

CITY OF FROSTBURG, MARYLAND

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

CITY OF FROSTBURG, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Frostburg, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 14, the budgetary comparison information on pages 49 – 50, the "Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System" on page 51, the "Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System" on page 52, and the "Schedule of Changes in City of Frostburg, Maryland's Total OPEB Liability and Related Ratios" on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

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

Huber, Michael + Company

Cumberland, Maryland
December 13, 2019

CITY OF FROSTBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019

**Management Discussion and Analysis
City of Frostburg**

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

The following discussion and analysis provides an overview of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2019. 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

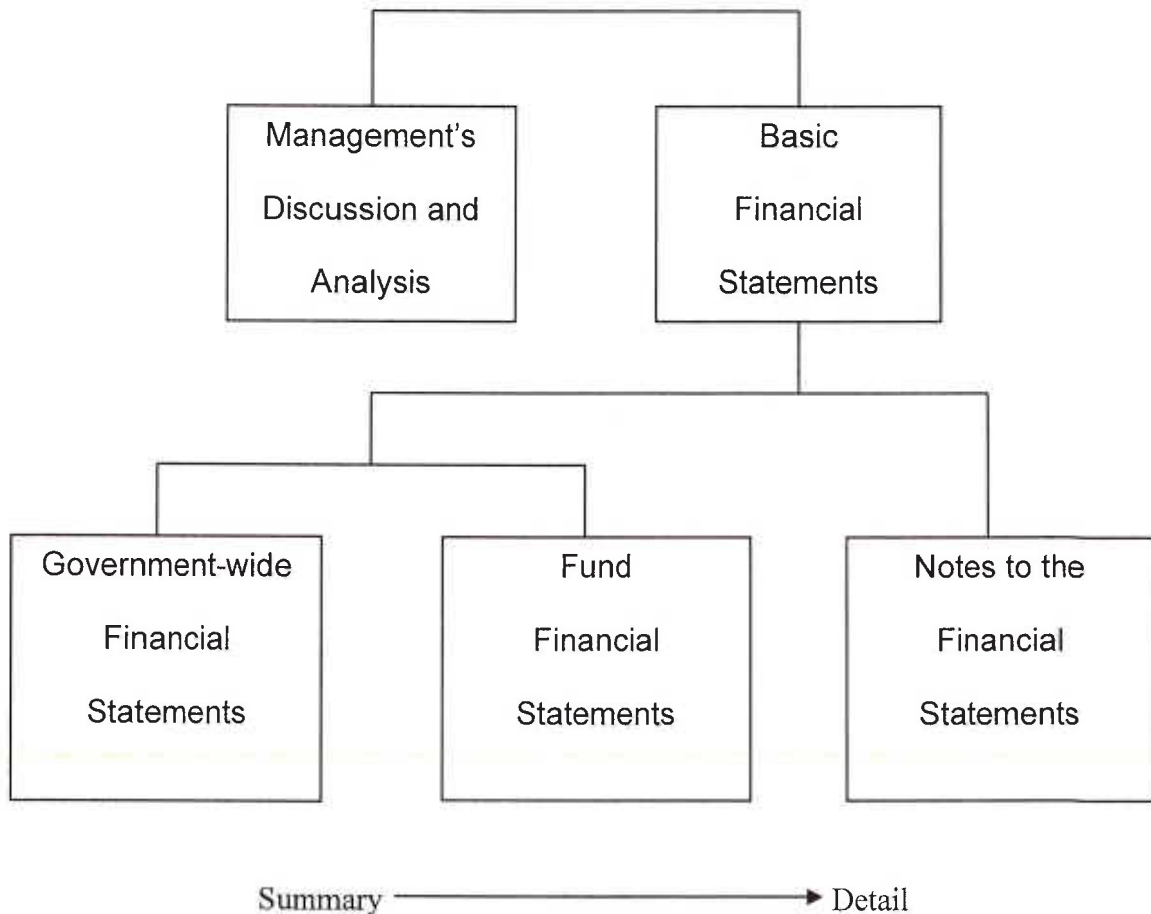
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$36,695,473.
- The government's total net position increased by \$1,321,159. This increase is partially attributed to general revenues which exceeded the net expenses from governmental activities. An increase in net revenue of the Sewer fund also contributed to the increase in net position.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$4,726,562 which is an increase of \$10,799 compared with the prior year. Approximately 96 percent of the total fund balance, or \$4,546,598, is available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$4,546,598 or 81 percent of total general fund expenditures for the fiscal year.
- The long-term bonds and notes payable of the City of Frostburg decreased by \$785,951 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$763,686.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 15 - 16) 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 17 - 23) 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 24 - 48). The notes explain, in detail, some of the data contained in the financial statements. After the notes, supplemental information is provided to show details about

Management Discussion and Analysis

City of Frostburg

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements are on pages 15 and 16 of this report.

Fund Financial Statements

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

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

Management Discussion and Analysis

City of Frostburg

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 - 48 of this report.

Government-Wide Financial Analysis

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

Management Discussion and Analysis
City of Frostburg

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Examples of items that result in future cash flows are uncollected taxes and unused vacation leave. The Statement of Net Position and the Statement of Activities are on pages 15 - 16 of this report. A summary of this statement is provided below.

City of Frostburg – Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 5,354,640	\$ 5,277,228	\$ 2,304,833	\$ 2,135,279	\$ 7,659,473	\$ 7,412,507
Non-current assets	9,649	9,649	-	-	9,649	9,649
Capital assets	10,873,060	10,057,931	28,085,133	28,172,820	38,958,193	38,230,751
Total assets	16,237,349	15,344,808	30,389,966	30,308,099	46,627,315	45,652,907
Deferred outflows of resources	184,688	284,397	85,984	116,203	270,672	400,600
Long-term liabilities	1,735,182	1,655,382	6,153,279	6,825,039	7,888,461	8,480,421
Other liabilities	458,473	399,260	1,739,386	1,609,842	2,197,859	2,009,102
Total liabilities	2,193,655	2,054,642	7,892,665	8,434,881	10,086,320	10,489,523
Deferred inflows of resources	86,440	141,248	29,754	48,422	116,194	189,670
Net position:						
Invested in capital assets, net of related debt	10,873,060	10,039,618	21,890,124	21,229,173	32,763,184	31,268,791
Restricted	191,673	191,636	-	-	191,673	191,636
Unrestricted	3,077,209	3,202,061	663,407	711,826	3,740,616	3,913,887
Total net position	\$ 14,141,942	\$ 13,433,315	\$ 22,553,531	\$ 21,940,999	\$ 36,695,473	\$ 35,374,314

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 \$36,695,473 as of June 30, 2019. The majority of the net position is invested in capital assets. Capital assets are used to provide services to citizens but they are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position of the City of Frostburg, less than 1%, represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$1,321,159 for the fiscal year ended June 30, 2019. Several particular aspects of the City financial operations positively influenced the total governmental net position:

Management Discussion and Analysis
City of Frostburg

- An increase in net revenue from sewer activities.
- An increase in grants for community development projects.
- An increase in income tax revenue.

City of Frostburg - Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 343,109	\$ 361,000	\$ 4,520,093	\$ 4,505,609	\$ 4,863,202	\$ 4,866,609
Operating grants and contributions	680,169	857,364	-	-	680,169	857,364
Capital grants and contributions	834,917	-	1,095,351	998,323	1,930,268	998,323
General revenues:						
Property taxes	2,546,357	2,558,847	-	-	2,546,357	2,558,847
Other taxes	763,565	695,870	-	-	763,565	695,870
Other	167,777	127,429	40,088	(30,215)	207,865	97,214
Total revenues	5,335,894	4,600,510	5,655,532	5,473,717	10,991,426	10,074,227
Expenses:						
General government	748,913	736,351	-	-	748,913	736,351
Public safety	1,881,132	1,782,112	-	-	1,881,132	1,782,112
Public works	1,258,493	1,024,581	-	-	1,258,493	1,024,581
Recreation and parks	585,661	586,529	-	-	585,661	586,529
Community development	241,204	324,487	-	-	241,204	324,487
Code enforcement	185,069	157,510	-	-	185,069	157,510
Water, sewer and garbage	-	-	4,769,795	4,420,724	4,769,795	4,420,724
Total expenses	4,900,472	4,611,570	4,769,795	4,420,724	9,670,267	9,032,294
Change in net position before transfers and donations	435,422	(11,060)	885,737	1,052,993	1,321,159	1,041,933
Transfers	273,205	289,975	(273,205)	(289,975)	-	-
Change in net position	708,627	278,915	612,532	763,018	1,321,159	1,041,933
Net position, July 1	13,433,315	13,154,400	21,940,999	21,177,981	35,374,314	34,332,381
Net position, June 30	\$ 14,141,942	\$ 13,433,315	\$ 22,553,531	\$ 21,940,999	\$ 36,695,473	\$ 35,374,314

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

Governmental activities increased the city's net position by \$708,627. The key elements of this increase are as follows:

Management Discussion and Analysis

City of Frostburg

- An increase in community development grants.
- An increase in income tax revenue.
- An increase in recreation grants.

Business-type activities: Business-type activities increased the net position of the City of Frostburg by \$612,532. The key elements of this increase are as follows:

- Grant funding received for the Phase VIII-B CSO project.
- Recognition of timber sales revenue in the water fund.

Financial Analysis of the City Funds

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

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

The general fund is the chief operating fund of the City of Frostburg. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,546,598 while the total fund balance was \$4,643,420. 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, 2019, the governmental funds of the City of Frostburg reported a combined fund balance of \$4,726,562, an increase of less than 1 percent over last year. Included in this change in fund balance is an increase in fund balance in the General Fund and a decrease in fund balance in the Special Revenue Fund.

General Fund Budgetary Highlights: The Mayor and City Council publicly approved the budget for the year ending June 30, 2019 as Ordinance 2018-01. The budget was amended through Resolution 2018-45 and Resolution 2019-30. Of note among the amendments was an increase in community development grant revenue based on redevelopment projects in town and a similar increase in community development project expenses. Also, capital outlay expenses were increased to reflect additional purchases completed before the end of the fiscal year. Salary and health insurance expenses were decreased as a result of partial year employment vacancies and underutilization of health insurance compared to the original budget.

During the year, actual revenues exceeded the budget by \$17,219. Income tax distributions exceeded the budget estimate by \$91,689 and grant income exceeded the budget by

Management Discussion and Analysis City of Frostburg

\$42,905. Also, net property tax revenue exceeded the budget due to increases in corporation personal property taxes compared to the prior year.

General fund expenditures exceeded the budgetary estimates by \$32,425 which is less than 1% of the total budgeted expenditures. Administration expenses exceeded the budget by \$109,082 mainly as the result of additional capital outlays. Offsetting this increase in expenses was a positive variance of public safety and recreation department expenses which were less than the budget by \$89,528 and \$51,545 respectively. Salaries, health insurance and workers compensation expenses were all under budget for the year in the police department. In the recreation department, capital outlays and amusement park tickets were under budget for the year.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year was \$663,407. Current year operations of the proprietary funds positively affected net position in total by \$612,532. Sewer operations were the only proprietary activity with 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, 2019 totals \$38,958,193, net of accumulated depreciation. These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

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

- Work in progress on the Phase VIII-B CSO project of \$1,199,037.
- Completion of the 2018/19 street paving of \$145,528.
- Purchase of four properties intended for resale at a cost of \$687,735.
- Construction of a storage building for the Water Department totaling \$27,020.
- Purchase of a recreation department dump truck for \$44,580.
- Purchase of a plow dump truck for \$154,365.
- Purchase of two police vehicles for \$58,943.
- Purchase of financial management software for \$52,419.

City of Frostburg - Capital Assets Figure 4

(net of depreciation)

**Management Discussion and Analysis
City of Frostburg**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land and construction in progress	\$ 3,040,551	\$ 2,224,153	\$ 2,574,034	\$ 1,261,134	\$ 5,614,585	\$ 3,485,287
Buildings and systems	2,743,179	2,810,103	2,306,034	2,544,024	5,049,213	5,354,127
Improvements other than buildings	646,811	700,974	6,051,697	6,446,942	6,698,508	7,147,916
Machinery and equipment	687,977	513,387	698,362	696,977	1,386,339	1,210,364
Intangible assets	165,059	175,375	-	-	165,059	175,375
Infrastructure	3,589,483	3,633,939	16,455,006	17,223,743	20,044,489	20,857,682
Total	\$ 10,873,060	\$ 10,057,931	\$ 28,085,133	\$ 28,172,820	\$ 38,958,193	\$ 38,230,751

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, 2019 the City of Frostburg had total bonded debt outstanding of \$6,195,009. Of this total bonded debt, \$5,573,993 is debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources.

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ -	\$ 38,313			\$ -	\$ 38,313
Revenue bonds			\$ 6,195,009	\$ 6,943,647	\$ 6,195,009	\$ 6,943,647
Total	\$ -	\$ 38,313	\$ 6,195,009	\$ 6,943,647	\$ 6,195,009	\$ 6,981,960

The City of Frostburg's long-term total debt decreased by \$587,048 (6%) during the past fiscal year. Debt principal payments during the past fiscal year were \$786,951.

Additional information regarding the City of Frostburg's long-term debt can be found in note 6 beginning on page 34 of this report.

Economic Factors – 2019

Management Discussion and Analysis

City of Frostburg

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

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

The City is home to one of the county's larger employers, Frostburg State University. FSU is the primary contributor to the economy in Frostburg based on the number of full time jobs, ongoing capital investments, and residents of the community that attend or work for the school. Enrollment projections do not expect significant growth, however, capital investment is and will continue to take place so that the University may remain competitive as the standards for higher education transform. Additionally, the University completed its first year as a Division II school which may make a significant regional economic impact in terms of investment in the community typical of other Division II college towns. Those transformations are expected to be seen over the next two to three years.

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

The City also has two business parks, and the existing structures within these parks are largely occupied. In 2020, there may be new construction in the Frostburg Business Park that would increase both tax revenue and jobs in Frostburg. Also, the Frostburg Plaza has been purchased by a developer who is securing new tenants and making investments into the property.

There is opportunity for new commercial development near the interstate interchanges. A few types of projects are being discussed; potential construction may begin to occur in 2021. There are two residential subdivisions with available lots, plus infill development sites. In 2019, six single family building permits were issued for new construction; that is more permits than in the past seven years combined. Increased building of single-family homes is expected to continue in 2020.

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

Management Discussion and Analysis City of Frostburg

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

Budget Highlights for the Fiscal Year Ending June 30, 2020

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

Budgeted expenditures in the General Fund are expected to increase by 13 percent. The majority of the increase is attributable to community development projects. Also, an across the board salary increase was approved for all full time city employees.

Business – type Activities: All surcharges rates and the sewer rate will remain unchanged for the fiscal year ending June 30, 2020 however the water rate increased approximately 5.8% for consumption under 50,000 gallons per billing. The bulk water rate charged to Allegany County customers remained unchanged.

Capital projects included in the budget are the continuation of the combined sewer overflow elimination projects with construction of Phase VIII-B and Phase IX-A and design of Phase IX-B in the Sewer Fund. Project Open Space grants and Land and Water Conservation grants will also be used to fund improvements at Hoffman Park.

Requests for Information

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,082,285	\$ 1,044,768	\$ 5,127,053
Certificate of deposit	99,603	-	99,603
Certificate of deposit - restricted	36,123	-	36,123
Accounts receivable	1,059,399	1,243,859	2,303,258
Prepaid expenses	77,230	16,206	93,436
Total Current Assets	5,354,640	2,304,833	7,659,473
Capital Assets			
Non-depreciable	3,040,551	2,574,034	5,614,585
Depreciable, net of accumulated depreciation	7,832,509	25,511,099	33,343,608
Total Capital Assets, net of accumulated depreciation	10,873,060	28,085,133	38,958,193
Non-current Assets			
Notes receivable	9,649	-	9,649
Total Non-current Assets	9,649	-	9,649
TOTAL ASSETS	16,237,349	30,389,966	46,627,315
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	177,982	83,191	261,173
Deferred outflows of resources related to OPEB	6,706	2,793	9,499
Total Deferred Outflows of Resources	184,688	85,984	270,672
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	355,756	828,321	1,184,077
Salaries and benefits payable	38,052	11,180	49,232
Internal balances	232	(232)	-
Unearned revenue	36,125	136,431	172,556
Compensated absences - current portion	28,308	-	28,308
Current portion of long-term debt	-	763,686	763,686
Total Current Liabilities	458,473	1,739,386	2,197,859
Noncurrent Liabilities:			
Compensated absences	278,440	200,684	479,124
Accrued post employment health insurance	328,261	136,763	465,024
Net pension liability	1,128,481	384,509	1,512,990
Long-term debt	-	5,431,323	5,431,323
Total Noncurrent Liabilities	1,735,182	6,153,279	7,888,461
TOTAL LIABILITIES	2,193,655	7,892,665	10,086,320
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	86,440	29,754	116,194
NET POSITION			
Net investment in capital assets	10,873,060	21,890,124	32,763,184
Restricted	191,673	-	191,673
Unrestricted	3,077,209	663,407	3,740,616
TOTAL NET POSITION	\$ 14,141,942	\$ 22,553,531	\$ 36,695,473

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 748,913	\$ 220,696	\$ -	\$ -	\$ (528,217)	\$ -	\$ (528,217)
Public safety	1,881,132	22,695	395,431	-	(1,463,006)	-	(1,463,006)
Public works	1,258,493	-	207,754	-	(1,050,739)	-	(1,050,739)
Recreation and parks	585,661	98,068	8,275	47,182	(432,136)	-	(432,136)
Community development	241,204	-	68,709	787,735	615,240	-	615,240
Code enforcement	185,069	1,650	-	-	(183,419)	-	(183,419)
Total Governmental Activities	4,900,472	343,109	680,169	834,917	(3,042,277)	-	(3,042,277)
Business-type Activities:							
Water	1,252,323	1,244,514	-	-	-	(7,809)	(7,809)
Sewer	2,217,283	2,057,764	-	1,095,351	-	935,832	935,832
Water Surcharge	954,722	875,039	-	-	-	(79,683)	(79,683)
Garbage	345,467	342,776	-	-	-	(2,691)	(2,691)
Total Business-type Activities	4,769,795	4,520,093	-	1,095,351	-	845,649	845,649
Total Primary Government	\$ 9,670,267	\$ 4,863,202	\$ 680,169	\$ 1,930,268	(3,042,277)	845,649	(2,196,628)
General Revenues:							
Taxes							
Net property taxes					2,546,357	-	2,546,357
Income taxes					566,689	-	566,689
Highway use tax					69,915	-	69,915
Hotel motel tax					124,957	-	124,957
Admission taxes					2,004	-	2,004
Rental income					106,178	-	106,178
Licenses and permits					24,416	-	24,416
Interest earnings					-	88	88
Miscellaneous revenues					37,033	40,000	77,033
Gain (loss) on disposal of fixed assets					150	-	150
Transfers					273,205	(273,205)	-
Total General Revenues, Special Items, Extraordinary Items and Transfers					3,750,904	(233,117)	3,517,787
Change in Net Position					708,627	612,532	1,321,159
Net Position - July 1, 2018					13,433,315	21,940,999	35,374,314
Net Position - June 30, 2019					\$ 14,141,942	\$ 22,553,531	\$ 36,695,473

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

CITY OF FROSTBURG, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,900,261	\$ 182,024	\$ 4,082,285
Certificate of deposit	99,603	-	99,603
Certificate of deposit - restricted	36,123	-	36,123
Accounts receivable	1,059,399	-	1,059,399
Interfund receivables	19,592	-	19,592
Prepaid expenses	77,230	-	77,230
TOTAL ASSETS	<u>\$ 5,192,208</u>	<u>\$ 182,024</u>	<u>\$ 5,374,232</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 275,761	\$ 80,000	\$ 355,761
Salaries and benefits payable	66,355	-	66,355
Interfund payables	942	18,882	19,824
Advanced revenue	36,125	-	36,125
TOTAL LIABILITIES	<u>379,183</u>	<u>98,882</u>	<u>478,065</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	169,605	-	169,605
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>169,605</u>	<u>-</u>	<u>169,605</u>
FUND BALANCES			
Nonspendable - Prepaid expenses	77,230	-	77,230
Nonspendable - Interfund receivables	19,592	-	-
Restricted - Community Development Block Grants	-	83,142	83,142
Unassigned	4,546,598	-	4,546,598
TOTAL FUND BALANCE	<u>4,643,420</u>	<u>83,142</u>	<u>4,726,562</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 5,192,208</u>	<u>\$ 182,024</u>	<u>\$ 5,374,232</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, 2019**

Total Fund Balances - Governmental Funds		\$ 4,726,562
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		10,873,060
Notes receivable do not provide current resources and are not reported in the governmental funds.		9,649
Deferred outflows of resources related to pensions are not recognized in the fund statements.		177,982
Deferred outflows of resources related to OPEB are not recognized in the fund statements.		6,706
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Accrued post employment health insurance	(328,261)	
Net pension liability	(1,128,481)	
Compensated absences	(278,440)	
		(1,735,182)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		169,605
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(86,440)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		\$ 14,141,942

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, 2019**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Net property tax revenue	\$ 2,577,276	\$ -	\$ 2,577,276
Income taxes	566,689	-	566,689
Hotel motel tax	124,957	-	124,957
Highway use tax	69,915	-	69,915
Other taxes	110,996	-	110,996
Police protection grant	127,278	-	127,278
Public safety revenue	42,481	-	42,481
Licenses and permits	36,571	-	36,571
COPS grants	32,688	-	32,688
Rental program revenue	76,790	-	76,790
Recreational activities	98,068	-	98,068
Grant income - federal	4,704	-	4,704
Grant income - other	1,344,951	-	1,344,951
Other income	47,235	-	47,235
Interest	-	37	37
	<u>-</u>	<u>37</u>	<u>37</u>
TOTAL REVENUES	<u>5,260,599</u>	<u>37</u>	<u>5,260,636</u>
EXPENDITURES			
Administration	1,166,815	15,420	1,182,235
Public safety	1,738,559	-	1,738,559
Street department	868,984	-	868,984
Recreation department	468,657	-	468,657
Debt service	18,313	20,000	38,313
Capital outlays	1,332,472	-	1,332,472
	<u>5,593,800</u>	<u>35,420</u>	<u>5,629,220</u>
TOTAL EXPENDITURES	<u>5,593,800</u>	<u>35,420</u>	<u>5,629,220</u>
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(333,201)</u>	<u>(35,383)</u>	<u>(368,584)</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers	276,667	(3,462)	273,205
Rental income	106,178	-	106,178
	<u>382,845</u>	<u>(3,462)</u>	<u>379,383</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>382,845</u>	<u>(3,462)</u>	<u>379,383</u>
NET CHANGE IN FUND BALANCES	49,644	(38,845)	10,799
FUND BALANCE - JULY 1, 2018	<u>4,593,776</u>	<u>121,987</u>	<u>4,715,763</u>
FUND BALANCE - JUNE 30, 2019	<u>\$ 4,643,420</u>	<u>\$ 83,142</u>	<u>\$ 4,726,562</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, 2019**

Total Net Change in Fund Balance - Governmental Funds		\$ 10,799
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	1,332,472	
Less current year depreciation	<u>(517,342)</u>	815,130
Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		38,313
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		(30,922)
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		(106,415)
Change in deferred outflows of resources related to OPEB		6,704
Change in accrued interest		10
Change in accrued post employment health insurance		(27,732)
Change in compensated absences		31,742
Change in accrued pension liability		(83,810)
Change in deferred inflows of resources related to pensions		<u>54,808</u>
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 708,627</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2019

	Water	Sewer	Water Surcharge	Garbage	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 126,106	\$ 423,828	\$ 332,923	\$ 161,911	\$ 1,044,768
Accounts receivable	251,730	828,477	106,519	57,133	1,243,859
Prepaid expenses	7,396	6,372	-	2,438	16,206
Due from other funds	461	481	-	-	942
Total Current Assets	385,693	1,259,158	439,442	221,482	2,305,775
Capital Assets					
Non-depreciable	-	2,460,012	114,022	-	2,574,034
Depreciable, net of accumulated depreciation	817,261	12,297,225	12,207,577	189,036	25,511,099
Total Capital Assets, net of accumulated depreciation	817,261	14,757,237	12,321,599	189,036	28,085,133
TOTAL ASSETS	1,202,954	16,016,395	12,761,041	410,518	30,390,908
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	35,465	30,435	-	17,291	83,191
Deferred outflows of resources related to OPEB	1,304	931	-	558	2,793
Total Deferred Outflows of Resources	36,769	31,366	-	17,849	85,984
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	108,787	667,317	43,572	8,645	828,321
Salaries and benefits payable	5,039	3,634	-	2,507	11,180
Due to other funds	-	-	-	710	710
Unearned revenue	5,000	47,921	54,050	29,460	136,431
Current portion of long-term debt	-	41,262	722,424	-	763,686
Total Current Liabilities	118,826	760,134	820,046	41,322	1,740,328
Noncurrent Liabilities					
Compensated absences	90,935	60,817	-	48,932	200,684
Accrued post employment health insurance	63,848	45,572	-	27,343	136,763
Net pension liability	164,470	136,795	-	83,244	384,509
Notes payable, less current portion	-	308,612	5,122,711	-	5,431,323
Total Noncurrent Liabilities	319,253	551,796	5,122,711	159,519	6,153,279
TOTAL LIABILITIES	438,079	1,311,930	5,942,757	200,841	7,893,607
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	12,500	12,419	-	4,835	29,754
Net Position					
Net investment in capital assets	817,261	14,407,363	6,476,464	189,036	21,890,124
Unrestricted - undesignated	(28,117)	316,049	341,820	33,655	663,407
Total Net Position	\$ 789,144	\$ 14,723,412	\$ 6,818,284	\$ 222,691	\$ 22,553,531

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, 2019

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
OPERATING REVENUES	\$ 1,244,514	\$ 2,057,764	\$ 875,039	\$ 342,776	\$ 4,520,093
OPERATING EXPENSES					
Depreciation and amortization	61,195	612,553	807,577	23,465	1,504,790
Sewer operating	-	1,312,244	-	-	1,312,244
Salaries and wages	255,311	169,443	-	127,093	551,847
Filtration contract payments	469,519	-	-	-	469,519
Employee benefits	110,127	91,011	-	48,775	249,913
Other	101,185	13,843	2,235	15,943	133,206
Landfill charges	-	-	-	115,101	115,101
Distribution	128,897	-	-	-	128,897
Pumping system	65,544	-	-	-	65,544
Payroll taxes	17,726	12,254	-	8,932	38,912
Meters expense	42,819	-	-	-	42,819
Sanitation operating	-	-	-	6,158	6,158
Total Operating Expenses	<u>1,252,323</u>	<u>2,211,348</u>	<u>809,812</u>	<u>345,467</u>	<u>4,618,950</u>
Operating Income (Loss)	<u>(7,809)</u>	<u>(153,584)</u>	<u>65,227</u>	<u>(2,691)</u>	<u>(98,857)</u>
NON-OPERATING REVENUE (EXPENSES)					
Project reimbursements	-	1,095,351	-	-	1,095,351
Timber sales	40,000	-	-	-	40,000
Interest revenue	88	-	-	-	88
Gain (loss) on disposal of assets	-	-	-	-	-
Interest expense	-	(5,935)	(144,910)	-	(150,845)
Total Non-operating Revenues (Expenses)	<u>40,088</u>	<u>1,089,416</u>	<u>(144,910)</u>	<u>-</u>	<u>984,594</u>
Income (Loss) Before Transfers	32,279	935,832	(79,683)	(2,691)	885,737
Transfers to general fund	(102,125)	(154,520)	-	(16,560)	(273,205)
Change in Net Position	(69,846)	781,312	(79,683)	(19,251)	612,532
TOTAL NET POSITION - JULY 1, 2018	<u>858,990</u>	<u>13,942,100</u>	<u>6,897,967</u>	<u>241,942</u>	<u>21,940,999</u>
TOTAL NET POSITION - JUNE 30, 2019	<u>\$ 789,144</u>	<u>\$ 14,723,412</u>	<u>\$ 6,818,284</u>	<u>\$ 222,691</u>	<u>\$ 22,553,531</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, 2019

	Water	Sewer	Water Surcharge	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 1,172,275	\$ 2,032,743	\$ 857,418	\$ 341,628	\$ 4,404,064
Payments to vendors	(827,623)	(1,873,286)	(2,235)	(177,080)	(2,880,224)
Payments to employees	(241,419)	(171,569)	-	(121,269)	(534,257)
Net Cash Provided By (Used In) Operating Activities	103,233	(12,112)	855,183	43,279	989,583
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	(102,125)	(154,520)	-	(16,560)	(273,205)
Change in due to/from other funds	(461)	(481)	-	710	(232)
Net Cash Provided By (Used In) Noncapital Financing Activities	(102,586)	(155,001)	-	(15,850)	(273,437)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(34,551)	(785,550)	(46,400)	-	(866,501)
Proceeds from sale of capital assets	-	-	-	-	-
Principal paid on loans	-	(40,600)	(708,038)	-	(748,638)
Project reimbursements	-	1,055,012	-	-	1,055,012
Timber sales	40,000	-	-	-	40,000
Interest paid on loans	-	(6,375)	(147,527)	-	(153,902)
Net Cash Provided By (Used In) Capital and Related Financing Activities	5,449	222,487	(901,965)	-	(674,029)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	88	-	-	-	88
Net change in Cash	6,184	55,374	(46,782)	27,429	42,205
Cash and cash equivalents, beginning of year	119,922	368,454	379,705	134,482	1,002,563
Cash and cash equivalents, end of year	\$ 126,106	\$ 423,828	\$ 332,923	\$ 161,911	\$ 1,044,768
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (7,809)	\$ (153,584)	\$ 65,227	\$ (2,691)	\$ (98,857)
Adjustments Not Affecting Cash					
Depreciation	61,195	612,553	807,577	23,465	1,504,790
Pension expense	47,242	39,001	-	26,179	112,422
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	(42,240)	(23,695)	(16,758)	(499)	(83,192)
Prepaid expenses	(2,145)	(1,039)	-	(635)	(3,819)
Accounts payable and accrued expenses	73,962	(472,160)	-	(1,756)	(399,954)
Salaries and benefits payable	282	(340)	-	164	106
Unearned revenue	(30,000)	(1,326)	(863)	(649)	(32,838)
Accrued health insurance	6,991	4,960	-	2,976	14,927
Compensated absences	13,610	(1,786)	-	5,660	17,484
Deferred outflows of resources - pension contributions	(16,551)	(13,765)	-	(8,377)	(38,693)
Deferred outflows of resources - post employment health	(1,304)	(931)	-	(558)	(2,793)
Total Adjustments	111,042	141,472	789,956	45,970	1,088,440
Net Cash Provided By (Used In) Operating Activities	\$ 103,233	\$ (12,112)	\$ 855,183	\$ 43,279	\$ 989,583

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 REPORTING ENTITY

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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

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

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

B. Fund Accounting

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

Governmental Fund Types

General Fund

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

Special Revenue Funds

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

Proprietary Fund Types

Water, Sewer, Water Surcharge, and Garbage Funds

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

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 Fund since budgetary control is maintained on an individual grant basis.

F. Cash and Equivalents

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

G. Capital Assets

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

H. Compensated Absences

The City has implemented the provisions of the Governmental Accounting Standards Board's Accounting for Compensated Absences. This statement requires the recording of accumulated unused sick leave, compensatory time, and vacation leave if such amounts will be paid as termination benefits. The liability is calculated by taking the total hours of time outstanding at June 30 times the current rate of pay for each employee. One paid sick day is accrued for each month of service after the probationary period. Upon termination of employment, the accumulated sick leave is lost. Upon reaching the age of 60 and retirement, the employee is paid for up to 90 days of unused sick leave at the employee's current rate of pay. The City estimates that 65% of the accumulated sick leave will be paid as termination benefits.

At June 30, 2019, \$28,308 has been recorded for the current portion of compensated absences within the general fund. No current portion has been recorded within the business-type activities 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 business-type activities are recorded as long-term. The current and long-term portion of this liability of \$507,432 has been recorded in the government-wide statement of net position, of which \$200,684 is from business-type activities. This represents an increase of \$14,050 from the prior year total of \$493,382. The change in compensated absences for business-type activities was an increase of \$17,484.

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, 2019 consisted of transfers of \$102,125 from the Water Fund, \$154,520 from the Sewer Fund, and \$16,560 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Interfund Balances

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

The composition of interfund balances as of June 30, 2019 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	General Fund	\$ (461)
General Fund	Special Revenue	18,882
General Fund	Garbage Fund	710
Sewer Fund	General Fund	<u>(481)</u>
		<u>\$ 18,650</u>

K. Deferred Outflows and Inflows of Resources

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

L. Fund Balance

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

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

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

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, 2019, the City had a real estate tax rate of \$0.66 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, 2019, the City has recorded receivables from various entities and individuals. As these receivables are believed to be completely collectable, an allowance for doubtful accounts is not recorded. If an account is determined to be uncollectible, the direct write-off method is used. This does not produce a result materially different from the allowance method of accounting.

Q. Estimates

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

R. Related Organization

Organizations for which the primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered to be related organizations. The Frostburg Housing Authority is a related organization of the City. The City appoints the members of the board of directors and their executive director but has no further accountability. The City received \$12,367 from the Authority during the year ended June 30, 2019. The payment is based on dwelling rent charged by the Authority to its tenants and is paid to the City in lieu of real estate taxes on the properties owned by the Authority.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 **CASH AND INVESTMENTS**

The cash deposits of the City of Frostburg are governed by Maryland Article 95-22. The City may establish official depositories with any bank or savings and loan located in the state of Maryland. The City may also establish time deposits and certificates of deposit. As of June 30, 2019, the reconciled balances of the City's deposits were \$5,262,779 and the bank balances were \$5,520,847. Of the bank balances, \$385,728 was covered by federal depository insurance and \$5,135,119 was covered by collateral held by the financial institutions in the City's name.

The investment policy of the City is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, and return on investment.

At June 30, 2019, the City had a certificate of deposit in the amount of \$99,603 held at a local financial institution with a maturity date of April 2020. The City also had certificates of deposit in the amounts of \$25,493 and \$10,630 held at a local financial institution and restricted for specified purposes. These certificates of deposit mature in April 2020. All certificates of deposit are included in the City's deposit figure of \$5,520,847.

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 **ACCOUNTS RECEIVABLE**

The City's accounts receivable as of June 30, 2019 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 202,420					\$ 202,420
Intergovernmental	818,736		346,692			1,165,428
Charge for services		247,717	440,485	102,804	54,692	845,698
Interest		662	2,569	1,828	2,100	7,159
Other	38,243	3,351	38,731	1,887	341	82,553
Total	<u>\$ 1,059,399</u>	<u>\$ 251,730</u>	<u>\$ 828,477</u>	<u>\$ 106,519</u>	<u>\$ 57,133</u>	<u>\$ 2,303,258</u>

At the end of the current fiscal year, \$136,431 of unearned revenues were recognized for billings done prior to June 30, 2019 that were for services after June 30, 2019 in the proprietary funds. In addition, \$169,605 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, 2019:

General Government	\$ 116,476
Public Safety	33,168
Public Works	254,070
Recreation and Parks	113,628
Total	<u>\$ 517,342</u>

(Note 5 continues of page 33.)

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, 2019:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
(Corporate)					
Non-depreciable Assets					
Land	\$ 2,224,153	\$ 691,197	\$ -	\$ -	\$ 2,915,350
Construction-in-progress	-	125,201	-	-	125,201
Total Non-depreciable Assets	2,224,153	816,398	-	-	3,040,551
Depreciable Assets					
Land Improvements	1,512,300	19,424	-	-	1,531,724
Buildings and Improvements	5,216,269	34,913	-	-	5,251,182
Infrastructure	6,406,207	145,529	-	-	6,551,736
Machinery & equipment	1,616,150	316,207	(3,055)	-	1,929,302
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	14,957,249	516,073	(3,055)	-	15,470,267
Less, Accumulated Depreciation for:					
Land Improvements	811,326	73,587	-	-	884,913
Buildings and Improvements	2,406,166	101,837	-	-	2,508,003
Infrastructure	2,772,268	189,985	-	-	2,962,253
Machinery & equipment	1,102,763	141,617	(3,055)	-	1,241,325
Intangible assets	30,948	10,316	-	-	41,264
Total Accumulated Depreciation	7,123,471	517,342	(3,055)	-	7,637,758
Depreciable Assets, net of accumulated depreciation	7,833,778	(1,269)	-	-	7,832,509
Total Governmental Capital Assets, net of accumulated depreciation	\$10,057,931	\$ 815,129	\$ -	\$ -	\$ 10,873,060
Business-type Activities					
(Water, Water Surcharge, Sewer, and Garbage)					
Non-depreciable Assets					
Land	\$ 114,022	\$ -	\$ -	\$ -	\$ 114,022
Construction-in-progress	1,147,112	1,312,900	-	-	2,460,012
Total Non-depreciable Assets	1,261,134	1,312,900	-	-	2,574,034
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,354,489	33,971	-	-	8,388,460
Infrastructure	25,618,031	-	-	-	25,618,031
Machinery & equipment	1,724,071	70,232	-	-	1,794,303
Total Depreciable Assets	51,049,875	104,203	-	-	51,154,078
Less, Accumulated Depreciation for:					
Land Improvements	8,906,342	395,245	-	-	9,301,587
Buildings and Improvements	5,810,465	271,961	-	-	6,082,426
Infrastructure	8,394,288	768,737	-	-	9,163,025
Machinery & equipment	1,027,094	68,847	-	-	1,095,941
Total Accumulated Depreciation	24,138,189	1,504,790	-	-	25,642,979
Depreciable Assets, net of accumulated depreciation	26,911,686	(1,400,587)	-	-	25,511,099
Total Business-type Capital Assets, net of accumulated depreciation	\$28,172,820	\$ (87,687)	\$ -	\$ -	\$ 28,085,133

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 LONG TERM DEBT

The following is a summary of the changes in direct placement long-term debt for the year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds & Notes Payable					
Susquehanna Bank – Plow Truck	\$ 18,313	\$ -	\$ (18,313)	\$ -	\$ -
State of MD - DHCD	20,000	-	(20,000)	-	-
Total Governmental Activity Direct Placements	\$ 38,313	\$ -	\$ (38,313)	\$ -	\$ -
Business-type Activities					
Bonds & Notes Payable					
MDE - Emergency Sewer Project	\$ 37,044	-	\$ (18,293)	\$ 18,751	\$ 18,751
USDA - Raw Water Line/Hydro Electric	826,317	-	(17,181)	809,136	17,528
MDE - CSO Phase VIIA	209,367	-	(14,100)	195,267	14,226
Suntrust - Piney Dam Project	3,671,839	-	(335,000)	3,336,839	342,000
Suntrust - CDA Refinancing	1,767,062	-	(339,044)	1,428,018	345,931
MDE – CSO Phase VIIB	62,894	-	(3,803)	59,091	3,837
MDE – Savage Raw Water	287,955	-	(16,813)	271,142	16,965
MDE – CSO Phase VIIB-2	81,169	-	(4,404)	76,765	4,448
Total Business-type Activity Direct Placements	\$6,943,647	\$ -	\$ (748,638)	\$6,195,009	\$ 763,686

The City has additional long-term obligations in the form of compensated absences, other post-employment benefits and pension liability. The following schedule presents this information as of June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Other Obligations					
Compensated Absences	\$ 310,182	\$ -	\$ (3,434)	\$ 306,748	\$ 28,308
Accrued post employment health insurance	300,529	27,732	-	328,261	-
Net pension liability	1,044,671	83,810	-	1,128,481	-
Total Governmental Activity Other Obligations	\$1,655,382	\$ 111,542	\$ (3,434)	\$ 1,763,490	\$ 28,308
Business-type Activities					
Other Obligations					
Compensated Absences	183,200	17,484	-	200,684	-
Accrued post employment health insurance	121,836	14,927	-	136,763	-
Net pension liability	325,125	59,384	-	384,509	-
Total Business-type Activity Other Obligations	\$ 30,161	\$ 91,795	\$ -	\$ 721,956	\$ -
Total Debt and Obligations	\$ 9,267,503	\$ 203,337	\$ (790,385)	\$ 8,680,455	\$ 791,994

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

The capital lease payable to Susquehanna Bank is payable in 60 monthly installments of \$2,066 including interest at 3.63% on the outstanding balance. The lease was paid off during the year and was collateralized by a plow truck. The original cost of the vehicle was \$116,161 with a current book value of \$69,697. The related amortization of the truck is included in depreciation expense.

On May 15, 2009, the City received a \$100,000 loan from the Maryland Department of Housing and Community Development (a portion of which, up to \$80,000 may be forgiven) for the purpose of funding Community Legacy Rehabilitation Projects. The City completed all the requirements for the maximum amount to be forgiven. The remaining \$20,000 was repaid during the year.

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

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 132 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan is payable in 13 installments of principal, interest, and issuance costs and an additional 13 installments of interest only.

The loan payable to Suntrust Bank for the Piney Dam project is payable in variable annual installments of principal and semi-annual installments of interest at 2.30% on the balance outstanding. The loan is payable in 9 installments of principal and interest and an additional 9 installments of interest only.

The CDA loan payable to Suntrust Bank is payable in variable annual installments of principal plus semi-annual installments of interest at 2.46% on the outstanding balance. The bond has 4 installments of principal and interest and an additional 4 installments of interest only remaining.

Maryland Department of the Environment provided forgivable loan funding of \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan is payable in 15 installments of principal, interest and issuance fees plus 15 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on April 25, 2023 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

On October 24, 2014, Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$972. The loan is payable in 15 installments of principal, interest and issuance fees plus 15 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on October 24, 2024 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

On May 30, 2014, Maryland Department of the Environment provided loan funding of \$94,120 to the City for the Phase VIIB-2, Paul Street CSO Elimination Project. The loan is payable in annual installments of principal, interest, and issuance fees of \$5,216 plus semi-annual installments of interest only at 1.00% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$261. The loan is payable in 16 installments of principal, interest and issuance fees plus 16 semi-annual installments of interest only.

The annual requirements to amortize all direct placement debt, as of June 30, 2019 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2020	-	-	763,686	137,243	763,686	137,243	900,929
2021	-	-	758,869	118,535	758,869	118,535	877,404
2022	-	-	775,012	101,119	775,012	101,119	876,131
2023	-	-	789,534	83,326	789,534	83,326	872,860
2024	-	-	432,919	65,195	432,919	65,195	498,114
2025-2029	-	-	1,866,990	182,922	1,866,990	182,922	2,049,912
2030-2034	-	-	297,138	70,861	297,138	70,861	367,999
2035-2039	-	-	128,233	45,139	128,233	45,139	173,372
2040-2044	-	-	135,979	31,916	135,979	31,916	167,895
2045-2049	-	-	150,242	17,653	150,242	17,653	167,895
2050-2054	-	-	96,407	3,095	96,407	3,095	99,502
2055-2059	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,195,009</u>	<u>\$ 857,004</u>	<u>\$6,195,009</u>	<u>\$ 857,004</u>	<u>\$7,052,113</u>

The source of funds for debt retirement is as follows:

	<u>Debt Amount</u>
Sewer charges	\$ 349,874
Water surcharges	<u>5,845,135</u>
	<u>\$ 6,195,009</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 considers \$28,308 of compensated absences in the general fund to be

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

current. The City feels the employee absences in the 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 \$269 in the General Fund which is included in Public Works, and the City incurred interest of \$150,845 in the Proprietary Funds.

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

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

NOTE 8 **PENSION PLAN**

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

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

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

Employees who are permanently and totally disabled as the result of an accident occurring in the line of duty are eligible for disability regardless of length of service. Five years of service is required for non-service related disability eligibility. Accidental disability benefits are determined as a percentage

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

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 lesser of 2.5% or the increase in CPI if the most recent calendar year market rate of return was greater than or equal to the assumed rate. Retirement allowances will not be adjusted in years when there is a decline in CPI.

Contributions - Members of the contributory pension systems are required to make contributions of 2% of earnable compensation. The City is required to contribute annually at an actuarially determined rate. The contribution rate for the year ending June 30, 2019 was 5.47% plus a 2.42% surcharge totaling 7.89% 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 \$152,255 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - At June 30, 2019, the City reported a liability of \$1,512,990 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2018, 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, 2018, actuarially determined. At June 30, 2018, the City's proportion was 0.006 percent, and was 0.007 percent at June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$378,439. At June 30, 2019, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 62,204	\$ -
Changes in assumptions	46,714	
Difference between actual and expected experience		116,194
City contributions subsequent to the measurement date	152,255	
TOTALS	\$ 261,173	\$ 116,194

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN - Continued

The City reported \$152,255 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, 2019.

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

For the year ended June 30,	Deferred Outflows	Deferred Inflows	TOTAL
2020	\$ 80,724	\$ (33,090)	\$ 47,634
2021	41,674	(32,176)	9,498
2022	(14,122)	(25,557)	(39,679)
2023	(756)	(19,279)	(20,035)
2024	1,398	(6,092)	(4,694)
Thereafter	-	-	-
Total	\$ 108,918	\$ (116,194)	\$ (7,276)

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation, based on results of a prior actuarial experience study completed as of June 30, 2014, was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.60% General, 3.10% Wage
Salary Increases	3.10% to 9.10%, including inflation
Discount Rate	7.45%
Investment Rate of Return	7.45%
Mortality	RP-2014 with generational mortality Improvements based on MP-2014 2- Dimensional mortality improvement scale

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37.00%	5.80%
Private Equity	13.00%	6.70%
Rate Sensitive	19.00%	1.10%
Credit Opportunity	9.00%	3.60%
Real Assets	14.00%	4.80%
Absolute Return	8.00%	3.20%
TOTAL	100.00%	

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.45%, which is based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is a percentage point lower (6.45%) or a percentage point higher (8.45%) than the current rate:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
City's proportionate share of the net pension liability	\$ 2,179,218	\$ 1,512,990	\$ 960,060

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 also contributing 9% of total compensation. Upon enrollment in the SRPS, the City discontinued contributions to the ICMA plan but allowed employees to continue their voluntary contributions. On July 21, 2016 the City approved the Frostburg Police Officers Pension Enhancement Plan. For certified police officers who complete their enrollment in the plan, the City contributes 2% of the officer’s base salary towards a qualifying retirement account. For years ending after June 30, 2018, the City increased this contribution to 3% of the officer’s base salary. In addition, if an enrolled officer elects to contribute at least 1% of their base salary, the City will match with an additional 1% of base salary. The City contributed \$17,039 towards the plan during the fiscal year ending June 30, 2019.

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Benefits Provided – Coverage is available for active employees and their dependents who retire at age 60 until they are eligible for Medicare benefits. Also included are employees who retire on Accidental Disability with the State Pension System between the age of 58 ½ and age 60. Plan members contribute 20% of the premium for medical and prescription benefits and the City contributes 80% of the premium until such time as the member qualifies for Medicare benefits. Once a member or spouse qualifies for Medicare benefits, the medical and prescription benefit through the City expires. As of June 30, 2019, the following employees were covered by the benefit terms:

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

Contributions – The plan is funded on a pay as you go basis and is expected to continue on this basis. The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. The City pays all benefits from its general fund. The City paid \$12,449 in benefits during the year ended June 30, 2019.

OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources - At June 30, 2019, the City reported a liability of \$465,024. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2019, the City recognized OPEB expense of \$45,609. At June 30, 2019, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ -
Changes in assumptions	9,499	-
Difference between actual and expected experience	-	-
TOTALS	<u>\$ 9,499</u>	<u>\$ -</u>

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

<u>For the year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>TOTAL</u>
2020	\$ 1,121	\$ -	\$ 1,121
2021	1,121	-	1,121
2022	1,121	-	1,121
2023	1,121	-	1,121
2024	1,121	-	1,121
Thereafter	3,894	-	3,894
Total	<u>\$ 9,499</u>	<u>\$ -</u>	<u>\$ 9,499</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Actuarial Assumptions - The total OPEB liability in the June 30, 2019 actuarial valuation was determined using plan provisions as of that date, employee data as of June 30, 2018, and the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Discount rate	3.50%
Mortality	RP-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality with Scale MP-2018 generational improvement.
Turnover	Termination prior to retirement is assumed to occur at 5.0% per year based on approximate annual turnover.
Salary scale	3.00%
Core inflation assumption	2.00%
Retirement age	100% at Age 62 based on assumed rates of retirement,
Utilization	65% based on current medical election rates. Those active employees not currently enrolled were assumed to never enter the plan.
Per capita claims	Claims were developed by adjusting the underlying medical and dental premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using morbidity adjustments from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The retiree pre-65 premium was \$625.31 for medical per month.
Trend	Premiums are assumed to increase initially at a rate of 8.00% per year, declining 50 basis points per year to an ultimate annual rate of increase of 5%.
Marriage assumption	60% married with husbands assumed to be 3 years older than wives. For current retirees actual spousal information and coverage was used.
Cost sharing	The plan's current cost sharing percentages are 80% paid by the employer and 20% paid by the employee.

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

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

Discount Rate - The discount rate used to measure the total OPEB liability was 3.50%. As the OPEB is unfunded, the discount rate is based on a twenty-year municipal bond index. The GO Bond Buyer Index was used to approximate those yields as of June 30, 2019.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Sensitivity of the City's Net OPEB Liability to Changes in the Discount Rate - The following presents the City's net OPEB liability calculated using the discount rate of 3.50% as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is a percentage point lower (2.50%) or a percentage point higher (4.50%) than the current rate.

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
City's net OPEB liability	\$ 496,169	\$ 465,024	\$ 436,789

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

	1% Decrease 7.0% to 4.0%	Current Discount Trend Rate 8.0% to 5.0%	1% Increase 9.0% to 6.0%
City's net OPEB liability	\$ 431,042	\$ 465,024	\$ 504,757

Changes in Net OPEB Liability

	Total OPEB Liability	Increase/(Decrease) Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2018	\$ 422,365	\$ -	\$ 422,365
Changes for the year			
Service cost	28,381	-	28,381
Interest	16,107	-	16,107
Change of benefit terms	-	-	-
Difference between expected & actual experience	-	-	-
Assumption changes	10,620	-	10,620
Contributions - employer	-	12,449	(12,449)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(12,449)	(12,449)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	42,659	-	42,659
City's net OPEB liability	\$ 465,024	\$ -	\$ 465,024

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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

NOTE 11 **TAX ABATEMENTS**

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

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

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

Enterprise Zone tax credits are reflected as an adjustment to the original real estate tax bills issued to the property owners if the credit exceeds \$1,000. For credits less than \$1,000, the property owner receives a refund of the tax credit after their original real estate tax bill has been paid. The City requests annual reimbursement from the Maryland Department of Assessments and Taxation for 50% of the approved EZ tax credits during the fiscal year. For the fiscal year ending June 30, 2019, the City recorded EZ tax credits in the amount of \$5,812 and received \$2,455 from the State of Maryland.

Residential Sprinkler System Incentive Program – Resolution 2012-16 of the City of Frostburg approved a residential sprinkler system incentive program to ease the financial burden to homeowners created by the requirement of the Maryland General Assembly that all new construction of one and two unit residential projects must include a sprinkler system. The Resolution offered an incentive towards utility connection fees and a real estate tax reduction for a period of not more than three years. The amount of the real estate tax reduction for a new construction project built upon a vacant lot is equal to 80% of the increase in the property’s new assessed value minus the assessed value of the land alone. Only one property owner took advantage of this incentive program during the year ended June 30, 2019 and received a benefit for the third and final year of eligibility. The incentive created a reduction in the real estate tax assessable base of \$143,200 and a reduction of real estate tax revenue of \$945. By Resolution 2012-16, the incentive program expired in May 2017, so no new construction will fall under this incentive going forward.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 OPERATING LEASES

The City leases the Armory building to the State of Maryland for space utilized by the Water Resource Administration. The City utilizes the remainder of the building. On July 20, 2018, the City renewed the lease for a 10 year period effective August 1, 2018 through July 31, 2028 with a monthly lease payment of \$8,125. The City's cost of the building was \$2,114,612 and the related accumulated depreciation through June 30, 2019 was \$873,079.

On September 17, 2015 the City renewed its lease with the Allegany County Human Resources Development Commission (HRDC) for the front section of the Community Center building on Water Street. The lease was effective October 1, 2015 through September 30, 2020 with a monthly lease payment of \$767 for the first year. The lease contains an annual escalator clause of 2% for the first two years and 3% for the remaining years. The City's cost of the building was \$541,722 and the related accumulated depreciation through June 30, 2019 was \$265,564.

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

2020	\$ 107,589
2021	100,039
2022	97,498
2023	97,498
2024 and thereafter	<u>495,615</u>
Total	<u>\$ 898,239</u>

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

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

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

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

2020	\$ 6,992
2021	5,480
2022	4,976
2023	3,524
2024	-
2025	-
Total	<u>\$ 20,972</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 OPERATING LEASES - Continued

Rental income for the Armory building and Community Center totaled \$106,178 for the year ended June 30, 2019. Rent expense for the copy machines and postage machine totaled \$7,271 for the year ended June 30, 2019.

NOTE 13 RISK OF LOSS

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

NOTE 14 INSURANCE RECOVERIES

The City may receive insurance recoveries during the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements. The City received \$30,062 of insurance recoveries during the current year.

NOTE 15 COMMITMENTS AND SUBSEQUENT EVENTS

As of June 30, 2019, the CSO Elimination Project, Phase VIII-B, Grant Street Corridor was under construction. The total project cost is expected to be \$3,036,876. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$2,135,875; State Highway Administration, \$671,000, and City Cash \$230,001. As of June 30, 2019, the City had incurred expenses of \$2,319,778.

As of June 30, 2019, the CSO Elimination Project, Phase IX-A, Charles Street Corridor was preparing for construction. Design and bidding were completed as of June 30, 2019 however the City was awaiting final approval by the Maryland Board of Public Works. The total project cost is expected to be \$2,233,199. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$1,779,049; Frostburg State University, \$200,000, and City Cash \$254,150. As of June 30, 2019, the City had incurred expenses of \$140,234.

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

On November 21, 2019, the City awarded a construction contract for \$2,890,000 for renovations and additions to the Frostburg Public Safety building. The project will be funded with proceeds of a \$2,900,000 loan from the Maryland Community Development Administration. The loan carries an interest rate of 3.39% and is set to be paid back in 30 annual installments of principal, interest, and loan fees and 30 annual installments of interest and loan fees only. Construction is expected to occur in 2020.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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

Fiscal Year	
2020	\$ 495,201
2021	509,599
2022	-
2023	-
2024	-

The City evaluated subsequent events through December 13, 2019 for possible inclusion in the financial statements and for potential required disclosures.

NOTE 16 **NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2019 that have effective dates that impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

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

GASB Statement Number 87, *Leases*, will be effective for the City for the year ending June 30, 2022. The objective of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. It is believed this Statement will increase the usefulness of financial statements by requiring reporting of certain lease liabilities that are currently not reported by requiring lessees and lessors to report leases under a single model. The Statement will also require certain notes to the financial statements related to the timing, significance, and purpose of leasing arrangements.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **NEW PRONOUNCEMENTS** - Continued

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

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

GASB Statement Number 91, *Conduit Debt Obligations*, will be effective for the City for the year ending June 30, 2022. The primary objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The Statement clarifies the existing definition of conduit debt obligations, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required noted disclosures. The Statement improves comparability of financial reporting for issuers by eliminating the option to recognize the liability for a conduit debt obligation.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	Unrestricted			
	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Net property tax revenue	\$ 2,530,405	\$ 2,550,405	\$ 2,577,276	\$ 26,871
Income taxes	455,000	475,000	566,689	91,689
Hotel motel tax	120,000	120,000	124,957	4,957
Highway use tax	68,590	68,590	69,915	1,325
Other taxes	118,900	110,100	110,996	896
Police protection grant	137,100	137,100	127,278	(9,822)
Public safety revenue	46,200	46,200	42,481	(3,719)
Licenses and permits	34,000	34,000	36,571	2,571
COPS grants	12,000	26,000	32,688	6,688
Rental program revenue	73,000	73,000	76,790	3,790
Recreational activities	117,500	107,500	98,068	(9,432)
Grant income - other	832,250	1,306,750	1,349,655	42,905
Transfers from other funds	273,205	273,205	276,667	3,462
Other income	131,925	146,875	153,413	6,538
Interest	-	-	-	-
Fund balance	-	151,500	-	(151,500)
TOTAL GENERAL FUND REVENUE	4,950,075	5,626,225	5,643,444	17,219
EXPENDITURES				
Administration	1,415,350	1,926,550	2,035,632	(109,082)
Public safety	1,976,530	1,887,030	1,797,502	89,528
Street department	944,625	1,187,625	1,187,191	434
Recreation department	613,570	625,020	573,475	51,545
TOTAL EXPENDITURES	4,950,075	5,626,225	5,593,800	32,425
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 49,644	\$ 49,644

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	\$ 5,643,444
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(276,667)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.	(106,178)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 5,260,599

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**

Income tax revenue exceeded the budget due to higher than expected distributions from the State in June. The June tax distribution included reconciling distributions for tax year 2015 and 2018. The State reported that a relatively larger degree of first quarter estimated payments were processed in May which impacts the distribution received by the City.

Net property tax revenue exceeded the budget due to a reduction in deferred tax revenue compared to the prior year. There was also a 27% increase in interest collected on taxes during the year.

Grant income from community development grants exceeded the budget due to the opportunity to take advantage of energy grants which had been delayed from prior years.

The budgeted use of fund balance was unnecessary since other revenue sources exceeded budget estimates during the year.

Administration expenses exceeded the budget as a result of additional capital outlays related to community development projects.

Public safety expenses were below the budget due to understaffing and the resulting reduction in salaries and related benefit expenses such as payroll taxes, pension, health insurance and workers compensation. Court expense was also under budget and this expense is subject to fluctuation due to the number of required officer appearances.

Recreation expenses were below the budget due to capital outlays being under budget. Also, the expense for amusement park tickets was less than budget due to a decrease in outside ticket sales.

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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0070%	0.0060%	0.0070%	0.0080%	0.0070%
City's proportionate share of the net pension liability	\$ 1,512,990	\$ 1,369,796	\$ 1,647,046	\$ 1,671,968	\$ 1,244,576
City's covered payroll - Employee Retirement System	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223	\$ 1,838,338
City's proportionate share of the net pension liability as a percentage of its covered payroll	78.39%	75.01%	89.87%	84.99%	63.27%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

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

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

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

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

	2019	2018	2017	2016	2015
Contractually required contribution - Employee Retirement System	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contributions in relation to the contractually required contribution	<u>\$ 152,255</u>	<u>\$ 143,794</u>	<u>\$ 128,933</u>	<u>\$ 136,106</u>	<u>\$ 169,575</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll - Employee Retirement System	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223
Contributions as a percentage of covered-employee payroll - Employee Retirement System	7.89%	7.45%	7.06%	7.43%	8.62%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Changes in Assumptions - Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2018 actuarial valuation as compared to the 2017 actuarial valuation

Changes in the 2018 valuation

- Inflation assumption changed from 2.65% general and 3.15% wage to 2.60% general and 3.10% wage
- Salary increase assumption changed from a range of 3.15% to 9.15% to a range of 3.10% to 9.10%
- Discount rate used changed from 7.50% to 7.45%
- Investment rate of return changed from 7.50% to 7.45%
- Mortality tables were changed from RP-2014 with generational mortality projections using scale MP-2014, calibrated to MSRPS experience to RP-2014 Mortality Tables with generational mortality improvements based on the MP 2014 2-dimensional improvement scale

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

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

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

	6/30/2019	6/30/2018
Changes in OPEB Liability		
Service Cost	\$ 28,381	\$ 27,324
Interest	16,107	15,175
Changes in benefit terms	-	-
Difference between expected and actual experience	-	-
Assumption changes	10,620	-
Contributions - employer	-	-
Contributions - employee	-	-
Net investment income	-	-
Benefit payments	(12,449)	(24,295)
Administrative expense		
Other changes		
Net change in OPEB liability	<u>42,659</u>	<u>18,204</u>
Total OPEB liability, beginning of year	<u>422,365</u>	<u>404,161</u>
Total OPEB liability, end of year	<u>\$ 465,024</u>	<u>\$ 422,365</u>
City's covered employee payroll	\$ 1,185,691	\$ 1,151,156
Total OPEB liability as a percentage of covered employee payroll	39.22%	36.69%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

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

Changes in Assumptions - Core inflation assumption changed from 3.0% in 2018 to 2.0% in 2019.

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