

**CITY OF FROSTBURG, MARYLAND**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2023**

# CITY OF FROSTBURG, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council  
City of Frostburg, Maryland

**Report on the Audit of the Financial Statements*****Opinions***

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, 2023, and the related notes to the financial statements, which collectively comprise the City of Frostburg, Maryland's basic financial statements as listed in the table of contents.

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, 2023, 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.

***Basis for Opinions***

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

***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and on pages 4 – 15, the budgetary comparison information on page 51, the "Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System" on page 52, the "Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System" on page 53, and the "Schedule of

Changes in City of Frostburg, Maryland's Total OPEB Liability and Related Ratios" on page 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be 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 January 31, 2024, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Frostburg, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Frostburg, Maryland's internal control over financial reporting and compliance.

*Huber Michaels + Company*

Cumberland, Maryland  
January 31, 2024

**CITY OF FROSTBURG, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2023**



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

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

The following discussion and analysis provide an overview of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2023. 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**

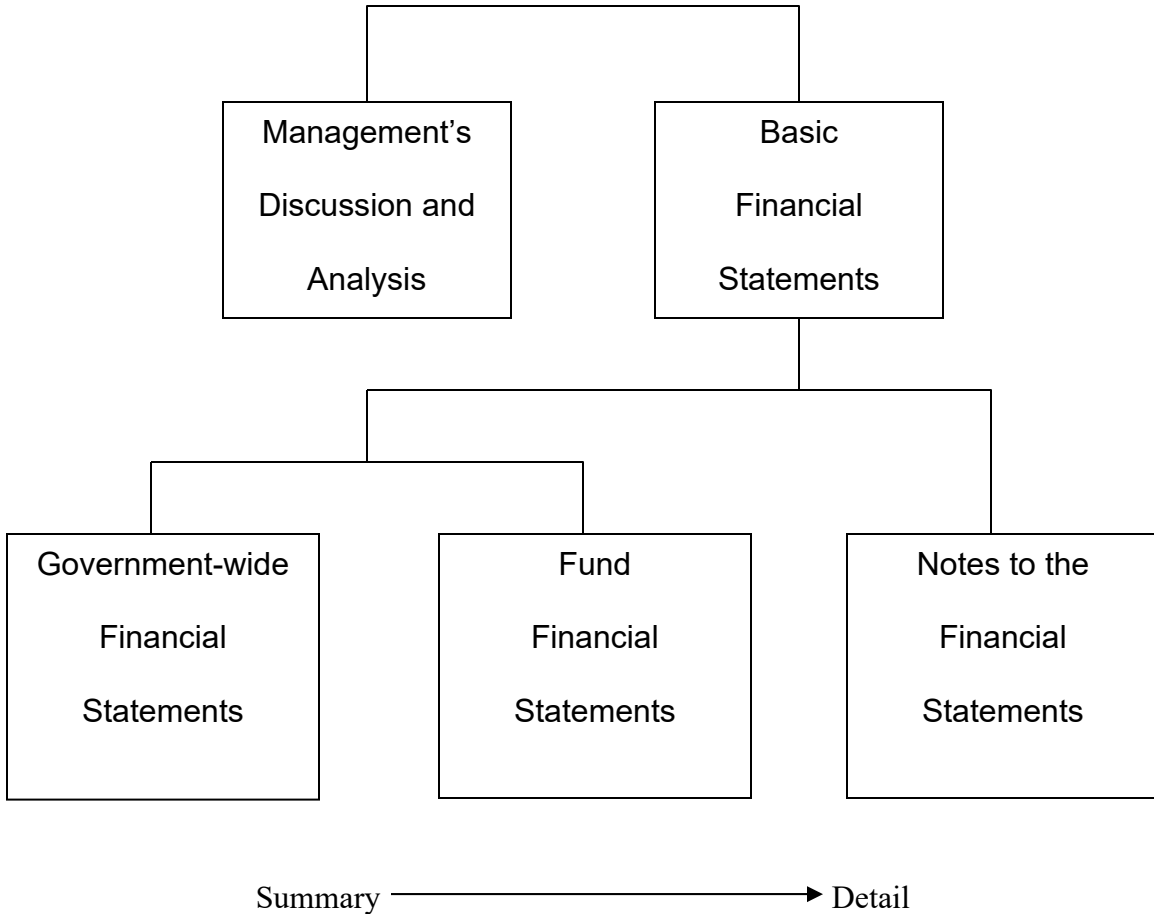
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$47,004,386.
- The government's total net position increased by \$3,455,360. This increase is partially attributed to operating and capital grant revenues to support governmental activities. The American Rescue Plan Act provided a significant source of funding for governmental and business-type activities. In the proprietary funds, an increase in non-operating revenues offset a decrease in operating revenues and an increase in operating expenses compared to the prior year.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$6,829,378 which is an increase of \$369,063 compared with the prior year. Approximately 97 percent of the total fund balance, or \$6,677,181, 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 \$6,677,181 or approximately 85 percent of total general fund expenditures for the fiscal year.
- The long-term leases, subscriptions, bonds, and notes payable of the City of Frostburg decreased by \$668,385 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$623,040.

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

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

Required Components of Annual Financial Report

Figure 1



**Basic Financial Statements**

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

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

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



## **Management Discussion and Analysis**

### **City of Frostburg**

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

## **Management Discussion and Analysis**

### **City of Frostburg**

The City of Frostburg adopts an annual budget for its General Fund, as required by the charter. The budget is a legally adopted document that incorporates input from the citizens of the city, the management of the city, and the decisions of the Mayor and Council about which services to provide and how to pay for them. The budget also authorizes the city to obtain funds from identified sources to finance current period activities. The budgetary statement for the General Fund demonstrates how well the city complied with the budget ordinance and whether the city succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Mayor and Council; 2) the final budget as amended by the Mayor and Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges. A reconciliation is presented at the end of the budgetary statement to account for the difference between the budgetary basis of accounting and the modified accrual basis.

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

Special Revenue Funds are an accounting device used to accumulate and allocate costs internally among the functions of the City of Frostburg. The city uses special revenue funds to account for its Community Development Special Project activity and Opioid Settlement receipts. Because these activities benefit predominantly governmental rather than business-type activities, the special revenue funds have been included within the governmental activities in the government-wide financial statements.

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

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

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

## Management Discussion and Analysis City of Frostburg

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

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

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 13,425,470	\$ 10,964,161	\$ 4,436,666	\$ 3,671,584	\$ 17,862,136	\$ 14,635,745
Capital assets	16,171,684	15,067,225	29,121,205	28,358,601	45,292,889	43,425,826
Total assets	29,597,154	26,031,386	33,557,871	32,030,185	63,155,025	58,061,571
Deferred outflows of resources	634,707	547,498	236,481	201,989	871,188	749,487
Long-term liabilities	5,174,888	4,612,668	3,715,899	3,917,622	8,890,787	8,530,290
Other liabilities	5,783,734	3,615,762	1,294,066	1,428,453	7,077,800	5,044,215
Total liabilities	10,958,622	8,228,430	5,009,965	5,346,075	15,968,587	13,574,505
Deferred inflows of resources	991,406	1,476,005	61,834	211,522	1,053,240	1,687,527
Net position:						
Invested in capital assets, net of related debt	13,118,573	12,295,052	25,868,971	24,371,458	38,987,544	36,666,510
Restricted	64,932	271,154	-	-	64,932	271,154
Unrestricted	5,098,328	4,308,243	2,853,582	2,303,119	7,951,910	6,611,362
Total net position	\$ 18,281,833	\$ 16,874,449	\$ 28,722,553	\$ 26,674,577	\$ 47,004,386	\$ 43,549,026

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 \$47,004,386 as of June 30, 2023. Most of the net position is invested in capital assets. Capital assets are used to provide services to citizens, but they are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position of the City of Frostburg, less than 1%, represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$3,455,360 for the fiscal year ending June 30, 2023. Several aspects of the City financial operations positively influenced the total governmental net position including, but not limited to, the following:

## Management Discussion and Analysis

### City of Frostburg

- An increase in tax revenues
- An increase in net revenue from sewer and garbage activities
- The second installment of Coronavirus State and Local Fiscal Recovery Funds

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

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$ 360,787	\$ 361,591	\$ 5,118,738	\$ 5,167,708	\$ 5,479,525	\$ 5,529,299
Operating grants and contributions	882,170	577,046	312,298	323,534	1,194,468	900,580
Capital grants and contributions	897,360	336,150	2,189,071	1,420,799	3,086,431	1,756,949
General revenues:						
Property taxes	3,032,902	2,947,283	-	-	3,032,902	2,947,283
Other taxes	1,273,972	1,193,283	-	-	1,273,972	1,193,283
Other	840,523	860,399	320,663	16,630	1,161,186	877,029
Total revenues	7,287,714	6,275,752	7,940,770	6,928,671	15,228,484	13,204,423
Expenses:						
General government	1,120,097	1,031,335	-	-	1,120,097	1,031,335
Public safety	2,081,534	2,010,415	-	-	2,081,534	2,010,415
Public works	1,964,652	1,570,204	-	-	1,964,652	1,570,204
Recreation and parks	765,182	662,671	-	-	765,182	662,671
Community development	193,542	209,677	-	-	193,542	209,677
Code enforcement	134,573	161,024	-	-	134,573	161,024
Water, sewer and garbage	-	-	5,513,544	5,221,974	5,513,544	5,221,974
Total expenses	6,259,580	5,645,326	5,513,544	5,221,974	11,773,124	10,867,300
Change in net position before transfers and donations	1,028,134	630,426	2,427,226	1,706,697	3,455,360	2,337,123
Transfers	379,250	357,455	(379,250)	(357,455)	-	-
Change in net position	1,407,384	987,881	2,047,976	1,349,242	3,455,360	2,337,123
Net position, July 1	16,874,449	15,886,568	26,674,577	25,325,335	43,549,026	41,211,903
Net position, June 30	\$ 18,281,833	\$ 16,874,449	\$ 28,722,553	\$ 26,674,577	\$ 47,004,386	\$ 43,549,026

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

Governmental activities increased the city's net position by \$1,407,384. The key elements of this increase are as follows:

## **Management Discussion and Analysis**

### **City of Frostburg**

- Coronavirus State and Local Fiscal Recovery Funds (SLFRF) that were unrestricted for general government activities.
- Increases in property, income, admissions, and hotel motel tax revenue.
- An increase in interest earned on cash balances.

**Business-type Activities:** Business-type activities increased the net position of the City of Frostburg by \$2,047,976. The key elements of this increase are as follows:

- Grant funding received for the Phase IX-B and IX-C CSO projects.
- Timber sale proceeds.
- Eligible use of SLFRF for water, water surcharge, sewer, and garbage fund projects

### **Financial Analysis of the City Funds**

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

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

The general fund is the chief operating fund of the City of Frostburg. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$6,677,181 while the total fund balance was \$6,764,446. 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, 2023, the governmental funds of the City of Frostburg reported a combined fund balance of \$6,829,378, an increase of approximately 5 percent over last year. Included in this change in fund balance is an increase in fund balance in the General Fund primarily due to SLFRF revenue and grants which offset eligible expenses. Special revenue in the opioid settlement fund was new in this fiscal year.

**General Fund Budgetary Highlights:** The Mayor and City Council publicly approved the budget for the year ending June 30, 2023 as Ordinance 2022-04. The budget was amended through Resolution 2023-03 and Resolution 2023-22. Of note, among the amendments in the Corporate Fund were increases in real estate tax revenue, income tax revenue and interest income. A decrease in budgeted special revenue from the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) was included in the budget amendments and the previously budgeted use of fund balance was eliminated. Salary and benefit

## **Management Discussion and Analysis**

### **City of Frostburg**

expense accounts were also amended because of vacant positions and restructuring of some employee positions within departments.

Overall, health insurance expense was less than originally budgeted during the year because of partial year employment vacancies and underutilization of health insurance premiums and the employer portion of insurance deductible compared to the original budget.

During the year, general fund revenues exceeded the budget by \$57,146. Key revenue sources including income tax and highway use tax revenue both exceeded budget estimates and the revenue projections that had previously been provided to the City by the State of Maryland. Net property tax revenue and grant income continue to provide significant revenue to support government operations.

General fund expenditures were less than the budgetary estimates by \$303,727 which is approximately 3% of the total budgeted expenditures. The accounting for capital assets acquired through leases and subscription arrangements differs for budgetary and financial reporting purposes which is part of the reported difference between actual expenses and budgetary estimates.

**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The unrestricted net position of the Water, Water Surcharge, Sewer, and Garbage Funds at the end of the fiscal year was \$2,853,582. Current year operations of the proprietary funds positively affected net position in total by \$2,047,976. Water, sewer, water surcharge, and garbage operations reflected a positive change in net position during the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **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, 2023 totals \$45,292,889, 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:

- Acquisition of property for a new downtown parking lot
- Roof replacement at the Street Department shop
- Significant paving projects
- Chlorine tank replacement at the water treatment plant
- Completion of the CSO Phase IX-B project
- Work in progress on the CSO Phase IX-C project
- Purchase of a garbage truck

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

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

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land and construction in progress	\$ 5,274,635	\$ 4,340,363	\$ 2,173,312	\$ 2,410,922	\$ 7,447,947	\$ 6,751,285
Buildings and systems	5,148,340	5,463,935	1,273,812	1,500,077	6,422,152	6,964,012
Improvements other than buildings	497,638	538,889	4,273,673	4,668,918	4,771,311	5,207,807
Machinery and equipment	1,120,849	1,121,852	934,138	666,771	2,054,987	1,788,623
Intangible assets	123,794	134,110	-	-	123,794	134,110
Subscription assets	9,243	-	-	-	9,243	-
Right of use assets	382,660	271,334	141,423	79,047	524,083	350,381
Infrastructure	3,614,525	3,196,741	20,324,847	19,032,866	23,939,372	22,229,607
<b>Total</b>	<b>\$ 16,171,684</b>	<b>\$ 15,067,224</b>	<b>\$ 29,121,205</b>	<b>\$ 28,358,601</b>	<b>\$ 45,292,889</b>	<b>\$ 43,425,825</b>

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

**Long-term Debt.** As of June 30, 2023, the City of Frostburg had total bonded debt outstanding of \$5,766,555. Of this total bonded debt, \$5,324,366 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	
	2023	2022	2023	2022	2023	2022
	General obligation bonds	\$ 2,398,000	\$ 2,450,000	-	-	\$ 2,398,000
Bond premium	260,606	267,947	-	-	260,606	267,947
Revenue bonds	-	-	\$ 3,107,949	\$ 3,906,903	\$ 3,107,949	\$ 3,906,903
<b>Total</b>	<b>\$ 2,658,606</b>	<b>\$ 2,717,947</b>	<b>\$ 3,107,949</b>	<b>\$ 3,906,903</b>	<b>\$ 5,766,555</b>	<b>\$ 6,624,850</b>



## **Management Discussion and Analysis**

### **City of Frostburg**

The City of Frostburg's long-term total debt decreased by \$858,295 (around 13%) during the past fiscal year. Debt principal payments during the past fiscal year were \$850,954.

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

### **Economic Factors – 2023**

Allegany County continues to lag behind Maryland and national metrics for measuring wealth, including median family income. The unemployment rate in Allegany County is in line with regional unemployment rates. Additionally, with the influx of the American Rescue Plan Act funds in fiscal years 2022 through 2025, the City has begun and will continue to make long-term infrastructure investments that will have a positive long-term effect on the City's water and sewer operations.

The economy of the City is impacted by regional 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). FSU is the primary contributor to the economy in Frostburg based on the number of full-time jobs, ongoing capital investments, and residents of the community that attend or work for the school. The pandemic and subsequent nationwide trends in higher education have also negatively affected enrollment at the University. At this point, stable or small modest increases in enrollment at the University are expected. Nevertheless, FSU continues to invest in capital projects and workforce development so that the University may remain competitive as the standards for higher education transform.

The other significant employment sector within city limits is 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. The City has two business parks, and the existing structures within these parks are largely occupied. A light manufacturing facility more than doubled their footprint in the business park with new construction and is now a 90,000 square foot facility reflecting significant private investment in the new structure as well as equipment. The Main Street commercial district remains fairly strong, and the trend continues to reflect more new businesses opening than closing and the number of vacant storefronts is decreasing. Continued modest commercial investment is expected over the next year.

There is an opportunity for new commercial development near the interstate interchanges, but there have been no proposals for developing those properties at this time. In terms of residential development, two subdivisions are active with building lots and new homes being sold. Real estate assessment occurred in a portion of Frostburg in 2022 which resulted in an increase in the City's tax base.

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

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

### **Budget Highlights for the Fiscal Year Ending June 30, 2024**

**Governmental Activities:** Property tax revenue, the largest source of general government revenue, is budgeted to increase as real estate assessments rose about \$25 million compared to the prior year. The real estate tax rate for fiscal year 2024 is seventy cents per one hundred dollars of assessed value, consistent with the prior year tax rate. Maryland income tax revenue is budgeted to increase based on prior year experience and the highway use tax is increased based on the funding notification provided by the State Highway Administration.

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.

Original budgeted expenditures in the General Fund are expected to increase by about 18 percent. Projects using SLFRF revenue comprise about \$1.7 million of the Corporate Fund budgeted expenditures. Some of the SLFRF projects include construction of a new downtown parking lot, construction of a salt storage facility, consultant fees for a comprehensive plan, paving of City streets, purchase of a plow truck, and construction of a childcare center.

Salary enhancements for all full-time city employees in July 2023 increase budgeted salary and benefit expenses in all funds compared to the prior year. Certified police officers also transitioned from the Employees' Pension system to the Law Enforcement Officers' Pension System (LEOPS) within the Maryland State Retirement and Pension System effective July 1, 2023. The change in pension plans for the LEOPS participants along with salary adjustments increases the budgeted pension expense for Public Safety by approximately \$208,000 compared to the prior year.

**Business – type Activities:** The water consumption rates increased about 7% for the year ending June 30, 2024. Sewer consumption rates and the CSO surcharge are unchanged from the prior year. The garbage rate increased by nine dollars per quarter per unit. The water surcharge rate decreased for all customers after the CDA loan payable to Suntrust Bank for the Piney Dam was paid off in May 2023.

SLFRF revenue is budgeted to be used for improvements at the water treatment plant, replacement of the Centennial Hill water line, water meter replacements and general water transmission and distribution projects during fiscal year 2024.

Capital projects included in the budget of the Sewer Fund are the continuation of the combined sewer overflow elimination projects with completion of Phase IX-C and initial

## **Management Discussion and Analysis**

### **City of Frostburg**

construction of Phase X-A and X-B. Final design of CSO Phase X-C should be completed in preparation for bidding during the fiscal year.

Budget amendments were approved through Resolution 2024-01 to reflect increased health insurance premiums and enrollment changes. Budgeted revenue for interest income was increased and project expenses and applicable reimbursements were also updated through the Resolution. Additional budget amendments are anticipated later in the year as the Mayor and Council reevaluate project priorities and timelines with use of SLFRF resources.

### **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, or [ejones@frostburgcity.org](mailto:ejones@frostburgcity.org).

**CITY OF FROSTBURG, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2023**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,888,975	\$ 2,939,819	\$ 14,828,794
Certificate of deposit - restricted	25,714	-	25,714
Accounts receivable	575,242	1,477,028	2,052,270
Prepaid expenses	87,265	19,819	107,084
Accrued interest receivable	7,939	-	7,939
Leases receivable	840,335	-	840,335
Capital Assets			
Non-depreciable	5,274,635	2,173,312	7,447,947
Depreciable, net of accumulated depreciation	10,897,049	26,947,893	37,844,942
<b>TOTAL ASSETS</b>	<b>29,597,154</b>	<b>33,557,871</b>	<b>63,155,025</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	406,711	144,032	550,743
Deferred outflows of resources related to OPEB	227,996	92,449	320,445
<b>Total Deferred Outflows of Resources</b>	<b>634,707</b>	<b>236,481</b>	<b>871,188</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	203,514	680,312	883,826
Salaries and benefits payable	83,113	28,569	111,682
Internal balances	81,128	(81,128)	-
Unearned revenue	5,258,897	200,355	5,459,252
Current portion of leases, subscriptions, bonds, and notes payable	157,082	465,958	623,040
<b>Noncurrent Liabilities:</b>			
Compensated absences	345,544	210,942	556,486
Accrued post employment health insurance	640,591	259,748	900,339
Net pension liability	1,292,724	458,933	1,751,657
Leases and subscriptions payable (net of current portion)	291,423	111,246	402,669
Bonds and notes payable (net of current portion and premium)	2,604,606	2,675,030	5,279,636
<b>TOTAL LIABILITIES</b>	<b>10,958,622</b>	<b>5,009,965</b>	<b>15,968,587</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	124,086	44,054	168,140
Deferred inflows of resources related to OPEB	43,848	17,780	61,628
Deferred inflows of resources related to leases	823,472	-	823,472
<b>Total Deferred Inflows of Resources</b>	<b>991,406</b>	<b>61,834</b>	<b>1,053,240</b>
<b>NET POSITION</b>			
Net investment in capital assets	13,118,573	25,868,971	38,987,544
Restricted	64,932	-	64,932
Unrestricted	5,098,328	2,853,582	7,951,910
<b>TOTAL NET POSITION</b>	<b>\$ 18,281,833</b>	<b>\$ 28,722,553</b>	<b>\$ 47,004,386</b>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 1,120,097	\$ 238,549	\$ 8,838	\$ 113,000	\$ (759,710)	\$ -	\$ (759,710)
Public safety	2,081,534	21,680	427,383	67,284	(1,565,187)	-	(1,565,187)
Public works	1,964,652	-	255,409	649,565	(1,059,678)	-	(1,059,678)
Recreation and parks	765,182	100,058	32,626	67,511	(564,987)	-	(564,987)
Community development	193,542	-	157,914	-	(35,628)	-	(35,628)
Code enforcement	134,573	500	-	-	(134,073)	-	(134,073)
<b>Total Governmental Activities</b>	<b>6,259,580</b>	<b>360,787</b>	<b>882,170</b>	<b>897,360</b>	<b>(4,119,263)</b>	<b>-</b>	<b>(4,119,263)</b>
<b>Business-type Activities:</b>							
Water	1,661,630	1,621,271	152,323	169,408	-	281,372	281,372
Sewer	2,448,862	2,203,090	125,231	1,829,663	-	1,709,122	1,709,122
Water Surcharge	938,555	921,738	4,979	-	-	(11,838)	(11,838)
Garbage	464,497	372,639	29,765	190,000	-	127,907	127,907
<b>Total Business-type Activities</b>	<b>5,513,544</b>	<b>5,118,738</b>	<b>312,298</b>	<b>2,189,071</b>	<b>-</b>	<b>2,106,563</b>	<b>2,106,563</b>
<b>Total Primary Government</b>	<b>\$ 11,773,124</b>	<b>\$ 5,479,525</b>	<b>\$ 1,194,468</b>	<b>\$ 3,086,431</b>	<b>(4,119,263)</b>	<b>2,106,563</b>	<b>(2,012,700)</b>
<b>General Revenues:</b>							
Taxes							
Net property taxes					3,032,902	-	3,032,902
Income taxes					725,854	-	725,854
Highway use tax					354,584	-	354,584
Hotel motel tax					164,437	-	164,437
Admission taxes					29,097	-	29,097
Rental income					86,157	-	86,157
Licenses and permits					26,411	-	26,411
Grants and contributions not restricted to specific programs					633,257	-	633,257
Interest earnings					451,816	90,320	542,136
Miscellaneous revenues					16,656	221,000	237,656
Gain (loss) on disposal of fixed assets					(373,774)	9,343	(364,431)
Transfers					379,250	(379,250)	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>5,526,647</b>	<b>(58,587)</b>	<b>5,468,060</b>
<b>Change in Net Position</b>					<b>1,407,384</b>	<b>2,047,976</b>	<b>3,455,360</b>
<b>Net Position - July 1, 2022</b>					<b>16,874,449</b>	<b>26,674,577</b>	<b>43,549,026</b>
<b>Net Position - June 30, 2023</b>					<b>\$ 18,281,833</b>	<b>\$ 28,722,553</b>	<b>\$ 47,004,386</b>

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

CITY OF FROSTBURG, MARYLAND

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2023

	General Fund	Special Revenue Comm Dev Special Project	Special Revenue Opioid Settlement	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,824,043	\$ 56,091	\$ 8,841	\$ 11,888,975
Certificate of deposit	-	-	-	-
Certificate of deposit - restricted	25,714	-	-	25,714
Accounts receivable	575,242	-	-	575,242
Prepaid expenses	87,265	-	-	87,265
Leases receivable	840,335	-	-	840,335
<b>TOTAL ASSETS</b>	<b>\$ 13,352,599</b>	<b>\$ 56,091</b>	<b>\$ 8,841</b>	<b>\$ 13,417,531</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 178,467	\$ -	\$ -	\$ 178,467
Salaries and benefits payable	83,113	-	-	83,113
Interfund payables	81,128	-	-	81,128
Advanced revenue	5,258,897	-	-	5,258,897
<b>TOTAL LIABILITIES</b>	<b>5,601,605</b>	<b>-</b>	<b>-</b>	<b>5,601,605</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - Property taxes	163,076	-	-	163,076
Unavailable revenue - Leases	823,472	-	-	823,472
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>986,548</b>	<b>-</b>	<b>-</b>	<b>986,548</b>
<b>FUND BALANCES</b>				
Nonspendable - Prepaid expenses	87,265	-	-	87,265
Restricted - Community Development Block Grants	-	56,091	-	56,091
Restricted - Opioid Settlement Fund	-	-	8,841	8,841
Unassigned	6,677,181	-	-	6,677,181
<b>TOTAL FUND BALANCE</b>	<b>6,764,446</b>	<b>56,091</b>	<b>8,841</b>	<b>6,829,378</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 13,352,599</b>	<b>\$ 56,091</b>	<b>\$ 8,841</b>	<b>\$ 13,417,531</b>

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, 2023**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 6,829,378</b>
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		16,171,684
Deferred outflows of resources related to pensions are not recognized in the fund statements.		406,711
Deferred outflows of resources related to OPEB are not recognized in the fund statements.		227,996
Accrued interest income is recorded on fund statements only when received		7,939
Accrued interest expense is recorded on fund statements only when due		(25,047)
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Bonds and notes payable	(2,398,000)	
Premium on bonds (to be amortized as interest expense)	(260,606)	
Leases payable	(394,505)	
Accrued post employment health insurance	(640,591)	
Net pension liability	(1,292,724)	
Compensated absences	(345,544)	
		(5,331,970)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		163,076
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(124,086)
Deferred inflows of resources related to OPEB plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(43,848)
 <b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>		 <b>\$ 18,281,833</b>

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



CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund	Special Revenue Comm Dev Special Project	Special Revenue Opioid Settlement	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,994,719	\$ -	\$ -	\$ 2,994,719
Income taxes	725,854	-	-	725,854
Hotel motel tax	164,437	-	-	164,437
Highway use tax	354,584	-	-	354,584
Other taxes	123,850	-	-	123,850
Police protection grant	147,837	-	-	147,837
Public safety revenue	41,321	-	-	41,321
Licenses and permits	58,629	-	-	58,629
Police grants	49,546	-	-	49,546
Rental program revenue	69,780	-	-	69,780
Recreational activities	100,058	-	-	100,058
Grant income - federal	708,871	-	-	708,871
Grant income - other	1,497,695	-	-	1,497,695
Other income	39,313	-	8,838	48,151
Interest	448,955	74	3	449,032
<b>TOTAL REVENUES</b>	<u>7,525,449</u>	<u>74</u>	<u>8,841</u>	<u>7,534,364</u>
<b>EXPENDITURES</b>				
Administration	1,244,877	725	-	1,245,602
Public safety	2,010,276	-	-	2,010,276
Street department	1,434,767	-	-	1,434,767
Recreation department	636,271	-	-	636,271
Debt service: Principal	129,682	-	-	129,682
Interest and issue costs	110,776	-	-	110,776
Capital outlays	2,267,632	-	-	2,267,632
<b>TOTAL EXPENDITURES</b>	<u>7,834,281</u>	<u>725</u>	<u>-</u>	<u>7,835,006</u>
<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(308,832)</u>	<u>(651)</u>	<u>8,841</u>	<u>(300,642)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	379,250	-	-	379,250
Lease proceeds	190,434	-	-	190,434
Subscription proceeds	13,864	-	-	13,864
Rental income	86,157	-	-	86,157
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>669,705</u>	<u>-</u>	<u>-</u>	<u>669,705</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>360,873</u>	<u>(651)</u>	<u>8,841</u>	<u>369,063</u>
<b>FUND BALANCE - JULY 1, 2022</b>	<u>6,403,573</u>	<u>56,742</u>	<u>-</u>	<u>6,460,315</u>
<b>FUND BALANCE - JUNE 30, 2023</b>	<u>\$ 6,764,446</u>	<u>\$ 56,091</u>	<u>\$ 8,841</u>	<u>\$ 6,829,378</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, 2023**

<b>Total Net Change in Fund Balance - Governmental Funds</b>		<b>\$ 369,063</b>
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	2,267,632	
Less current year depreciation	<u>(789,398)</u>	1,478,234
 Governmental funds report the proceeds from the sale of capital assets as income; however, in the statement of activities the sale of capital assets are reported net of the remaining book value of the assets as either gain or loss.		
Net book value of disposed capital assets in the statement of activities		(373,774)
 Right-to-use assets under lease and subscription-based arrangements are shown as other financing sources in the year of issuance and as expenditures in the years of repayment in the governmental funds. These arrangements increase liabilities in the year of issuance and decrease liabilities in the years of repayment in the statement of net assets.		
Other financing sources - lease proceeds	(190,434)	
Other financing sources - subscription proceeds	(13,865)	
Principal payments on leases	72,767	
Principal payments on subscriptions	<u>4,914</u>	(126,618)
 Repayment of note and lease proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		52,001
 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		38,183
 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		(85,077)
Change in deferred outflows of resources related to OPEB		172,286
Change in accrued interest		4,067
Change in accrued post employment health insurance		(226,885)
Change in compensated absences		(7,450)
Change in accrued pension liability		(302,783)
Amortization of premium on debt		7,341
Change in deferred inflows of resources related to OPEB		(16,296)
Change in deferred inflows of resources related to pensions		<u>425,092</u>
 <b>TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		 <b><u>\$ 1,407,384</u></b>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Water Surcharge</u>	<u>Garbage</u>	<u>Total</u>
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 625,950	\$ 1,583,506	\$ 617,697	\$ 112,666	\$ 2,939,819
Accounts receivable	312,901	965,356	120,908	77,863	1,477,028
Prepaid expenses	8,198	7,548	-	4,073	19,819
Due from other funds	-	85,073	-	-	85,073
<b>Total Current Assets</b>	<u>947,049</u>	<u>2,641,483</u>	<u>738,605</u>	<u>194,602</u>	<u>4,521,739</u>
<b>Capital Assets</b>					
Non-depreciable	7,823	2,001,467	164,022	-	2,173,312
Depreciable, net of accumulated depreciation	962,256	16,688,115	9,031,344	266,178	26,947,893
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>970,079</u>	<u>18,689,582</u>	<u>9,195,366</u>	<u>266,178</u>	<u>29,121,205</u>
<b>TOTAL ASSETS</b>	<u>1,917,128</u>	<u>21,331,065</u>	<u>9,933,971</u>	<u>460,780</u>	<u>33,642,944</u>
<b>Deferred Outflows of Resources</b>					
Deferred outflows of resources related to pensions	62,675	51,137	-	30,220	144,032
Deferred outflows of resources related to OPEB	43,132	30,827	-	18,490	92,449
<b>Total Deferred Outflows of Resources</b>	<u>105,807</u>	<u>81,964</u>	<u>-</u>	<u>48,710</u>	<u>236,481</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	127,341	505,430	40,893	6,648	680,312
Salaries and benefits payable	12,427	10,265	-	5,877	28,569
Unearned revenue	-	64,650	81,361	54,344	200,355
Due to other funds	3,945	-	-	-	3,945
Current portion of leases, bonds, and notes payable	18,080	38,311	409,567	-	465,958
<b>Total Current Liabilities</b>	<u>161,793</u>	<u>618,656</u>	<u>531,821</u>	<u>66,869</u>	<u>1,379,139</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	104,641	66,247	-	40,054	210,942
Accrued post employment health insurance	121,186	86,613	-	51,949	259,748
Net pension liability	199,688	162,904	-	96,341	458,933
Leases payable, less current portion	44,883	66,363	-	-	111,246
Notes payable, less current portion	-	216,475	2,458,555	-	2,675,030
<b>Total Noncurrent Liabilities</b>	<u>470,398</u>	<u>598,602</u>	<u>2,458,555</u>	<u>188,344</u>	<u>3,715,899</u>
<b>TOTAL LIABILITIES</b>	<u>632,191</u>	<u>1,217,258</u>	<u>2,990,376</u>	<u>255,213</u>	<u>5,095,038</u>
<b>Deferred Inflows of Resources</b>					
Deferred inflows of resources related to pensions	19,169	15,637	-	9,248	44,054
Deferred inflows of resources related to OPEB	8,295	5,929	-	3,556	17,780
<b>Total Deferred Inflows of Resources</b>	<u>27,464</u>	<u>21,566</u>	<u>-</u>	<u>12,804</u>	<u>61,834</u>
<b>Net Position</b>					
Net investment in capital assets	907,116	18,368,433	6,327,244	266,178	25,868,971
Unrestricted - undesignated	456,164	1,805,772	616,351	(24,705)	2,853,582
<b>Total Net Position</b>	<u>\$ 1,363,280</u>	<u>\$ 20,174,205</u>	<u>\$ 6,943,595</u>	<u>\$ 241,473</u>	<u>\$ 28,722,553</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2023

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
<b>OPERATING REVENUES</b>	\$ 1,621,271	\$ 2,203,090	\$ 921,738	\$ 372,639	\$ 5,118,738
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	93,025	868,858	812,093	42,465	1,816,441
Sewer operating	-	1,259,035	-	-	1,259,035
Salaries and wages	308,150	200,520	-	146,777	655,447
Filtration contract payments	611,281	-	-	-	611,281
Employee benefits	96,922	84,842	-	51,372	233,136
Other	233,399	15,689	49,741	18,760	317,589
Landfill charges	-	-	-	136,219	136,219
Distribution	193,696	-	-	-	193,696
Pumping system	67,435	-	-	-	67,435
Payroll taxes	22,432	14,819	-	10,583	47,834
Meters expense	31,905	-	-	-	31,905
Sanitation operating	-	-	-	58,320	58,320
<b>Total Operating Expenses</b>	1,658,245	2,443,763	861,834	464,496	5,428,338
<b>Operating Income (Loss)</b>	(36,974)	(240,673)	59,904	(91,857)	(309,600)
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Project reimbursements	321,731	1,954,894	4,979	219,765	2,501,369
Timber sales	-	-	221,000	-	221,000
Interest revenue	16,767	41,283	27,735	4,535	90,320
Gain (loss) on disposal of assets	9,343	-	-	-	9,343
Interest expense	(3,387)	(5,098)	(76,721)	-	(85,206)
<b>Total Non-operating Revenues (Expenses)</b>	344,454	1,991,079	176,993	224,300	2,736,826
<b>Income (Loss) Before Transfers</b>	307,480	1,750,406	236,897	132,443	2,427,226
Transfers to general fund	(137,650)	(224,750)	-	(16,850)	(379,250)
<b>Change in Net Position</b>	169,830	1,525,656	236,897	115,593	2,047,976
<b>TOTAL NET POSITION - JULY 1, 2022</b>	1,193,450	18,648,549	6,706,698	125,880	26,674,577
<b>TOTAL NET POSITION - JUNE 30, 2023</b>	\$ 1,363,280	\$ 20,174,205	\$ 6,943,595	\$ 241,473	\$ 28,722,553

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, 2023

	Water	Sewer	Water Surcharge	Garbage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 1,588,639	\$ 2,273,463	\$ 912,510	\$ 376,890	\$ 5,151,502
Payments to vendors	(1,255,581)	(1,435,451)	(17,721)	(289,217)	(2,997,970)
Payments to employees	(302,776)	(205,711)	-	(145,852)	(654,339)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>30,282</u>	<u>632,301</u>	<u>894,789</u>	<u>(58,179)</u>	<u>1,499,193</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out	(137,650)	(224,750)	-	(16,850)	(379,250)
Change in due to/from other funds	165,829	96,429	41,386	353	303,997
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<u>28,179</u>	<u>(128,321)</u>	<u>41,386</u>	<u>(16,497)</u>	<u>(75,253)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of capital assets	(190,140)	(2,164,719)	(30,250)	(190,000)	(2,575,109)
Proceeds from sale of capital assets	9,343	-	-	-	9,343
Principal paid on loans	-	(23,139)	(775,815)	-	(798,954)
Principal paid on leases	(17,277)	(5,182)	-	-	(22,459)
Project reimbursements	321,731	2,061,622	4,979	219,764	2,608,096
Timber sales	-	-	221,000	-	221,000
Interest paid on loans and leases	(3,387)	(5,186)	(79,668)	-	(88,241)
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<u>120,270</u>	<u>(136,604)</u>	<u>(659,754)</u>	<u>29,764</u>	<u>(646,324)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	16,767	41,283	27,735	4,535	90,320
<b>Net change in Cash</b>	<u>195,498</u>	<u>408,659</u>	<u>304,156</u>	<u>(40,377)</u>	<u>867,936</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>430,452</u>	<u>1,174,847</u>	<u>313,541</u>	<u>153,043</u>	<u>2,071,883</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 625,950</u>	<u>\$ 1,583,506</u>	<u>\$ 617,697</u>	<u>\$ 112,666</u>	<u>\$ 2,939,819</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
<b>Operating Income (Loss)</b>	\$ (36,974)	\$ (240,673)	\$ 59,904	\$ (91,857)	\$ (309,600)
<b>Adjustments Not Affecting Cash</b>					
Depreciation	93,025	868,858	812,093	42,465	1,816,441
Pension expense	11,740	12,945	-	8,383	33,068
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	(32,632)	59,186	(22,594)	(5,479)	(1,519)
Prepaid expenses	(1,039)	(836)	-	(479)	(2,354)
Accounts payable and accrued expenses	3,742	(61,397)	32,020	(15,076)	(40,711)
Salaries and benefits payable	1,383	1,697	-	840	3,920
Unearned revenue	-	11,187	13,366	9,730	34,283
Accrued health insurance	40,719	29,178	-	17,488	87,385
Compensated absences	3,991	(6,888)	-	85	(2,812)
Deferred outflows of resources - pension contributions	(24,313)	(19,967)	-	(11,691)	(55,971)
Deferred outflows of resources - post employment health	(32,296)	(23,093)	-	(13,849)	(69,238)
Deferred inflows of resources - post employment health	2,936	2,104	-	1,261	6,301
<b>Total Adjustments</b>	<u>67,256</u>	<u>872,974</u>	<u>834,885</u>	<u>33,678</u>	<u>1,808,793</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ 30,282</u>	<u>\$ 632,301</u>	<u>\$ 894,789</u>	<u>\$ (58,179)</u>	<u>\$ 1,499,193</u>
Noncash transactions					
Capital asset acquired through leases and subscription arrangements	<u>\$ -</u>	<u>\$ 86,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,504</u>

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

# CITY OF FROSTBURG

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 REPORTING ENTITY

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

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

### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

# CITY OF FROSTBURG

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

#### **B. Fund Accounting**

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

#### ***Governmental Fund Types***

##### **General Fund**

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

##### **Special Revenue Funds**

The Community Development Special Projects Fund is a special revenue fund used to account for the revenue from Community Development Block Grants received by the City of Frostburg. The Opioids Settlement Fund is a special revenue fund used to account for the proceeds the City receives from participating in a class action lawsuit with other governments against pharmaceutical companies over the opioid crisis across the country. In the event an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are used first.

#### ***Proprietary Fund Types***

##### **Water, Sewer, Water Surcharge, and Garbage Funds**

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



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

**C. Measurement Focus**

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

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

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

**D. Basis of Accounting**

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

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

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

# CITY OF FROSTBURG

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

#### **E. Budgets and Budgetary Accounting**

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

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

#### **F. Cash and Equivalents**

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

#### **G. Capital Assets**

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

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

All capital assets are capitalized at cost (or estimated historical cost). When a capital asset is disposed or retired, the cost and related accumulated depreciation are removed from the books with any gain or loss reflected as income. The City maintains a capitalization threshold of \$10,000 for machinery, equipment, buildings, and improvements and \$50,000 for infrastructure. Public domain ("infrastructure") general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

life are not capitalized. Intangible assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a year are capitalized.

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

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

**H. Compensated Absences**

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

No current portion of compensated absences has been recorded as the City feels that absences used during the next year will not materially exceed the absences earned during the next year. Therefore, all compensated absences within the governmental and business-type activities are recorded as long-term. The long-term portion of this liability of \$556,486 has been recorded in the government-wide statement of net position, of which \$210,942 is from business-type activities. This represents an increase of \$4,638 from the prior year total of \$551,848. The change in compensated absences for business-type activities was a decrease of \$2,812.

**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, 2023 consisted of transfers of \$137,650 from the Water Fund, \$224,750 from the Sewer Fund, and \$16,850 from the Garbage Fund to the

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

General Fund to help cover administrative overhead costs.

**J. Interfund Balances**

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

The composition of interfund balances as of June 30, 2023, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	General Fund	\$ 85,073
General Fund	Water Fund	(3,945)
		<u>\$ 81,128</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 multiple types of these items. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred outflows and inflows relating to pensions are described in Note 10. Deferred inflows and outflows related to the post-employment benefit program are described in Note 11. Deferred inflows related to leases are described in Note 6.

**L. Fund Balance**

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

**M. Operating Revenues and Expenses**

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

**N. Property Taxes**

The City bills and collects its own real property taxes. These taxes are levied each July 1 for all real property located within City boundaries which receives substantially all City services. Taxes are payable without interest until September 30 of the year billed. City property tax revenues are recognized when levied to the extent that they result in current receivables. The Maryland Department of Assessments and Taxation assesses property value based on estimates of fair market value. A revaluation of property values is completed every three years by the Department and any increase in assessed value is phased in over a three-year period. For the year ended June 30, 2023, the City had a real estate tax rate of \$0.70 per \$100 of assessed value.

**O. Pensions**

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

**P. Credit Risk**

As of June 30, 2023, the City has recorded receivables from various entities and individuals. As these receivables are believed to be completely collectable, an allowance for doubtful accounts is not recorded. If an account is determined to be uncollectible, the direct write-off method is used. This does not produce a result materially different from the allowance method of accounting.

**Q. Estimates**

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

**R. Related Organization**

Organizations for which the primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered to be related organizations. The Frostburg Housing Authority is a related organization of the City. The City appoints the members of the board of directors and their executive director but has no further accountability. The City received \$15,713 from the Authority during the year ended June 30, 2023. The payment is based on dwelling rent charged by the Authority to its tenants and is paid to the City in lieu of real estate taxes on the properties owned by the Authority.

**NOTE 3**      **CASH AND INVESTMENTS**

The cash deposits of the City of Frostburg are governed by Maryland Article 95-22. The City may establish official depositories with any bank or savings and loan located in the state of Maryland. The City may also establish time deposits and certificates of deposit. As of June 30, 2022, the reconciled balances of the City's deposits were \$14,854,508 and the bank balances were \$15,096,552. Of the bank balances, \$576,582 was covered by federal depository insurance and \$14,519,970 was covered by collateral held by the agent of the financial institution but not in the City's name.

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

At June 30, 2023, the City had a certificate of deposit in the amount of \$25,714 held at a local financial institution with a maturity date of March 21, 2024 that is restricted for specified purposes. The certificate of deposit is included in the City's deposit figure of \$14,854,508.

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3** CASH AND INVESTMENTS – Continued

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

**NOTE 4** ACCOUNTS RECEIVABLE

The City's accounts receivable as of June 30, 2023 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 205,775					\$ 205,775
Intergovernmental	335,487		500,639			836,126
Charge for services		309,369	430,969	117,760	74,350	932,448
Interest		968	3,918	3,148	3,513	11,547
Other	33,980	2,564	29,830			66,374
<b>Total</b>	<b>\$ 575,242</b>	<b>\$ 312,901</b>	<b>\$ 965,356</b>	<b>\$ 120,908</b>	<b>\$ 77,863</b>	<b>\$ 2,052,270</b>

At the end of the current fiscal year, \$200,355 of unearned revenues were recognized for billings done prior to June 30, 2023 that were for services after June 30, 2023 in the proprietary funds. In addition, \$163,076 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, 2023:

General Government	\$ 187,009
Public Safety	114,840
Public Works	401,205
Recreation and Parks	86,344
<b>Total</b>	<b>\$ 789,398</b>

(Note 5 continues of page 34.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2023:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities (General)</b>					
Non-depreciable Assets					
Land	\$ 3,667,157	\$ 761,231	\$ -	\$ -	\$ 4,428,388
Construction-in-progress	673,206	173,041	-	-	846,249
Total Non-depreciable Assets	4,340,363	934,272	-	-	5,274,635
Depreciable Assets					
Land Improvements	1,600,610	18,612	(12,098)	-	1,607,124
Buildings and Improvements	8,428,287	233,681	(656,938)	-	8,005,040
Infrastructure	6,548,516	649,565	-	-	7,198,081
Machinery & equipment	2,591,796	227,204	(140,233)	-	2,678,767
Right of use asset	347,705	190,434	-	-	538,139
Subscription assets	-	13,864	-	-	13,864
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	19,723,237	1,333,360	(809,259)	-	20,247,338
Less, Accumulated Depreciation for:					
Land Improvements	1,061,721	58,899	(11,134)	-	1,109,486
Buildings and Improvements	2,964,352	187,034	(294,686)	-	2,856,700
Infrastructure	3,351,775	231,781	-	-	3,583,556
Machinery & equipment	1,469,944	217,639	129,665)	-	1,557,918
Right of use asset	76,371	79,108	-	-	155,479
Subscription assets	-	4,621	-	-	4,621
Intangible assets	72,213	10,316	-	-	82,529
Total Accumulated Depreciation	8,996,376	789,398	(435,485)	-	9,350,289
Depreciable Assets, net of accumulated depreciation	10,726,861	543,962	(373,774)	-	10,897,049
Total Governmental Capital Assets, net of accumulated depreciation	\$15,067,224	\$ 1,478,234	\$ (373,774)	\$ -	\$ 16,171,684
<b>Business-type Activities (Water, Water Surcharge, Sewer, and Garbage)</b>					
Non-depreciable Assets					
Land	\$ 164,022	\$ -	\$ -	\$ -	\$ 164,022
Construction-in-progress	2,246,900	2,214,432	-	(2,452,042)	2,009,290
Total Non-depreciable Assets	2,410,922	2,214,432	-	-	2,173,312
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,388,460	45,000	-	-	8,433,460
Infrastructure	30,752,483	-	(788)	2,306,582	33,058,277
Machinery & equipment	1,800,335	232,680	(42,713)	145,460	2,135,762
Right of use asset	93,805	86,933	-	-	180,738
Total Depreciable Assets	56,388,367	364,613	(43,501)	2,452,042	59,161,521
Less, Accumulated Depreciation for:					
Land Improvements	10,684,366	395,245	-	-	11,079,611
Buildings and Improvements	6,888,383	271,265	-	-	7,159,648
Infrastructure	11,719,617	1,014,601	(788)	-	12,733,430
Machinery & equipment	1,133,564	110,773	(42,713)	-	1,201,624
Right of use asset	14,758	24,557	-	-	39,315
Total Accumulated Depreciation	30,440,688	1,816,441	(43,501)	-	32,213,628
Depreciable Assets, net of accumulated depreciation	25,947,679	(1,451,827)	-	2,452,042	26,947,893
Total Business-type Capital Assets, net of accumulated depreciation	\$28,358,601	\$ 762,605	\$ -	\$ -	\$ 29,121,205



## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 6 LEASES

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

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

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

Rental income related to these leases for the year ended June 30, 2023 was \$75,804. Interest income related to these leases for the year ended June 30, 2023 was \$42,896.

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

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

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6 LEASES – Continued**

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

The total right of use assets and related accumulated amortization of the underlying leased assets by fund as of June 30, 2023 are as follows:

Right of Use Lease Assets	Governmental Activities			Business-type Activities		
	Amount	Accumulated Amortization	Net Value	Amount	Accumulated Amortization	Net Value
Vehicles	\$ 472,129	\$ 136,193	\$ 335,936	\$ 180,738	\$ 39,315	\$ 141,423
Office equipment	66,010	19,286	46,724	-	-	-
Total	<u>\$ 538,139</u>	<u>\$ 155,479</u>	<u>\$ 382,660</u>	<u>\$ 180,738</u>	<u>\$ 39,315</u>	<u>\$ 141,423</u>

**NOTE 7 SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)**

As of June 30, 2023, the financial statements include the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are refinancings of the right-to-use an underlying asset. Under this statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset.

The City entered in a three year subscription-based information technology arrangement during the year ending June 30, 2023 with automatic annual renewal periods. The City did not include the renewal periods in the SBITA terms as it is not reasonably certain it will exercise the renewal option. The City utilized its incremental borrowing rate in its calculations since an interest rate was not indicated in the terms of the agreement.

The right of use assets and related accumulated amortization under the subscription-based arrangement in the governmental fund as of June 30, 2023 is as follows:

Right of Use Subscription-Based Assets:	Governmental Activities
Information Technology	\$ 13,864
Less, Accumulated Amortization	(4,621)
	<u>\$ 9,263</u>

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

The City was not entered into any subscription based technology arrangements as of July 1, 2023 that would require a restatement as a result of the adoption of the new standard.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8 LONG TERM DEBT**

The following is a summary of the changes in direct placement long-term debt for the year ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bond	\$2,450,000	\$ -	\$ (52,000)	\$ 2,398,000	\$ 54,000
Bond premium	267,947	-	(7,341)	260,606	-
Leases payable	268,639	189,684	(72,767)	385,556	98,774
Subscriptions payable	-	13,864	(4,915)	8,949	4,308
Compensated absences	338,094	7,450 *	-	345,544	-
Accrued post employment health insurance	413,706	226,885 *	-	640,591	-
Net pension liability	989,941	302,783 *	-	1,292,724	-
Total Governmental Activity Direct Placements	<u>\$4,728,327</u>	<u>\$ 740,666</u>	<u>\$ (137,023)</u>	<u>\$ 5,331,970</u>	<u>\$ 157,082</u>
<b>Business-type Activities</b>					
Bonds & Notes Payable					
USDA – Raw Water Line/Hydro Electric	\$ 755,529	-	\$ (18,608)	\$ 736,921	\$ 18,983
MDE - CSO Phase VIIA	152,202	-	(14,614)	137,588	14,746
Suntrust - Piney Dam Project	2,290,839	-	(362,000)	1,928,839	373,000
Suntrust - CDA Refinancing	377,781	-	(377,781)	-	-
MDE – CSO Phase VIIB	47,477	-	(3,941)	43,536	3,977
MDE – Savage Raw Water	219,789	-	(17,427)	202,362	17,584
MDE – CSO Phase VIIB-2	63,286	-	(4,583)	58,703	4,629
Leases payable	80,241	86,503	(22,459)	144,285	33,039
Compensated absences	213,754	-	(2,812) *	210,942	-
Accrued post employment health insurance	172,363	87,385 *	-	259,748	-
Net pension liability	360,593	98,340 *	-	458,933	-
Total Business-type Activity Direct Placements	<u>\$4,733,854</u>	<u>\$ 272,228</u>	<u>\$ (824,225)</u>	<u>\$ 4,181,857</u>	<u>\$ 465,958</u>

\* Represents the net change for the year

In November 2019, the City issued Local Government Infrastructure Bonds through the Community Development Administration in the amount of \$2,576,814 with an average interest rate of 3.39% for the construction of a new municipal center. The bond is payable in variable annual installments of principal plus semi-annual installments of interest and issuance fees. The issuance fees paid semi-annually range from \$611 to \$1,059 per payment. The bond is payable over a 30 year term and has 26 payments of principal, interest, and issuance costs and an additional 26 payments of interest and issuance costs only remaining.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 116 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8** **LONG TERM DEBT** - Continued

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan has 9 installments of principal, interest, and issuance costs and an additional 9 installments of interest only remaining.

The loan payable to Suntrust Bank for the Piney Dam project is payable in variable annual installments of principal and semi-annual installments of interest at 2.30% on the balance outstanding. The loan has 5 installments of principal and interest and an additional 5 installments of interest only remaining.

Maryland Department of the Environment provided forgivable loan funding of \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan has 11 installments of principal, interest and issuance fees plus 11 semi-annual installments of interest only remaining. The City did not accrue a liability for repayment of the forgivable portion of the project since the City intended to meet all the requirements for the loan to be forgiven. MDE forgave the debt on April 25, 2023.

On October 24, 2014, Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$922. The loan has 11 installments of principal, interest and issuance fees plus 11 semi-annual installments of interest only remaining. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on October 24, 2024 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

On May 30, 2014. Maryland Department of the Environment provided loan funding of \$94,120 to the City for the Phase VIIB-2, Paul Street CSO Elimination Project. The loan is payable in annual installments of principal, interest, and issuance fees of \$5,216 plus semi-annual installments of interest only at 1.00% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$261. The loan has 12 installments of principal, interest and issuance fees plus 12 semi-annual installments of interest only remaining.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8** **LONG TERM DEBT** - Continued

The annual requirements to amortize all direct placement debt, as of June 30, 2023 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2024	54,000	100,739	432,919	65,195	486,919	165,934	652,853
2025	56,000	98,498	438,674	55,860	494,674	154,358	649,032
2026	58,500	96,174	445,440	46,399	503,940	142,573	646,513
2027	61,000	93,764	456,218	36,787	517,218	130,551	647,769
2028	63,000	91,233	462,848	26,937	525,848	118,170	644,018
2029-2033	356,000	415,091	311,312	75,679	667,312	490,770	1,158,082
2034-2038	433,000	335,833	152,264	49,286	585,264	385,119	970,383
2039-2043	529,500	240,903	133,292	34,602	662,792	275,505	938,297
2044-2048	643,000	122,603	147,275	20,621	790,275	143,224	933,499
2049-2053	144,000	8,095	127,707	5,371	271,707	13,466	285,173
2054-2058	-	-	-	-	-	-	-
	<u>\$2,398,000</u>	<u>\$1,602,933</u>	<u>\$3,107,949</u>	<u>\$ 416,737</u>	<u>\$5,505,949</u>	<u>\$2,019,670</u>	<u>\$ 7,525,619</u>

The source of funds for debt retirement is as follows:

	<u>Debt Amount</u>
General revenue	\$ 2,398,000
Sewer charges	239,827
Water surcharges	<u>2,868,122</u>
	<u>\$ 5,505,949</u>

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

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2024	\$ 98,775	\$ 18,993	\$ 33,039	\$ 8,183	\$ 131,814	\$ 27,176	\$ 158,990
2025	103,635	14,131	35,045	6,178	138,680	20,309	158,989
2026	98,718	8,837	33,904	4,062	132,622	12,899	145,521
2027	50,679	4,467	28,160	2,035	78,839	6,502	85,341
2028	33,749	1,268	14,137	425	47,886	1,693	49,579
2029-2033	-	-	-	-	-	-	-
	<u>\$ 385,556</u>	<u>\$ 47,696</u>	<u>\$ 144,285</u>	<u>\$ 20,883</u>	<u>\$ 529,841</u>	<u>\$ 68,579</u>	<u>\$ 598,420</u>

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

Fiscal Year	Governmental Activities	
	Principal	Interest
2024	\$ 4,308	\$ 692
2025	4,641	359
2026	-	-
	<u>\$ 8,949</u>	<u>\$ 1,051</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8**      **LONG TERM DEBT** - Continued

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

The City incurred interest of \$102,899 in the General Fund and \$85,206 in the Proprietary Funds, which includes interest on leases recognized in accordance with GASB 87 and interest on subscriptions in accordance with GASB 96..

**NOTE 9**      **RESTRICTED ASSETS - WATER SURCHARGE FUND**

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

**NOTE 10**     **PENSION PLAN**

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10** **PENSION PLAN** - Continued

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

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

All member benefits are adjusted each year on July 1 based on the Consumer Price Index (CPI). The increase is limited to 3% for an individual who is a member of the SRPS prior to July 1, 2011. The increase is capped at the 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, 2023 was 7.40% plus a 2.42% surcharge totaling 9.82% 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 \$213,657 for the year ended June 30, 2023.

***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions*** - At June 30, 2023, the City reported a liability of \$1,751,657 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2022, 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, 2022, actuarially determined. At June 30, 2022, the City's proportion was 0.009 percent, and was 0.009 percent at June 30, 2021.

For the year ended June 30, 2023, the City recognized pension expense of \$153,524. At June 30, 2023, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10**      **PENSION PLAN** – Continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension investments	\$ -	\$ 29,417
Changes in assumptions	200,472	14,952
Difference between actual and expected experience	-	123,771
Change in proportionate share	136,614	-
City contributions subsequent to the measurement date	213,657	-
Totals	<u>\$ 550,743</u>	<u>\$ 168,140</u>

The City reported \$213,657, 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, 2024.

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

<u>For the year ending June 30,</u>	<u>Total</u>
2024	\$ 23,038
2025	24,037
2026	(2,241)
2027	135,929
2028	(11,817)
Total	<u>\$ 168,946</u>

**Actuarial Assumptions** - The total pension liability in the June 30, 2022 actuarial valuation, based on results of a prior actuarial experience study for the period July 1, 2014 to June 30, 2018, was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.25% General, 2.75% Wage
Salary Increases	2.75% to 11.25%, including inflation
Discount Rate	6.80%
Investment Rate of Return	6.80%
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale.



CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10** **PENSION PLAN** - Continued

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37.00%	6.00%
Private Equity	13.00%	8.40%
Rate Sensitive Credit	21.00%	1.20%
Opportunity	8.00%	4.90%
Real Assets	15.00%	5.20%
Absolute Return	6.00%	3.50%
TOTAL	100.00%	

**Discount Rate** - The discount rate used to measure the total pension liability was 6.80%, which is based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at 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 6.80%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is a percentage point lower (5.80%) or a percentage point higher (7.80%) than the current rate:

	1% Decrease 5.80%	Current Discount Rate 6.80%	1% Increase 7.80%
City’s proportionate share of the net pension liability	\$ 2,687,602	\$ 1,751,657	\$ 975,043

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report. Prior to the City’s enrollment in the Maryland State Retirement and Pension System (SRPS), the City participated in a money purchase pension plan through ICMA that covered substantially all of its employees. The plan allowed employees to contribute up to 10% of their annual

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10** **PENSION PLAN** - Continued

compensation with the City also contributing 9% of total compensation. Upon enrollment in the SRPS, the City discontinued contributions to the ICMA plan but allowed employees to continue their voluntary contributions. On July 21, 2016 the City approved the Frostburg Police Officers Pension Enhancement Plan. The City has increased its contributions rates for certified police officers who complete their enrollment in the plan. The contributions are based on the officers' base salary. For years ending after June 30, 2021, the City's contribution is 4% of the officer's base salary. On June 16, 2022, the City amended the plan to include all full-time City employees. Any full-time employee, including police officers, who contributes at least 1% of their base salary towards the plan will receive a City matching contribution of 1%. The City contributed \$32,079 towards the plan during the fiscal year ending June 30, 2023.

**NOTE 11** **OTHER POST-EMPLOYMENT BENEFITS ("OPEB")**

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

**Benefits Provided** – Coverage is available for active employees and their dependents who retire at age 60 until they are eligible for Medicare benefits. Also included are employees who retire on Accidental Disability with the State Pension System between the age of 58 ½ and age 60. Plan members contribute 20% of the premium for medical and prescription benefits and the City contributes 80% of the premium until such time as the member qualifies for Medicare benefits. Once a member or spouse qualifies for Medicare benefits, the medical and prescription benefit through the City expires. As of June 30, 2022, the following employees were covered by the benefit terms:

Number of Active Employees	38
Number of Retirees	<u>2</u>
Total Number	<u>40</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 \$20,107 in benefits during the year ended June 30, 2023.

**OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources** - At June 30, 2023, the City reported a liability of \$900,339. The net OPEB liability was measured as of June 30, 2023 using employee data as of June 30, 2022.

For the year ended June 30, 2023, the City recognized OPEB expense of \$115,450. At June 30, 2023, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 41,802	\$ 57,057
Difference between expected and actual experience	278,643	4,571
	<u>\$ 320,445</u>	<u>61,628</u>

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

<u>For the year ended June 30,</u>	<u>Total</u>
2024	\$ 55,342
2025	55,342
2026	57,210
2027	25,351
2028	40,639
Thereafter	24,933
	<u>\$ 258,817</u>

**Actuarial Assumptions** - The total OPEB liability in the June 30, 2022 actuarial valuation was determined using plan provisions as of that date, employee data as of June 30, 2022, and the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Discount rate	4.13%, changed from 3.54% in the prior study.
Mortality	Pub-2010 General Headcount-weighted with fully generational MP-2021 scale. The Pub-2010 table represents the most recent mortality tables developed specifically for governmental employees by the Society of Actuaries which were released late in 2018.
Turnover	SOA Small Plan Age Table based on professional judgement.
Salary scale	3.00%
Core inflation assumption	2.00%
Retirement age	100% at Age 62 based on assumed rates of retirement,
Utilization	75% based on current medical election rates. Those active employees not currently enrolled were assumed to never enter the plan.
Per capita claims	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using actual ages of enrolled participants and aging factors. The retiree pre-65 premium was \$942.76 for medical per month, up from the \$625.30 per month used in the prior year.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Trend	Premiums are assumed to increase initially at a rate of 7.50% per year, declining 25 basis points per year to an ultimate annual rate of increase of 4.5%.
Marriage assumption	60% married with husbands assumed to be 3 years older than wives. For current retirees actual spousal information and coverage was used.
Cost sharing	The plan's current cost sharing percentages are 80% paid by the employer and 20% paid by the employee.

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

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

**Discount Rate** - The discount rate used to measure the total OPEB liability was 4.13%. As the OPEB is unfunded, the discount rate is based on a twenty-year municipal bond index. The S&P Municipal Bond 20 Year Rate Index was used to approximate those yields as of June 30, 2023.

**Sensitivity of the City’s Net OPEB Liability to Changes in the Discount Rate** - The following presents the City’s net OPEB liability calculated using the discount rate of 4.13% as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is a percentage point lower (3.13%) or a percentage point higher (5.13%) than the current rate.

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
City’s net OPEB liability	\$ 963,062	\$ 900,339	\$ 845,588

**Sensitivity of the City’s Net OPEB Liability to Changes in the Healthcare Cost Trend Rate** - The following presents the City’s net OPEB liability calculated using the healthcare cost trend rate of 7.25% to 4.5%, as well as what the City’s net OPEB liability would be if it were calculated using a healthcare cost trend rate that is a percentage point lower (6.25% to 3.5%) or a percentage point higher (8.25% to 5.5%) than the current rate:

	1% Decrease 6.25% to 3.5%	Current Discount Trend Rate 7.25% to 4.5%	1% Increase 8.25% to 5.5%
City’s net OPEB liability	\$ 834,306	\$ 900,339	\$ 978,016

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

*Changes in Net OPEB Liability*

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2022	\$ 586,069	-	\$ 586,069
Changes for the year			
Service Cost	39,715	-	39,715
Interest	20,394	-	20,394
Changes in benefit terms	-	-	-
Difference between expected & Actual experience	310,230	-	310,230
Assumption changes	(35,962)	-	(35,962)
Contributions - employer	-	20,107	(20,107)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(20,107)	(20,107)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	314,270	-	314,270
City’s net OPEB liability at June 30, 2023	<u>\$ 900,339</u>	<u>\$ -</u>	<u>\$ 900,339</u>

**NOTE 12** **COMMUNITY DEVELOPMENT SPECIAL PROJECTS FUND - INDIRECT COSTS**

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

**NOTE 13** **TAX ABATEMENTS**

The City has one program through which tax abatements are provided:

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 13** **TAX ABATEMENTS** - Continued

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, 2023, the City recorded EZ tax credits in the amount of \$2,810 and received \$1,405 from the State of Maryland.

**NOTE 14** **RISK OF LOSS**

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

**NOTE 15** **INSURANCE RECOVERIES**

The City may receive insurance recoveries during the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements. The City received \$9,412 of insurance recoveries during the current year.

**NOTE 16** **COMMITMENTS AND SUBSEQUENT EVENTS**

As of June 30, 2023, the CSO Elimination Project, Phase IX-C, Beall Street Corridor was under construction. The total project cost is expected to be \$1,526,123. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$1,211,602 and SWQH \$173,086, and City cash \$141,435. As of June 30, 2023, the City had incurred expenses of \$1,154,372.

As of June 30, 2023, the design for CSO Elimination Project, Phase X-A, Georges Creek Corridor, was complete and the City had publicly advertised the project for bid. Bids were opened in July 2023 and the construction contract was awarded in January 2024. The total project cost is expected to be \$1,816,775. The City has the following funding commitments for this project: Maryland Department of the Environment BRF Grant \$981,312. City cash \$835,463. Of the City cash contribution, \$800,000 is designated to come from American Rescue Plan Act funding.

As of June 30, 2023, design was underway for the Frostburg Gateway Improvement Project which includes a full-sized roundabout at the intersection of Braddock Road, Center Street, Bowery Street, and Welsh Hill Road. Funding for the project is provided by three Appalachian Regional Commission (ARC) grants, including Phase I (\$450,000), Phase II (\$1,500,000), and Phase III (\$2,000,000, as amended). It is unknown at this time if the project will go to construction in Spring 2024 or Spring 2025. The Maryland Department of Transportation State Highway Administration is administering the current grant directly on behalf of the City. As of June 30, 2023, design expenses totaled \$714,973.

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

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

On July 23, 2020, Allegany County Commissioners approved forgiveness of the \$80,000 liability of the City recorded in the Special Revenue Fund for the Center Street Redevelopment Project. The City, in consultation with regional Economic Development partners, is seeking a viable developer for the property.

On July 28, 2021, the City of Frostburg received the first disbursement of American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF) in the amount of \$4,189,816. The final disbursement of funds in the amount of \$4,192,952 was received August 4, 2022. Fiscal Recovery Funds may only be used to cover eligible costs incurred during the period beginning March 3, 2021 and ending December 31, 2024. Any funds not obligated by December 31, 2024, and any funds not expended to cover such obligations by December 31, 2026 must be returned.

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

- Water treatment plant upgrade - \$255,367
- Architectural/engineering services for a childcare facility - \$74,435
- Sewer smoke testing - \$247,400
- Replacement of the Centennial Hill Pump Station - \$812,043; Grant funding from Maryland Smart Energy Communities (MSEC) was received for this project in the amount of \$71,777.
- Centennial Hill water line replacement - \$149,000

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

As of June 30, 2023, the design of a new childcare facility was substantially complete and the project was publicly advertised for construction bids. The bids were opened in July 2023 and the bid was awarded in October 2023. The total project construction cost is expected to be \$1,490,000. The City has the following funding commitments for this project: CDBG \$750,000, USDA \$531,718, Allegany County \$50,000, and City cash \$158,282. The City

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

cash is designated to come from American Rescue Plan Act funding. The City will also provide in-kind labor of approximately \$7,200 for the project. As of June 30, 2023, the City had incurred non-construction expenses of \$73,482.

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

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

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

The City evaluated subsequent events through January 31, 2024 for possible inclusion in the financial statements and for potential required disclosures.

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

The City has adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 99, *Omnibus 2022* requirements relating to leases and subscription-based information technology arrangements. The adoption of these statements did not require a prior period restatement.

As of June 30, 2023, GASB issued Statement No. 100 *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62* and Statement No. 101, *Compensated Absences*. The City has not currently determined what, if any, impact implementation of these statements may have on its financial statements.



CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2023

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,937,600	\$ 3,013,000	\$ 2,994,719	\$ (18,281)
Income taxes	575,000	630,000	725,854	95,854
Hotel motel tax	130,000	130,000	164,437	34,437
Highway use tax	343,700	343,700	354,584	10,884
Other taxes	114,400	120,400	123,850	3,450
Police protection grant	135,000	135,000	147,837	12,837
Public safety revenue	35,000	38,000	41,321	3,321
Licenses and permits	40,000	55,000	58,629	3,629
Police grants	40,200	49,200	49,546	346
Rental program revenue	75,750	75,750	69,780	(5,970)
Recreational activities	77,000	93,000	100,058	7,058
Grant income - other	1,630,000	1,723,000	1,573,309	(149,691)
Transfers from other funds	379,250	379,250	379,250	-
Other income	947,850	753,410	758,727	5,317
Interest	15,000	395,000	448,955	53,955
Fund balance	99,860	-	-	-
<b>TOTAL GENERAL FUND REVENUE</b>	<u>7,575,610</u>	<u>7,933,710</u>	<u>7,990,856</u>	<u>57,146</u>
<b>EXPENDITURES</b>				
Administration	3,031,595	2,352,745	2,297,872	54,873
Public safety	2,124,890	2,257,790	2,133,139	124,651
Street department	1,794,950	2,492,850	2,447,598	45,252
Recreation department	624,175	830,325	751,374	78,951
<b>TOTAL EXPENDITURES</b>	<u>7,575,610</u>	<u>7,933,710</u>	<u>7,629,983</u>	<u>303,727</u>
<b>EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,873</u>	<u>\$ 360,873</u>

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

**Sources/inflows of resources**

Actual budgetary basis "general fund revenue" from the budgetary comparison schedule	\$ 7,990,856
Differences - budget to GAAP:	
Transfers from other funds are inflows from budgetary resources but are not revenues for financial reporting purposes	(379,250)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes	(86,157)
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes	-
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>	<u>\$ 7,525,449</u>

**Uses/outflows of resources**

Actual budgetary basis "general fund revenue" from the budgetary comparison schedule	\$ 7,629,983
Differences - budget to GAAP:	
Capital assets acquired through leases and subscription arrangements are not included as expenditures for budgetary purposes but are for financial reporting purposes	204,298
<b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>	<u>\$ 7,834,281</u>

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 PROPORTIONATE SHARE OF NET  
PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0090%	0.0090%	0.0080%	0.0070%	0.0070%	0.0060%	0.0070%	0.0080%	0.0070%
City's proportionate share of the net pension liability	\$ 1,751,659	\$ 1,350,533	\$ 1,778,926	\$ 1,529,269	\$ 1,512,990	\$ 1,369,796	\$ 1,647,046	\$ 1,671,968	\$ 1,244,576
City's covered payroll - Employee Retirement System	\$ 2,112,110	\$ 2,172,676	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223	\$ 1,838,338
City's proportionate share of the net pension liability as a percentage of its covered payroll	82.93%	62.16%	87.18%	79.25%	78.39%	75.01%	89.87%	84.99%	63.27%
Plan fiduciary net position as a percentage of the total pension liability	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

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

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

**CITY OF FROSTBURG, MARYLAND**

**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution - Employee Retirement System	\$ 213,657	\$ 199,806	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contributions in relation to the contractually required contribution	<u>\$ 213,657</u>	<u>\$ 199,806</u>	<u>\$ 198,366</u>	<u>\$ 168,756</u>	<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	\$ 2,175,732	\$ 2,112,110	\$ 2,172,676	\$ 2,040,588	\$ 1,929,720	\$ 1,930,114	\$ 1,826,242	\$ 1,832,753	\$ 1,967,223
Contributions as a percentage of covered-employee payroll - Employee Retirement System	9.82%	9.46%	9.13%	8.27%	7.89%	7.45%	7.06%	7.43%	8.62%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

**Changes in Assumptions** - Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2022 actuarial valuation as compared to the 2021 actuarial valuation

Changes in the 2022 valuation

- Salary increase assumption changed from a range of 2.75% to 9.25% to a range of 2.75% to 11.25%

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

	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Changes in OPEB Liability						
Service Cost	\$ 39,715	\$ 36,774	\$ 38,173	\$ 31,344	\$ 28,381	\$ 27,324
Interest	20,394	12,249	12,160	15,687	16,107	15,175
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	310,230	22,118	-	(13,154)	-	-
Assumption changes	(35,962)	(38,086)	525	105,100	10,620	-
Contributions - employer	-	-	-	-	-	-
Contributions - employee	-	-	-	-	-	-
Net investment income	-	-	-	-	-	-
Benefit payments	(20,107)	(28,035)	(39,863)	(33,947)	(12,449)	(24,295)
Administrative expense						
Other changes						
Net change in OPEB liability	314,270	5,020	10,995	105,030	42,659	18,204
Total OPEB liability, beginning of year	586,069	581,049	570,054	465,024	422,365	404,161
Total OPEB liability, end of year	<u>\$ 900,339</u>	<u>\$ 586,069</u>	<u>\$ 581,049</u>	<u>\$ 570,054</u>	<u>\$ 465,024</u>	<u>\$ 422,365</u>
City's covered employee payroll	\$ 1,899,442	\$ 1,744,969	\$ 1,532,693	\$ 1,391,124	\$ 1,185,691	\$ 1,151,156
Total OPEB liability as a percentage of covered employee payroll	47.40%	33.59%	37.91%	40.98%	39.22%	36.69%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

**Changes in Benefit Terms -**

There were no benefit changes during the year.

**Changes in Assumptions -**

Discount rate was changed from 3.54% in the prior study to 4.13%.

Claim costs were updated to reflect the significant increase over the prior year.

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