation department	734,765	-	-	734,765
Debt service: Principal	214,483	-	-	214,483
Interest	126,786	-	-	126,786
Capital outlays	2,342,334	-	-	2,342,334
TOTAL EXPENDITURES	<u>8,858,553</u>	<u>-</u>	<u>-</u>	<u>8,858,553</u>
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(301,367)</u>	<u>25</u>	<u>8,156</u>	<u>(293,186)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	355,536	-	-	355,536
Lease proceeds	79,520	-	-	79,520
Proceeds from sale of capital assets	375	-	-	375
TOTAL OTHER FINANCING SOURCES (USES)	<u>435,431</u>	<u>-</u>	<u>-</u>	<u>435,431</u>
NET CHANGE IN FUND BALANCES	<u>134,064</u>	<u>25</u>	<u>8,156</u>	<u>142,245</u>
FUND BALANCE - JULY 1, 2024	<u>7,687,940</u>	<u>31,687</u>	<u>23,483</u>	<u>7,743,110</u>
FUND BALANCE - JUNE 30, 2025	<u>\$ 7,822,004</u>	<u>\$ 31,712</u>	<u>\$ 31,639</u>	<u>\$ 7,885,355</u>

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

CITY OF FROSTBURG, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

Total Net Change in Fund Balance - Governmental Funds \$ 142,245

**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	2,343,084	
Less current year depreciation	<u>(1,049,554)</u>	1,293,530

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	(1,793)
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Right-to-use assets under lease and subscription-based arrangements are shown as other financing sources in the year of issuance and as expenditures in the years of repayment in the governmental funds. These arrangements increase liabilities in the year of issuance and decrease liabilities in the years of repayment in the statement of net assets.

Other financing sources - lease proceeds	(79,520)	
Principal payments on leases	122,543	
Principal payments on subscriptions	<u>35,940</u>	78,963

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

56,000

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	21,496
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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	31,419
Change in deferred outflows of resources related to OPEB	(50,117)
Change in accrued interest	3,599
Change in accrued post employment health insurance	(7,266)
Change in compensated absences	96,509
Change in accrued pension liability	(8,343)
Amortization of premium on debt	7,341
Change in deferred inflows of resources related to OPEB	19,941
Change in deferred inflows of resources related to pensions	<u>29,287</u>

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,712,811

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2025

	<u>Water</u>	<u>Sewer</u>	<u>Water Surcharge</u>	<u>Garbage</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 1,208,584	\$ 2,135,054	\$ 1,108,228	\$ 99,056	\$ 4,550,922
Accounts receivable	126,777	835,174	78,164	56,102	1,096,217
Prepaid expenses	2,734	2,063	-	872	5,669
Total Current Assets	<u>1,338,095</u>	<u>2,972,291</u>	<u>1,186,392</u>	<u>156,030</u>	<u>5,652,808</u>
Capital Assets					
Non-depreciable	-	2,013,766	164,022	-	2,177,788
Depreciable, net of accumulated depreciation	1,348,147	17,117,851	7,431,646	182,381	26,080,025
Total Capital Assets, net of accumulated depreciation	<u>1,348,147</u>	<u>19,131,617</u>	<u>7,595,668</u>	<u>182,381</u>	<u>28,257,813</u>
TOTAL ASSETS	<u>2,686,242</u>	<u>22,103,908</u>	<u>8,782,060</u>	<u>338,411</u>	<u>33,910,621</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	157,746	118,089	-	68,739	344,574
Deferred outflows of resources related to OPEB	22,859	19,048	-	11,428	53,335
Total Deferred Outflows of Resources	<u>180,605</u>	<u>137,137</u>	<u>-</u>	<u>80,167</u>	<u>397,909</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	171,690	678,533	6,352	8,880	865,455
Salaries and benefits payable	16,588	13,707	-	7,360	37,655
Unearned revenue	-	13,683	23,007	13,320	50,010
Current portion of leases, bonds, and notes payable	25,087	41,159	421,656	-	487,902
Total Current Liabilities	<u>213,365</u>	<u>747,082</u>	<u>451,015</u>	<u>29,560</u>	<u>1,441,022</u>
Noncurrent Liabilities					
Compensated absences	110,817	105,128	-	29,318	245,263
Net OPEB liability	83,352	69,459	-	41,672	194,483
Net pension liability	425,254	317,623	-	185,103	927,980
Leases payable, less current portion	36,518	32,864	-	-	69,382
Notes payable, less current portion	-	169,127	1,621,833	-	1,790,960
Total Noncurrent Liabilities	<u>655,941</u>	<u>694,201</u>	<u>1,621,833</u>	<u>256,093</u>	<u>3,228,068</u>
TOTAL LIABILITIES	<u>869,306</u>	<u>1,441,283</u>	<u>2,072,848</u>	<u>285,653</u>	<u>4,669,090</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	10,720	8,025	-	4,671	23,416
Deferred inflows of resources related to OPEB	26,720	22,266	-	13,359	62,345
Total Deferred Inflows of Resources	<u>37,440</u>	<u>30,291</u>	<u>-</u>	<u>18,030</u>	<u>85,761</u>
Net Position					
Net investment in capital assets	1,286,542	19,081,378	5,552,180	182,380	26,102,480
Unrestricted	673,559	1,688,093	1,157,032	(67,485)	3,451,199
Total Net Position	<u>\$ 1,960,101</u>	<u>\$ 20,769,471</u>	<u>\$ 6,709,212</u>	<u>\$ 114,895</u>	<u>\$ 29,553,679</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, 2025

	<u>Water</u>	<u>Sewer</u>	<u>Water Surcharge</u>	<u>Garbage</u>	<u>Total</u>
OPERATING REVENUES	\$ 1,660,514	\$ 2,090,472	\$ 752,632	\$ 430,761	\$ 4,934,379
OPERATING EXPENSES					
Depreciation and amortization	129,492	939,840	813,977	41,333	1,924,642
Sewer operations	-	1,267,808	-	-	1,267,808
Salaries and wages	345,539	236,266	-	161,101	742,906
Filtration contract payments	686,977	-	-	-	686,977
Employee benefits	232,764	188,837	-	96,575	518,176
Other	152,072	26,859	136,241	25,935	341,107
Landfill charges	-	-	-	137,640	137,640
Distribution	65,023	-	-	-	65,023
Pumping system	109,988	-	-	-	109,988
Payroll taxes	26,839	18,046	-	11,945	56,830
Meters expense	47,428	-	-	-	47,428
Sanitation operations	-	-	-	37,384	37,384
Total Operating Expenses	<u>1,796,122</u>	<u>2,677,656</u>	<u>950,218</u>	<u>511,913</u>	<u>5,935,909</u>
Operating Income (Loss)	<u>(135,608)</u>	<u>(587,184)</u>	<u>(197,586)</u>	<u>(81,152)</u>	<u>(1,001,530)</u>
NON-OPERATING REVENUE (EXPENSES)					
Project reimbursements	82,845	1,127,903	-	-	1,210,748
Interest revenue	45,427	60,899	53,553	5,287	165,166
Interest expense	(4,713)	(7,572)	(51,030)	-	(63,315)
Total Non-operating Revenues (Expenses)	<u>123,559</u>	<u>1,181,230</u>	<u>2,523</u>	<u>5,287</u>	<u>1,312,599</u>
Income (Loss) Before Transfers	<u>(12,049)</u>	<u>594,046</u>	<u>(195,063)</u>	<u>(75,865)</u>	<u>311,069</u>
Transfers to general fund	(95,604)	(241,752)	-	(18,180)	(355,536)
Change in Net Position	<u>(107,653)</u>	<u>352,294</u>	<u>(195,063)</u>	<u>(94,045)</u>	<u>(44,467)</u>
TOTAL NET POSITION - JULY 1, 2024	<u>2,067,754</u>	<u>20,417,177</u>	<u>6,904,275</u>	<u>208,940</u>	<u>29,598,146</u>
TOTAL NET POSITION - JUNE 30, 2025	<u>\$ 1,960,101</u>	<u>\$ 20,769,471</u>	<u>\$ 6,709,212</u>	<u>\$ 114,895</u>	<u>\$ 29,553,679</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, 2025

	Water	Sewer	Water Surcharge	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 1,813,285	\$ 2,313,847	\$ 716,251	\$ 417,445	\$ 5,260,828
Payments to vendors	(1,148,253)	(1,125,372)	(136,689)	(268,429)	(2,678,743)
Payments to employees	(361,856)	(253,787)	-	(161,632)	(777,275)
Net Cash Provided By (Used In) Operating Activities	<u>303,176</u>	<u>934,688</u>	<u>579,562</u>	<u>(12,616)</u>	<u>1,804,810</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	(95,604)	(241,752)	-	(18,180)	(355,536)
Change in due to/from other funds	203,939	4,847	-	493	209,279
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>108,335</u>	<u>(236,905)</u>	<u>-</u>	<u>(17,687)</u>	<u>(146,257)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(74,500)	(1,170,618)	-	-	(1,245,118)
Principal paid on loans	-	(23,566)	(415,107)	-	(438,673)
Principal paid on leases	(26,871)	(16,123)	-	-	(42,994)
Project reimbursements	82,845	1,289,489	-	-	1,372,334
Interest paid on loans and leases	(4,713)	(7,662)	(52,537)	-	(64,912)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(23,239)</u>	<u>71,520</u>	<u>(467,644)</u>	<u>-</u>	<u>(419,363)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	45,427	60,899	53,553	5,287	165,166
Net change in Cash and Cash Equivalents	433,699	830,202	165,471	(25,016)	1,404,356
Cash and cash equivalents, beginning of year	<u>774,885</u>	<u>1,304,852</u>	<u>942,757</u>	<u>124,072</u>	<u>3,146,566</u>
Cash and cash equivalents, end of year	<u>\$ 1,208,584</u>	<u>\$ 2,135,054</u>	<u>\$ 1,108,228</u>	<u>\$ 99,056</u>	<u>\$ 4,550,922</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (135,608)	\$ (587,184)	\$ (197,586)	\$ (81,152)	\$ (1,001,530)
Adjustments Not Affecting Cash					
Depreciation	129,492	939,840	813,977	41,333	1,924,642
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	152,771	265,386	(3,654)	32,192	446,695
Prepaid expenses	16,442	4,859	-	2,894	24,195
Accounts payable and accrued expenses	52,068	301,914	(448)	577	354,111
Salaries and benefits payable	2,207	2,288	-	2,477	6,972
Unearned revenue	-	(42,012)	(32,727)	(45,508)	(120,247)
Accrued health insurance	(1,102)	(919)	-	(555)	(2,576)
Compensated absences	(18,524)	(19,809)	-	(3,008)	(41,341)
Deferred outflows of resources - pension contributions	(38,457)	(28,724)	-	(16,656)	(83,837)
Deferred outflows of resources - post employment health	8,986	7,489	-	4,494	20,969
Deferred inflows of resources - post employment health	(4,065)	(3,388)	-	(2,033)	(9,486)
Pension expense	138,966	94,948	-	52,329	286,243
Total Adjustments	<u>438,784</u>	<u>1,521,872</u>	<u>777,148</u>	<u>68,536</u>	<u>2,806,340</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 303,176</u>	<u>\$ 934,688</u>	<u>\$ 579,562</u>	<u>\$ (12,616)</u>	<u>\$ 1,804,810</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. The Opioids Settlement Fund is a special revenue fund used to account for the proceeds the City receives from participating in a class action lawsuit with other governments against pharmaceutical companies over the opioid crisis across the country. In the event an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are used first.

Proprietary Fund Types

Water, Sewer, Water Surcharge, and Garbage Funds

The Water, Sewer, Water Surcharge, and Garbage Funds are enterprise funds used to account for the operations which are financed and operated in a manner similar to private businesses. The intent is that the cost of providing the services to the public is to be financed or recovered primarily through user charges.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

pronouncements issued after November 30, 1989 that are developed for business entities are followed to the extent that they do not contradict GASB.

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 Funds 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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.

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 it 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.

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 \$642,980 has been recorded in the government-wide statement of net position, of which \$245,263 is from business-type activities. This represents a decrease of \$137,850 from the prior year total of \$780,830. The change in compensated absences for business-type activities was a decrease of \$41,341.

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, 2025 consisted of transfers of \$95,604 from the Water Fund, \$241,752 from the Sewer Fund, and \$18,180 from the Garbage Fund to the

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued
General Fund to help cover administrative overhead costs.

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.

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 multiple 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 10. Deferred inflows and outflows related to the post-employment benefit program are described in Note 11. Deferred inflows related to leases are described in Note 6.

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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

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.

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, 2025, the City had a real estate tax rate of \$0.70 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, 2025, 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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

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 \$15,304 from the Authority during the year ended June 30, 2025. The payment is based on dwelling rent charged by the Authority to its tenants and is paid to the City in lieu of real estate taxes on the properties owned by the Authority.

NOTE 3 **CASH AND INVESTMENTS**

The cash deposits of the City of Frostburg are governed by Maryland Article 95-22. The City may establish official depositories with any bank or savings and loan located in the state of Maryland. The City may also establish time deposits and certificates of deposit. As of June 30, 2025, the book balances of the City's deposits were \$13,538,647 and the bank balances were \$13,540,871. Of the bank balances, \$500,000 was covered by federal depository insurance and \$13,040,871 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.

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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS – Continued

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.

NOTE 4 ACCOUNTS RECEIVABLE

The City's accounts receivable as of June 30, 2025 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 212,701	\$ -	\$ -	\$ -	\$ -	\$ 212,701
Intergovernmental	379,118	-	649,733	-	-	1,028,851
Charge for services	-	123,564	164,699	74,262	51,270	413,795
Interest	-	632	3,231	3,902	4,741	12,506
Other	20,757	2,581	17,511	-	91	40,940
Total	<u>\$ 612,576</u>	<u>\$ 126,777</u>	<u>\$ 835,174</u>	<u>\$ 78,164</u>	<u>\$ 56,102</u>	<u>\$ 1,708,793</u>

At the end of the current fiscal year, \$50,010 of unearned revenues were recognized for billings done prior to June 30, 2025 that were for services after June 30, 2025 in the proprietary funds. In addition, \$167,707 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, 2025:

General Government	\$ 332,567
Public Safety	104,816
Public Works	489,441
Recreation & Parks	122,730
Total	<u>\$ 1,049,554</u>

Depreciation and amortization expense for proprietary capital assets was charged to the following accounts as follows for the year ended June 30, 2025:

Water	\$ 129,492
Sewer	939,840
Water Surcharge	813,977
Garbage	41,332
Total	<u>\$ 1,924,641</u>

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, 2025:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities (General)					
Non-depreciable Assets					
Land	\$ 4,456,955	\$ -	\$ -	\$ -	\$ 4,456,955
Construction-in-progress	2,393,445	1,950,941	-	(3,473,331)	871,055
Total Non-depreciable Assets	6,850,400	1,950,941	-	(3,473,331)	5,328,010
Depreciable Assets					
Land Improvements	1,688,429	-	-	910,140	2,598,569
Buildings and Improvements	7,928,520	-	-	2,563,191	10,491,711
Infrastructure	7,494,683	219,774	-	-	7,714,457
Machinery & equipment	2,679,890	92,100	(17,926)	-	2,754,064
Right of use asset	588,251	80,270	-	-	668,521
Subscription assets	196,633	-	-	-	196,633
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	20,782,729	392,144	(17,926)	3,473,331	24,630,278
Less, Accumulated Depreciation for:					
Land Improvements	1,119,401	138,298	-	-	1,257,699
Buildings and Improvements	2,866,905	278,179	-	-	3,145,084
Infrastructure	3,799,730	254,896	-	-	4,054,626
Machinery & equipment	1,705,111	195,008	(16,133)	-	1,883,986
Right of use asset	263,587	127,526	-	-	391,113
Subscription assets	45,184	45,331	-	-	90,515
Intangible assets	92,845	10,316	-	-	103,161
Total Accumulated Depreciation	9,892,763	1,049,554	(16,133)	-	10,926,184
Depreciable Assets, net of accumulated depreciation	10,889,966	(657,410)	(1,793)	3,473,331	13,704,094
Total Governmental Capital Assets, net of accumulated depreciation	\$17,740,366	\$ 1,293,531	\$ (1,793)	\$ -	\$ 19,032,104
Business-type Activities (Water, Water Surcharge, Sewer, and Garbage)					
Non-depreciable Assets					
Land	\$ 164,022	\$ -	\$ -	\$ -	\$ 164,022
Construction-in-progress	1,049,434	1,170,618	-	(206,286)	2,013,766
Total Non-depreciable Assets	1,213,456	1,170,618	-	(206,286)	2,177,788
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,433,460	-	-	-	8,433,460
Infrastructure	35,353,527	74,500	-	206,286	35,634,313
Machinery & equipment	2,313,552	-	-	-	2,313,552
Right of use asset	227,211	-	-	-	227,211
Total Depreciable Assets	61,681,034	74,500	-	206,286	61,961,820
Less, Accumulated Depreciation for:					
Land Improvements	11,474,856	378,217	-	-	11,853,073
Buildings and Improvements	7,430,852	270,025	-	-	7,700,877
Infrastructure	13,818,739	1,104,960	-	-	14,923,699
Machinery & equipment	1,154,920	125,998	-	-	1,280,918
Right of use asset	77,786	45,442	-	-	123,228
Total Accumulated Depreciation	33,957,153	1,924,642	-	-	35,881,795
Depreciable Assets, net of accumulated depreciation	27,723,881	(1,643,856)	-	-	26,080,025
Total Business-type Capital Assets, net of accumulated depreciation	\$28,937,337	\$ (473,238)	\$ -	\$ -	\$ 28,257,813

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LEASES**

Leases receivable - The City is a lessor for noncancellable leases of building space and easements. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements. At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include (1) the discount rate used to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses the estimated incremental borrowing rate of the lessee as the discount rate for leases.
- The lease term includes the noncancellable periods of the lease. Rights to extend are considered to be exercised if it is reasonably probable that they will be. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lease.

Rental income related to these leases for the year ended June 30, 2025 was \$87,534. Interest income related to these leases for the year ended June 30, 2025 was \$37,111.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflow of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Leases payable - The City is a lessee of nineteen vehicles under a noncancellable master lease agreement. The City is also a lessee of three copiers under one noncancellable lease agreement and mailing equipment under two noncancellable lease agreements. At the commencement of the leases, the City initially measures the lease liability at the present value of the payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. The right of use asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date. Subsequently, the right of use asset is amortized on a straight-line basis over the life of the lease term.

Key estimates and judgements related to leases include (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses its estimated incremental borrowing rate as the discount rate for leases if a rate is not provided by the lessor.
- The lease term includes the noncancellable period of the lease. Rights to extend are considered to be exercised if it is reasonably probable that they will be. Lease payments included in the measurement of the lease liability are composed of fixed payments to the lessor.

The vehicle leases include a provision for a residual value guarantee based on mileage and estimated book value of each vehicle at the conclusion of the lease. As the City cannot

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 LEASES – Continued

reasonably estimate the residual value guarantee, no amount is included in the calculation of the lease liability. The copier lease provides for variable payments per black and white copies if usage exceeds a stated annual usage amount, and for color copies. As the City cannot reasonably estimate this usage, no amount is included in the calculation of the lease liability.

The total right of use assets and related accumulated amortization of the underlying leased assets by fund as of June 30, 2025 are as follows:

Right of Use Lease Assets	Governmental Activities			Business-type Activities		
	Amount	Accumulated Amortization	Net Value	Amount	Accumulated Amortization	Net Value
Vehicles	\$ 602,511	\$ 353,450	\$ 249,061	\$ 227,211	\$ 123,227	\$ 103,984
Office equipment	66,010	37,663	28,347	-	-	-
Total	<u>\$ 668,521</u>	<u>\$ 391,113</u>	<u>\$ 277,408</u>	<u>\$ 227,211</u>	<u>\$ 123,227</u>	<u>\$ 103,984</u>

NOTE 7 SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

The City has adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) to account for its subscription-based agreements exceeding one year. Under this statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset.

The City entered into four subscription-based information technology arrangements as of June 30, 2025, with initial terms ranging from 29 to 60 months. Some of the arrangements include automatic annual renewal periods. The City did not include the renewal periods in the SBITA terms as it is not reasonably certain it will exercise the renewal option. The City utilized its incremental borrowing rate in its calculations since an interest rate was not indicated in the terms of the agreement.

The right of use assets and related accumulated amortization under the subscription-based arrangement in the governmental fund as of June 30, 2025 is as follows:

Right of Use Subscription-Based Assets:	Governmental Activities
Information Technology	\$ 196,633
Less, Accumulated Amortization	(90,515)
	<u>\$ 106,118</u>

The annual payment requirements for the SBITAs are included within Note 8 Long Term Debt.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 LONG TERM DEBT

The following is a summary of the changes in direct placement long-term debt for the year ended June 30, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bond	\$2,344,000	\$ -	\$ (56,000)	\$ 2,288,000	\$ 58,500
Bond premium	253,265	-	(7,341)	245,924	-
Leases payable	335,097	79,520	(122,543)	292,074	121,725
Subscriptions payable	95,100	-	(35,940)	59,160	30,909
Compensated absences	494,226	-	(96,509)	397,717	-
Net OPEB liability	506,723	7,266	-	513,989	-
Net pension liability	1,434,461	8,345	-	1,442,806	-
Total Governmental Activities	<u>\$5,462,872</u>	<u>\$ 95,131</u>	<u>\$ (318,333)</u>	<u>\$ 5,239,670</u>	<u>\$ 211,134</u>
Business-type Activities					
Bonds & Notes Payable					
USDA – Raw Water Line/Hydro					
Electric	\$ 717,979	-	\$ (19,365)	\$ 698,614	\$ 19,755
MDE - CSO Phase VIIA	122,843	-	(14,878)	107,965	15,012
Suntrust - Piney Dam Project	1,555,839	-	(378,000)	1,177,839	384,000
MDE – CSO Phase VIIB	39,559	-	(4,013)	35,546	4,049
MDE – Savage Raw Water	184,778	-	(17,741)	167,037	17,901
MDE – CSO Phase VIIB-2	54,074	-	(4,675)	49,399	4,722
Leases payable	154,838	-	(42,992)	111,846	42,463
Compensated absences	286,604	-	(41,341)	245,263	-
Net OPEB liability	197,059	-	(2,576)	194,483	-
Net pension liability	583,065	344,915	-	927,980	-
Total Business-type Activities	<u>\$3,896,638</u>	<u>\$ 344,915</u>	<u>\$ (525,581)</u>	<u>\$ 3,715,972</u>	<u>\$ 487,902</u>

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 24 payments of principal, interest, and issuance costs and an additional 24 payments of interest and issuance costs only remaining.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 108 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **LONG TERM DEBT** - Continued

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 7 installments of principal, interest, and issuance costs and an additional 7 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 3 installments of principal and interest and an additional 3 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 9 installments of principal, interest and issuance fees plus 9 semi-annual installments of interest only remaining. The City did not accrue a liability for repayment of the forgivable portion of the project since the City intended to meet all the requirements for the loan to be forgiven. MDE forgave the debt on April 25, 2023.

On October 24, 2014, Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$922. The loan has 9 installments of principal, interest and issuance fees plus 9 semi-annual installments of interest only remaining. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE forgave the debt on October 24, 2024.

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 10 installments of principal, interest and issuance fees plus 10 semi-annual installments of interest only remaining.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **LONG TERM DEBT** - Continued

The annual requirements to amortize all direct placement debt, as of June 30, 2025 are as follows:

Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2026	\$ 58,500	\$ 96,174	\$ 445,438	\$ 41,932	\$ 503,938	\$ 138,106	\$ 642,044
2027	61,000	93,764	456,217	32,208	517,217	125,972	643,189
2028	63,000	91,233	462,811	22,326	525,811	113,559	639,370
2029	66,000	88,618	63,807	17,651	129,807	106,269	236,076
2030	68,500	85,996	64,619	16,079	133,119	102,075	235,194
2031-2035	385,000	385,220	261,281	64,849	646,281	450,069	1,096,350
2036-2040	469,000	229,929	125,487	42,413	594,487	272,342	866,829
2041-2045	572,500	196,680	138,683	29,217	711,183	225,897	937,080
2046-2050	544,500	66,077	153,237	818,242	697,737	884,319	1,582,056
2051-2055	-	-	64,820	1,453	64,820	1,453	66,273
2056-2066	-	-	-	-	-	-	-
	<u>\$ 2,288,000</u>	<u>\$ 1,333,691</u>	<u>\$ 2,236,400</u>	<u>\$ 1,086,370</u>	<u>\$ 4,524,400</u>	<u>\$ 2,420,061</u>	<u>\$ 6,944,461</u>

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 2,288,000
Sewer charges	192,910
Water surcharges	2,043,490
	<u>\$ 4,524,400</u>

Principal and interest requirements for each fund to maturity for leases payable are presented below:

Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2026	\$ 121,725	\$ 16,628	\$ 42,465	\$ 6,423	\$ 164,190	\$ 23,051	\$ 187,241
2027	75,577	10,369	37,377	3,740	112,954	14,109	127,063
2028	60,694	5,125	24,062	1,419	84,756	6,544	91,300
2029	28,065	1,645	7,942	248	36,007	1,893	37,900
2030	6,013	162	-	-	6,013	162	6,175
2031-2035	-	-	-	-	-	-	-
	<u>\$ 292,074</u>	<u>\$ 33,929</u>	<u>\$ 111,846</u>	<u>\$ 11,830</u>	<u>\$ 403,920</u>	<u>\$ 45,759</u>	<u>\$ 449,679</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **LONG TERM DEBT** - Continued

Principal and interest requirements for the governmental fund to maturity for the subscriptions payable are presented below:

Fiscal Year	Governmental Activities	
	Principal	Interest
2026	\$ 30,909	\$ 4,796
2027	28,251	2,290
	<u>\$ 59,160</u>	<u>\$ 7,086</u>

All compensated absences in the governmental activities will be paid out of the general fund. All compensated absences in the proprietary funds will be paid out of the funds where the liability was incurred. The City feels 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 \$118,867 in the General Fund and \$63,315 in the Proprietary Funds, which includes interest on leases recognized in accordance with GASB 87 and interest on subscriptions in accordance with GASB 96.

NOTE 9 **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 10 **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.

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

An individual who is a member of the SRPS is eligible for full pension benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Members who attain age 55 with at least 15 years of service eligibility are also eligible for early service pension benefits. The early service benefit is at a reduced rate based on the number of months the retirement dates precedes the date on which the member reaches age 62.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 **PENSION PLAN** - Continued

Members employed before July 1, 2011 who terminate employment before attaining age 62 must have accumulated 5 years of eligible service to be eligible for a vested pension allowance. Members employed on or after July 1, 2011 who terminate employment before attaining age 62 must have 10 years of eligible service to be eligible for a vested pension allowance. Members who terminate employment before attaining age 55 with at least 15 years of eligibility service are eligible for a reduced vested pension allowance if they elect to receive benefits prior to attaining retirement age 62.

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

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, 2025 was 8.44% plus a 2.42% surcharge totaling 10.86% 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 \$214,404 for the year ended June 30, 2025.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - At June 30, 2025, the City reported a liability of \$2,370,786 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2024, 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, 2024, actuarially determined. At June 30, 2024, the City's proportion was 0.009 percent, and was 0.009 percent at June 30, 2023.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 **PENSION PLAN** – Continued

For the year ended June 30, 2025, the City recognized pension expense of \$402,251. At June 30, 2025, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension investments	\$ 164,858	\$ -
Changes in assumptions	159,854	-
Difference between actual and expected experience	243,285	59,888
Change in proportionate share	98,865	-
City contributions subsequent to the measurement date	<u>214,404</u>	<u>-</u>
Totals	<u>\$ 881,266</u>	<u>\$ 59,888</u>

The City reported \$214,404, 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, 2025.

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

<u>For the year ending June 30,</u>	<u>Total</u>
2026	\$ 123,701
2027	261,871
2028	114,120
2029	75,808
2030	<u>31,474</u>
Total	<u>\$ 609,974</u>

Actuarial Assumptions - The total pension liability in the June 30, 2024 actuarial valuation, based on results of a prior actuarial experience study for the period July 1, 2018 to June 30, 2023, 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	2.50% General, 3.00% Wage
Salary Increases	3.00% to 22.50%, including inflation
Discount Rate	6.80%
Investment Rate of Return	6.80%
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2021 fully generational mortality improvements scale.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 **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	34.00%	6.00%
Private Equity	16.00%	8.50%
Rate Sensitive	20.00%	2.40%
Credit Opportunity	9.00%	5.40%
Real Assets	15.00%	5.50%
Absolute Return	6.00%	3.90%
TOTAL	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 6.80%, 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 rates equal to the difference between actuarially determined contribution rates and the member rate, 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 6.80%, 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 (5.80%) or a percentage point higher (7.80%) than the current rate:

	1% Decrease 5.80%	Current Discount Rate 6.80%	1% Increase 7.80%
City’s proportionate share of the net pension liability	\$ 3,445,570	\$ 2,370,786	\$ 1,474,878

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 compensation with the

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 **PENSION PLAN** - Continued

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. The City has increased its contributions rates for certified police officers who complete their enrollment in the plan. The contributions are based on the officers' base salary. For years ending after June 30, 2021, the City's contribution is 4% of the officer's base salary. On June 16, 2022, the City amended the plan to include all full-time City employees. Any full-time employee, including police officers, who contributes at least 1% of their base salary towards the plan will receive a City matching contribution of 1%. The City contributed \$16,514 towards the plan during the fiscal year ending June 30, 2025.

Effective July 1, 2023, certified police officers (Officers) actively employed by the City of Frostburg are participants of the Law Enforcement Officers Pension System (LEOPS) within the Maryland State Retirement System. Accordingly, the City elected to withdraw and transfer eligible Officers from the Employees Pension System (EPS) to the LEOPS as of July 1, 2023. The preliminary actuarial estimate of the market value of assets of the EPS attributable to the eligible Officers who are expected to transfer to the LEOPS is \$467,238. The final determination of the assets attributable to the transferring Officers shall be based on final review of the Officers employed through Frostburg's payroll period as of June 30, 2023, and actual demographic, employment, and asset information as of June 30, 2023. The actuary has made a preliminary estimate of the special accrued liability credit on account of the eligible Officers who are expected to transfer to the LEOPS effective July 1, 2023, using the actuarial assumptions and applicable benefit provisions as of June 30, 2023. The actuary has preliminarily estimated that the special accrued liability credit amounts to \$381,852 as of July 1, 2024, based on the demographics of the Officers who are expected to transfer to LEOPS, and after applying the \$467,238 in assets from the preliminary withdrawal valuation that will be transferred to LEOPS. The amounts reported in these financial statements reflect the officers still being a part of the EPS since the most recent actuarial valuation was based on information as of June 30, 2023.

NOTE 11 **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 July 1, 2024, the City switched to a self-funded health insurance plan and no longer pays any of the deductibles for plan participants. These changes have been reflected in the actuarial valuation report performed as of June 30, 2025.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (“OPEB”) - Continued

As of June 30, 2025, the following employees were covered by the benefit terms:

Number of Active Employees	34
Number of Retirees	<u>2</u>
Total Number	<u><u>36</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 \$23,947 in benefits during the year ended June 30, 2025.

OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources - At June 30, 2025, the City reported a liability of \$708,472. The net OPEB liability was measured as of June 30, 2025 using employee data as of June 30, 2025.

For the year ended June 30, 2025, the City recognized OPEB expense of \$70,292. At June 30, 2025, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 16,361	\$ 54,781
Difference between expected and actual experience	<u>177,926</u>	<u>172,333</u>
	<u>\$ 194,287</u>	<u>\$ 227,114</u>

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

For the year ended June 30,	Total
2026	\$ 4,937
2027	2,908
2028	3,281
2029	(12,426)
2030	(28,893)
Thereafter	<u>(2,634)</u>
	<u>\$ (32,827)</u>

Actuarial Assumptions - The total OPEB liability in the June 30, 2025 actuarial valuation was determined using plan provisions as of that date, employee data as of June 30, 2025, and the following key actuarial assumptions, applied to all periods included in the measurement:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (“OPEB”) – Continued

Actuarial cost method	Entry Age Normal
Discount rate	4.81%, changed from 4.21% in the prior study.
Mortality	Pub-2010 General Headcount-weighted with fully generational MP-2021 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	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using actual ages of enrolled participants and aging factors. The retiree pre-65 premium was \$914.00 for medical per month, consistent with the \$914.00 per month used in the prior year.
Trend	Premiums are assumed to increase initially at a rate of 7.50% 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 4.81%. As the OPEB is unfunded, the discount rate is based on a twenty-year municipal bond index. The S&P Municipal Bond 20 Year Rate Index was used to approximate those yields as of June 30, 2025.

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 4.81% 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 (3.81%) or a percentage point higher (5.81%) than the current rate.

	1% Decrease 3.81%	Current Discount Rate 4.81%	1% Increase 5.81%
City’s net OPEB liability	\$ 754,735	\$ 708,472	\$ 668,439

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 **OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)** – Continued

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 7.50% 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 (6.50% to 3.5%) or a percentage point higher (8.50% to 5.5%) than the current rate:

	1% Decrease 6.50% to 3.5%	Current Discount Trend Rate 7.50% to 4.5%	1% Increase 8.50% to 5.5%
City’s net OPEB liability	\$ 659,319	\$ 708,472	\$ 766,632

Changes in Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2024	\$ 703,782	-	\$ 703,782
Changes for the year			
Service Cost	23,178	-	23,178
Interest	29,130	-	29,130
Changes in benefit terms	-	-	-
Difference between expected & Actual experience	-	-	-
Assumption changes	(23,671)	-	(23,671)
Contributions - employer	-	23,947	(23,947)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(23,947)	(23,947)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	4,690	-	4,690
City’s net OPEB liability at June 30, 2025	\$ 708,472	\$ -	\$ 708,472

NOTE 12 **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 13 **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 which expired December 14, 2024.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 **TAX ABATEMENTS** - Continued

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

Enterprise Zone tax credits are reflected as an adjustment to the original real estate tax bills issued to the property owners if the credit exceeds \$1,000. For credits less than \$1,000, the property owner receives a refund of the tax credit after their original real estate tax bill has been paid. The City requests annual reimbursement from the Maryland Department of Assessments and Taxation for 50% of the approved EZ tax credits during the fiscal year. For the fiscal year ending June 30, 2025, the City recorded EZ tax credits in the amount of \$33,876 and received \$16,938 from the State of Maryland.

NOTE 14 **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 15 **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 no insurance recoveries during the current year.

NOTE 16 **COMMITMENTS**

As of June 30, 2025, the CSO Elimination Project, Phase X-A, Georges Creek Corridor, was under construction. The total project cost is expected to be \$1,816,775 including the construction contract of \$1,587,822. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund Grant, \$981,312 and City cash \$835,463. Of the City cash contribution, \$606,500 is designated to come from American Rescue Plan Act (ARPA) funding. As of June 30, 2025, the City had incurred expenses of \$1,454,458.

Bids for CSO Elimination Phases VIII-C, North Grant Street, and IX-D, Center Street Extended, were opened in September 2024 and construction contracts were awarded in October 2024. The projects are expected to cost a combined total of \$912,720. The City has the following funding commitments for these projects: The Maryland Department of Housing and Community Development's Community Development Block Grant \$780,000 and City Cash \$132,720. As

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **COMMITMENTS** – Continued

of June 30, 2025, the City had incurred expenses of \$181,249 toward Phase VIII-C and \$96,168 toward Phase IX-D.

As of June 30, 2024, 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 (\$2,000,000, as amended). The City is under contract for \$108,621 to pay for final design expenses and this contract expense will be provided with ARPA funding. It is expected that the project will go to construction around 2027. The Maryland Department of Transportation State Highway Administration is administering the ARC grants directly on behalf of the City. As of June 30, 2025, design expenses totaled \$833,078.

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, in consultation with regional Economic Development partners, is seeking a viable developer for the property.

On July 28, 2021, the City of Frostburg received the first disbursement of American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF) in the amount of \$4,189,816. The final disbursement of funds in the amount of \$4,192,952 was received August 4, 2022. Fiscal Recovery Funds may only be used to cover eligible costs incurred during the period beginning March 3, 2021 and ending December 31, 2026. 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 contracts for the following projects that may use ARPA funds for a portion of the project expense:

- Comprehensive Plan - \$193,022
- Leak detection services – not to exceed \$14,000
- Lighting control box - \$28,425

As of June 30, 2025, updating the City's comprehensive plan was underway. The total project cost is expected to be \$193,022, with funding designated to come from American Rescue Plan Act resources. Total project expenses as of June 30, 2025 were \$51,825.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies. 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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **COMMITMENTS AND SUBSEQUENT EVENTS** - Continued

The City contracts with Maryland Environmental Service for the operation of the Frostburg Water Filtration Plant. In December 2020, the City signed a continuation of the contract with an estimated budget for 2022 and provisional cost proposals through 2026 as follows:

<u>Fiscal Year</u>	
2023	\$ 563,721
2024	567,399
2025	583,993
2026	600,703

NOTE 17 **NEW PRONOUNCEMENTS**

GASB has issued Statement No. 101, *Compensated Absences* and Statement No. 102, *Certain Risk Disclosures*, which became effective during the year ended June 30, 2025. The City implemented these statements and they had no material impact of the financial statements.

GASB has also issued Statement No. 103, *Financial Reporting Model Improvements* and Statement No. 104, *Disclosure of Certain Capital Assets*, and Statement No. 105, *Subsequent Events*. These pronouncements are effective for fiscal years beginning after June 15, 2025. The City has not currently determined what, if any, impact implementation of these statements may have on its financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2025

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Net property tax revenue	\$ 3,217,200	\$ 3,244,200	\$ 3,252,140	\$ 7,940
Income taxes	640,000	725,000	773,162	48,162
Hotel motel tax	155,000	155,000	184,402	29,402
Highway use tax	510,000	475,000	496,844	21,844
Other taxes	102,500	92,500	89,833	(2,667)
Police protection grant	135,000	121,000	122,540	1,540
Public safety revenue	15,000	7,950	6,699	(1,251)
Licenses and permits	41,250	47,000	53,073	6,073
Police grants	40,000	40,000	39,205	(795)
Rental program revenue	74,750	79,550	81,310	1,760
Recreational activities	100,000	100,000	118,409	18,409
Grant income - other	2,038,000	667,000	618,802	(48,198)
Transfers from other funds	355,525	355,525	355,536	11
Other income	1,860,650	2,261,400	2,209,018	(52,382)
Interest	400,000	510,000	512,124	2,124
Fund balance	173,870	-	-	-
TOTAL GENERAL FUND REVENUE	9,858,745	8,881,125	8,913,097	31,972
EXPENDITURES				
Administration	4,738,525	3,299,920	3,130,866	169,054
Public safety	2,362,470	2,274,070	2,202,509	71,561
Street department	1,867,625	2,111,625	2,287,788	(176,163)
Recreation department	890,125	1,195,510	1,157,870	37,640
TOTAL EXPENDITURES	9,858,745	8,881,125	8,779,033	102,092
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 134,064	\$ 134,064
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Sources/inflows of resources				
Actual budgetary basis "general fund revenue" from the budgetary comparison schedule			\$ 8,913,097	
Differences - budget to GAAP:				
Transfers from other funds are inflows from budgetary resources but are not revenues for financial reporting purposes				(355,536)
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes				(375)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds			\$ 8,557,186	
Uses/outflows of resources				
Actual budgetary basis "general fund revenue" from the budgetary comparison schedule			\$ 8,779,033	
Differences - budget to GAAP:				
Capital assets acquired through leases and subscription arrangements are not included as expenditures for budgetary purposes but are for financial reporting purposes				79,520
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds			\$ 8,858,553	

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**

Street Department expenses exceeded the amended budget due to unanticipated repairs to trucks and other heavy equipment and sidewalk repairs.

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>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
City's proportion of the net pension liability	0.0090%	0.0090%	0.0090%	0.0090%	0.0080%	0.0070%	0.0070%	0.0060%	0.0070%	0.0080%
City's proportionate share of the net pension liability	\$ 2,370,786	\$ 2,017,526	\$ 1,751,659	\$ 1,350,533	\$ 1,778,926	\$ 1,529,269	\$ 1,512,990	\$ 1,369,796	\$ 1,647,046	\$ 1,671,968
City's covered payroll - Employee Retirement System	\$ 2,311,318	\$ 2,175,732	\$ 2,112,110	\$ 2,172,676	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223
City's proportionate share of the net pension liability as a percentage of its covered payroll	92.73%	92.73%	82.93%	62.16%	87.18%	79.25%	78.39%	75.01%	89.87%	84.99%
Plan fiduciary net position as a percentage of the total pension liability	72.08%	73.81%	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%

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>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution - Employee Retirement System	\$ 214,404	\$ 235,986	\$ 213,657	\$ 199,806	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106
Contributions in relation to the contractually required contribution	\$ 214,404	\$ 235,986	\$ 213,657	\$ 199,806	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll - Employee Retirement System	\$ 1,974,254	\$ 2,311,318	\$ 2,175,732	\$ 2,112,110	\$ 2,172,676	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753
Contributions as a percentage of covered-employee payroll - Employee Retirement System	10.86%	10.21%	9.82%	9.46%	9.13%	8.27%	7.89%	7.45%	7.06%	7.43%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Changes in Assumptions -
None

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

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

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

	6/30/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Changes in OPEB Liability								
Service Cost	\$ 23,178	\$ 54,787	\$ 39,715	\$ 36,774	\$ 38,173	\$ 31,344	\$ 28,381	\$ 27,324
Interest	29,130	36,603	20,394	12,249	12,160	15,687	16,107	15,175
Changes in benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	-	(244,502)	310,230	22,118	-	(13,154)	-	-
Assumption changes	(23,671)	16,010	(35,962)	(38,086)	525	105,100	10,620	-
Contributions - employer	-	-	-	-	-	-	-	-
Contributions - employee	-	-	-	-	-	-	-	-
Net investment income	-	-	-	-	-	-	-	-
Benefit payments	(23,947)	(28,426)	(20,107)	(28,035)	(39,863)	(33,947)	(12,449)	(24,295)
Administrative expense	-	-	-	-	-	-	-	-
Other changes	-	(31,029)	-	-	-	-	-	-
Net change in OPEB liability	4,690	(196,557)	314,270	5,020	10,995	105,030	42,659	18,204
Total OPEB liability, beginning of year	703,782	900,339	586,069	581,049	570,054	465,024	422,365	404,161
Total OPEB liability, end of year	<u>\$ 708,472</u>	<u>\$ 703,782</u>	<u>\$ 900,339</u>	<u>\$ 586,069</u>	<u>\$ 581,049</u>	<u>\$ 570,054</u>	<u>\$ 465,024</u>	<u>\$ 422,365</u>
City's covered employee payroll	\$ 2,189,948	\$ 1,979,748	\$ 1,899,442	\$ 1,744,969	\$ 1,532,693	\$ 1,391,124	\$ 1,185,691	\$ 1,151,156
Total OPEB liability as a percentage of covered employee payroll	32.35%	35.55%	47.40%	33.59%	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 changes in benefits terms during the plan year.

Changes in Assumptions -

The discount rate was changed from 4.21% in the prior study to 4.81%.

Healthcare cost trend assumption was updated to 7.5% for 2025 decreasing by 0.25% per year until it reaches 4.5%.

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