

CITY OF FROSTBURG, MARYLAND
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022

CITY OF FROSTBURG, MARYLAND

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4-15
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	21
Statement of Net Position – Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24
NOTES TO FINANCIAL STATEMENTS	25-52
REQUIRED SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	53
Notes to Required Supplemental Information	54
Schedule of City of Frostburg, Maryland's Proportionate Share of Net Pension Liability - Maryland State Retirement and Pension System	55
Schedule of City of Frostburg, Maryland's Contributions to Maryland State Retirement and Pension System	56
Schedule of Changes in City of Frostburg, Maryland's Total OEB Liability and Related Ratios	57

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, 2022, 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, 2022, 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.

Change in Accounting Principle

As described in Notes 12 and 17 to the financial statements, in 2022, the City adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

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 pages 53 – 54, the “Schedule of City of Frostburg, Maryland’s Proportionate Share of Net Pension Liability – Maryland State Retirement and Pension System” on page 55, the “Schedule of City of Frostburg, Maryland’s Contributions to Maryland State Retirement and Pension System” on page 56, and the “Schedule of Changes in City of Frostburg, Maryland’s Total OPEB Liability and Related Ratios” on page 57 be presented to supplement the basic financial statements. Such information 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, 2023, 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.



Cumberland, Maryland
January 31, 2023

CITY OF FROSTBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022

Management Discussion and Analysis City of Frostburg

City of Frostburg Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2022. 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

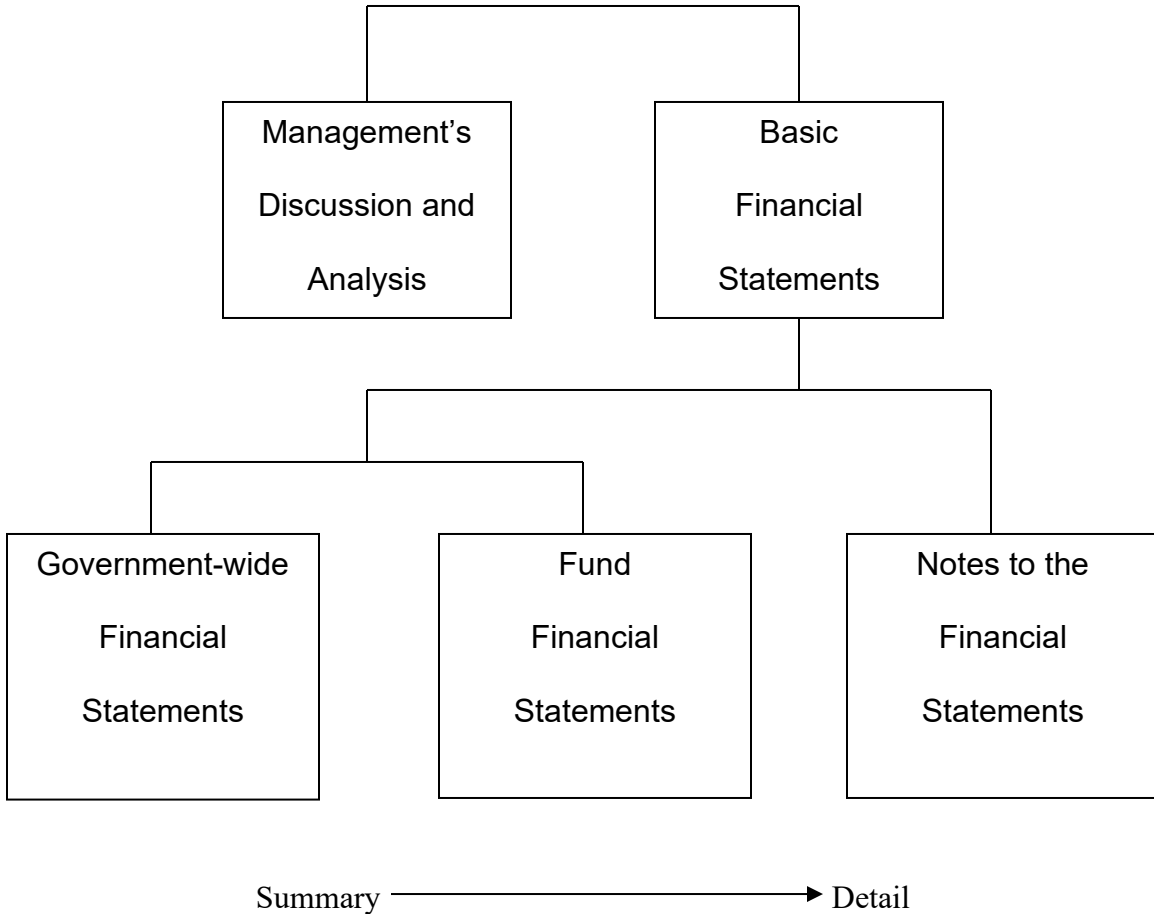
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$43,549,026.
- The government's total net position increased by \$2,529,291 which includes a prior period adjustment of \$192,168. This increase is partially attributed to grant revenues and contributions to support governmental activities. The American Rescue Plan Act provided a significant source of funding for governmental and business-type activities. An increase in net revenue of the Water fund also contributed to the increase in net position.
- As of the close of the current fiscal year, the governmental funds of the City of Frostburg reported combined ending fund balances of \$6,460,315 which is an increase of \$706,594 compared with the prior year. Approximately 94 percent of the total fund balance, or \$6,100,921, 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 \$6,100,921 or approximately 98 percent of total general fund expenditures for the fiscal year.
- The long-term leases, bonds, and notes payable of the City of Frostburg increased by \$23,169 during the current fiscal year. The portion of the outstanding liability that will be due within one year is \$931,887.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next section of the basic financial statements is the **Notes to the Financial Statements** (pages 25 – 52). The notes explain, in detail, some of the data contained in the financial statements. After the notes, supplemental information is provided to show details about

Management Discussion and Analysis

City of Frostburg

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Management Discussion and Analysis

City of Frostburg

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25 - 52 of this report.

Government-Wide Financial Analysis

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

Management Discussion and Analysis

City of Frostburg

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

City of Frostburg – Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2022	2021 As Restated	2022	2021 As Restated	2022	2021 As Restated
Current and other assets	\$ 10,964,161	\$ 7,408,958	\$ 3,671,584	\$ 2,989,099	\$ 14,635,745	\$ 10,398,057
Capital assets	15,067,225	14,607,079	28,358,601	28,420,052	43,425,826	43,027,131
Total assets	<u>26,031,386</u>	<u>22,016,037</u>	<u>32,030,185</u>	<u>31,409,151</u>	<u>58,061,571</u>	<u>53,425,188</u>
Deferred outflows of resources	547,498	436,953	201,989	178,331	749,487	615,284
Long-term liabilities	4,612,668	4,932,636	3,917,622	4,756,384	8,530,290	9,689,020
Other liabilities	3,615,762	525,114	1,428,453	1,460,186	5,044,215	1,985,300
Total liabilities	<u>8,228,430</u>	<u>5,457,750</u>	<u>5,346,075</u>	<u>6,216,570</u>	<u>13,574,505</u>	<u>11,674,320</u>
Deferred inflows of resources	1,476,005	1,108,672	211,522	45,577	1,687,527	1,154,249
Net position:						
Invested in capital assets, net of related debt	12,295,052	12,834,215	24,371,458	23,714,627	36,666,510	36,548,842
Restricted	271,154	1,252,868	-	-	271,154	1,252,868
Unrestricted	4,308,243	1,799,485	2,303,119	1,610,708	6,611,362	3,410,193
Total net position	<u>\$ 16,874,449</u>	<u>\$ 15,886,568</u>	<u>\$ 26,674,577</u>	<u>\$ 25,325,335</u>	<u>\$ 43,549,026</u>	<u>\$ 41,211,903</u>

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 \$43,549,026 as of June 30, 2022. The majority of the net position is invested in capital assets. Capital assets are used to provide services to citizens but they are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the net position of the City of Frostburg, less than 1%, represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$2,337,123 for the fiscal year ended June 30, 2022. Several aspects of the City financial operations positively influenced the total governmental net position including, but not limited to, the following:

- An increase in tax revenues.

Management Discussion and Analysis

City of Frostburg

- An increase in net revenue from water and water surcharge activities.
- The first installment of Coronavirus State and Local Fiscal Recovery Funds.

City of Frostburg - Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2022	2021 As Restated	2022	2021 As Restated	2022	2021 As Restated
Revenues:						
Program revenues:						
Charges for services	\$ 361,591	\$ 340,443	\$ 5,167,708	\$ 4,942,328	\$ 5,529,299	\$ 5,282,771
Operating grants and contributions	577,046	408,351	323,534	-	900,580	408,351
Capital grants and contributions	336,150	1,578,310	1,420,799	1,712,849	1,756,949	3,291,159
General revenues:						
Property taxes	2,947,283	2,755,960	-	-	2,947,283	2,755,960
Other taxes	1,193,283	1,033,876	-	-	1,193,283	1,033,876
Other	860,399	187,738	16,630	904	877,029	188,642
Total revenues	<u>6,275,752</u>	<u>6,304,678</u>	<u>6,928,671</u>	<u>6,656,081</u>	<u>13,204,423</u>	<u>12,960,759</u>
Expenses:						
General government	1,031,335	1,083,198	-	-	1,031,335	1,083,198
Public safety	2,010,415	1,999,834	-	-	2,010,415	1,999,834
Public works	1,570,204	1,189,023	-	-	1,570,204	1,189,023
Recreation and parks	662,671	618,598	-	-	662,671	618,598
Community development	209,677	85,215	-	-	209,677	85,215
Code enforcement	161,024	108,792	-	-	161,024	108,792
Water, sewer and garbage	-	-	5,221,974	4,651,726	5,221,974	4,651,726
Total expenses	<u>5,645,326</u>	<u>5,084,660</u>	<u>5,221,974</u>	<u>4,651,726</u>	<u>10,867,300</u>	<u>9,736,386</u>
Change in net position before transfers and donations	630,426	1,220,018	1,706,697	2,004,355	2,337,123	3,224,373
Transfers	357,455	260,320	(357,455)	(260,320)	-	-
Change in net position	<u>987,881</u>	<u>1,480,338</u>	<u>1,349,242</u>	<u>1,744,035</u>	<u>2,337,123</u>	<u>3,224,373</u>
Net position, July 1	15,886,568	14,406,230	25,325,335	23,581,300	41,211,903	37,987,530
Net position, June 30	<u>\$ 16,874,449</u>	<u>\$ 15,886,568</u>	<u>\$ 26,674,577</u>	<u>\$ 25,325,335</u>	<u>\$ 43,549,026</u>	<u>\$ 41,211,903</u>

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

Governmental activities increased the city's net position by \$987,881. The key elements of this increase are as follows:

- Coronavirus State and Local Fiscal Recovery Funds (SLFRF) that were unrestricted for general government activities.

Management Discussion and Analysis

City of Frostburg

- Increases in property, highway use, income, admissions and hotel motel tax revenues.
- An increase in interest earned on cash balances.

Business-type Activities: Business-type activities increased the net position of the City of Frostburg by \$1,349,242. The key elements of this increase are as follows:

- Grant funding received for the Phase IX-B and IX-C CSO projects.
- Eligible use of SLFRF for water, water surcharge, sewer, and garbage fund projects.
- An increase in revenue from user charges in all proprietary funds compared to the prior year.

Financial Analysis of the City Funds

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

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

The general fund is the chief operating fund of the City of Frostburg. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,100,921 while the total fund balance was \$6,403,573. 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, 2022, the governmental funds of the City of Frostburg reported a combined fund balance of \$6,460,315, an increase of approximately 12 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 which offset eligible expenses and a decrease in fund balance in the Special Revenue Fund as a result of community improvement expenses.

General Fund Budgetary Highlights: The Mayor and City Council publicly approved the budget for the year ending June 30, 2022 as Ordinance 2021-02. The budget was amended through Resolution 2022-01 and Resolution 2022-21. Of note among the amendments in the Corporate Fund were increases in income tax revenue and special revenue from the Coronavirus State and Local Fiscal Recovery Funds (SLFRF). Amendments to increase the budgeted expenses for eligible uses of the SLFRF were also reflected in the Resolutions. Impacted accounts include bonuses, software and subscriptions, street shop equipment, and paving. An increase in new construction within

Management Discussion and Analysis

City of Frostburg

City limits also resulted in an increase in the related revenue and expense for construction inspections.

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

During the year, actual general fund revenues exceeded the budget by \$547,855. Key revenue sources including income tax and highway use tax revenue both exceeded budget estimates and projections that had previously been provided by the State. Net property tax revenue and grant income provided significant increases in revenue compared to budgetary estimates.

General fund expenditures were less than the budgetary estimates by \$151,156 which is approximately 2% of the total budgeted expenditures. Administration expenses exceeded the budget by \$113,835 but this variance was offset by a positive variance of public safety, street, and recreation department expenses which were less than the budget by \$97,117, \$124,946 and \$42,928, respectively.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year was \$2,303,119. Current year operations of the proprietary funds positively affected net position in total by \$1,349,242. Water, sewer, and water surcharge 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, 2022 totals \$43,425,826, net of accumulated depreciation. These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

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

- Work in progress on the Phase IX-B CSO project of \$906,220.
- Work in progress on the Phase IX-C CSO project of \$189,071.
- Purchase of a vac truck for \$520,974.
- Purchase of equipment at the water treatment plant totaling \$125,058.

Management Discussion and Analysis
City of Frostburg

City of Frostburg - Capital Assets
Figure 4

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2022	2021 as restated	2022	2021 as restated	2022	2021 as restated
Land and construction in progress	\$ 4,340,363	\$ 4,038,940	\$ 2,410,922	\$ 989,146	\$ 6,751,285	\$ 5,028,086
Buildings and systems	5,463,936	5,636,234	1,500,077	1,770,397	6,964,013	7,406,631
Improvements other than buildings	538,889	597,310	4,668,918	5,064,164	5,207,807	5,661,474
Machinery and equipment	1,121,852	651,068	666,771	592,804	1,788,623	1,243,872
Intangible assets	134,110	144,426	-	-	134,110	144,426
Right of use assets	271,334	194,493	79,047	32,797	350,381	227,290
Infrastructure	3,196,741	3,344,608	19,032,866	19,970,743	22,229,607	23,315,351
Total	\$ 15,067,225	\$ 14,607,079	\$ 28,358,601	\$ 28,420,051	\$ 43,425,826	\$ 43,027,130

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, 2022 the City of Frostburg had total bonded debt outstanding of \$6,624,850. Of this total bonded debt, \$6,142,096 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	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 2,450,000	\$ 2,500,500	-	-	\$ 2,450,000	\$ 2,500,500
Bond premium	267,947	277,690	-	-	267,947	277,690
Revenue bonds	-	-	\$ 3,906,903	\$ 4,672,496	\$ 3,906,903	\$ 4,672,496
Total	\$ 2,717,947	\$ 2,778,190	\$ 3,906,903	\$ 4,672,496	\$ 6,624,850	\$ 7,450,686

The City of Frostburg's long-term total debt decreased by \$825,836 (around 11%) during the past fiscal year. Debt principal payments during the past fiscal year were \$816,093.

Management Discussion and Analysis City of Frostburg

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

Economic Factors – 2022

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 FY 22-25, 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 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, workforce development, etc., so that the University may remain competitive as the standards for higher education transform.

The other significant employment sector within city limits are call centers. Currently there are three operations and as contracts change and employment numbers increase or decrease at each call center, the employees tend to be able to be absorbed by another center. The City has two business parks, and the existing structures within these parks are largely occupied. A new IT/Manufacturing facility in the Frostburg Business Park opened in 2022, which employs approximately 30 people and reflects a \$3.5M investment. In addition, 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 be more new businesses opening than closing and the number of vacant storefronts are decreasing. Continued modest commercial investment is expected over the next year.

There is opportunity for new commercial development near the interstate interchanges, but there have been no proposals for developing those properties at this time. In terms of residential development, two subdivisions are active with lots and new homes being sold. Real estate assessment occurred in Frostburg in 2022 and initially trends are pointing to a significant 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, 2023

Governmental Activities: Property tax revenue, the largest source of general government revenue, is expected to increase with a rise in assessments of about \$10 million compared to the prior year and maintaining the real estate tax rate. The second payment of Coronavirus State and Local Fiscal Recovery Funds (SLFRF) will be disbursed to the City in fiscal year 2023 providing a significant source of funding for eligible City expenses.

The City will continue to receive \$200,000 annually from Frostburg State University to enhance public safety salaries and training and to provide support for first responders. Hotel motel tax revenue is budgeted to increase as this industry recovers from the impact of the COVID-19 pandemic.

Budgeted expenditures in the General Fund are expected to increase by about 21 percent. The majority of the increase is attributable to budgeted projects using SLFRF revenue including development of a new downtown parking lot, paving of City streets, street lighting improvements, and an update to the City's comprehensive plan.

An across the board salary increase for full time city employees in July 2022 increases budgeted salary and benefit expenses in all funds compared to the prior year. A new employee benefit of a 1% City match for employee contributions to the 457 plan also begins in July 2022 for any full-time employee other than certified police officers who already have access to a similar benefit.

Business – type Activities: The water, sewer, and garbage rates are unchanged for the year ending June 30, 2023.

SLFRF revenue is budgeted to be used for improvements at the water treatment plant and roof replacement at the water department shop building during fiscal year 2023. Also, a utility rate consultant will be sought to study and advise on water and sewer rates.

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-B and continued construction of Phase IX-C. Final design of CSO Phase X-A should be completed in preparation for bidding during the fiscal year. Completion of the Centennial Hill sewer pumping station is also a budgeted capital outlay for the Sewer Fund.

Budget amendments are anticipated during the year as the Mayor and Council reevaluate project priorities and timelines with use of SLFRF resources.

**Management Discussion and Analysis
City of Frostburg**

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.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,905,298	\$ 2,071,883	\$ 10,977,181
Certificate of deposit	100,713	-	100,713
Certificate of deposit - restricted	36,462	-	36,462
Accounts receivable	930,571	1,582,236	2,512,807
Prepaid expenses	88,240	17,465	105,705
Accrued interest receivable	5,156	-	5,156
Leases receivable	897,721	-	897,721
Capital Assets			
Non-depreciable	4,340,363	1,039,146	5,379,509
Depreciable, net of accumulated depreciation	10,726,862	27,319,455	38,046,317
TOTAL ASSETS	<u>26,031,386</u>	<u>32,030,185</u>	<u>58,061,571</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	491,788	178,778	670,566
Deferred outflows of resources related to OPEB	55,710	23,211	78,921
Total Deferred Outflows of Resources	<u>547,498</u>	<u>201,989</u>	<u>749,487</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	151,918	806,626	958,544
Salaries and benefits payable	73,269	24,649	97,918
Internal balances	385,125	(385,125)	-
Unearned revenue	2,889,794	166,072	3,055,866
Current portion of leases, bonds, and notes payable	115,656	816,231	931,887
Noncurrent Liabilities:			
Compensated absences	338,094	213,754	551,848
Accrued post employment health insurance	413,706	172,363	586,069
Net pension liability	989,940	360,593	1,350,533
Leases payable (net of current portion)	204,981	62,963	267,944
Bonds and notes payable (net of current portion and premium)	2,665,947	3,107,949	5,773,896
TOTAL LIABILITIES	<u>8,228,430</u>	<u>5,346,075</u>	<u>13,574,505</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	549,177	200,043	749,220
Deferred inflows of resources related to OPEB	27,552	11,479	39,031
Deferred inflows of resources related to leases	899,276	-	899,276
Total Deferred Inflows of Resources	<u>1,476,005</u>	<u>211,522</u>	<u>1,687,527</u>
NET POSITION			
Net investment in capital assets	12,295,052	24,371,458	36,666,510
Restricted	271,154	-	271,154
Unrestricted	4,308,243	2,303,119	6,611,362
TOTAL NET POSITION	<u>\$ 16,874,449</u>	<u>\$ 26,674,577</u>	<u>\$ 43,549,026</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 1,031,335	\$ 232,786	\$ -	\$ -	\$ (798,549)	\$ -	\$ (798,549)
Public safety	2,010,415	21,600	395,365	10,000	(1,583,450)	-	(1,583,450)
Public works	1,570,204	-	82,576	-	(1,487,628)	-	(1,487,628)
Recreation and parks	662,671	104,905	14,105	32,970	(510,691)	-	(510,691)
Community development	209,677	-	85,000	293,180	168,503	-	168,503
Code enforcement	161,024	2,300	-	-	(158,724)	-	(158,724)
Total Governmental Activities	5,645,326	361,591	577,046	336,150	(4,370,539)	-	(4,370,539)
Business-type Activities:							
Water	1,500,708	1,586,018	258,845	146,110	-	490,265	490,265
Sewer	2,374,638	2,312,848	47,316	1,244,856	-	1,230,382	1,230,382
Water Surcharge	919,628	898,193	16,676	29,833	-	25,074	25,074
Garbage	427,000	370,649	697	-	-	(55,654)	(55,654)
Total Business-type Activities	5,221,974	5,167,708	323,534	1,420,799	-	1,690,067	1,690,067
Total Primary Government	\$ 10,867,300	\$ 5,529,299	\$ 900,580	\$ 1,756,949	(4,370,539)	1,690,067	(2,680,472)
General Revenues:							
Taxes							
Net property taxes					2,947,283	-	2,947,283
Income taxes					675,679	-	675,679
Highway use tax					355,703	-	355,703
Hotel motel tax					141,111	-	141,111
Admission taxes					20,790	-	20,790
Rental income					86,006	-	86,006
Licenses and permits					22,968	-	22,968
Grants and contributions not restricted to specific programs					683,229	-	683,229
Interest earnings					60,760	9,587	70,347
Miscellaneous revenues					13,385	-	13,385
Gain (loss) on disposal of fixed assets					(5,949)	7,043	1,094
Transfers					357,455	(357,455)	-
Total General Revenues, Special Items, Extraordinary Items and Transfers					5,358,420	(340,825)	5,017,595
Change in Net Position					987,881	1,349,242	2,337,123
Net Position - July 1, 2021, as previously stated					15,794,196	25,225,539	41,019,735
Prior period adjustment					92,372	99,796	192,168
Net Position - July 1, 2021, as restated					15,886,568	25,325,335	41,211,903
Net Position - June 30, 2022					\$ 16,874,449	\$ 26,674,577	\$ 43,549,026

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

CITY OF FROSTBURG, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 8,848,556	\$ 56,742	\$ 8,905,298
Certificate of deposit	100,713	-	100,713
Certificate of deposit - restricted	36,462	-	36,462
Accounts receivable	930,571	-	930,571
Prepaid expenses	88,240	-	88,240
Leases receivable	897,721	-	897,721
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 10,902,263</u>	<u>\$ 56,742</u>	<u>\$ 10,959,005</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 126,334	\$ -	\$ 126,334
Salaries and benefits payable	73,269	-	73,269
Interfund payables	385,124	-	385,124
Advanced revenue	2,889,794	-	2,889,794
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>3,474,521</u>	<u>-</u>	<u>3,474,521</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	124,893	-	124,893
Unavailable revenue - Leases	899,276	-	899,276
	<hr/>	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,024,169</u>	<u>-</u>	<u>1,024,169</u>
FUND BALANCES			
Nonspendable - Prepaid expenses	88,240	-	88,240
Restricted - Capital projects	214,412	-	214,412
Restricted - Community Development Block Grants	-	56,742	56,742
Unassigned	6,100,921	-	6,100,921
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCE	<u>6,403,573</u>	<u>56,742</u>	<u>6,460,315</u>
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 10,902,263</u>	<u>\$ 56,742</u>	<u>\$ 10,959,005</u>

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

CITY OF FROSTBURG, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Total Fund Balances - Governmental Funds		\$ 6,460,315
 Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		15,067,225
Deferred outflows of resources related to pensions are not recognized in the fund statements.		491,788
Deferred outflows of resources related to OPEB are not recognized in the fund statements.		55,710
Accrued interest income is recorded on fund statements only when received		5,156
Accrued interest expense is recorded on fund statements only when due		(25,585)
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	(2,450,000)	
Premium on bonds (to be amortized as interest expense)	(267,947)	
Leases payable	(268,637)	
Accrued post employment health insurance	(413,706)	
Net pension liability	(989,940)	
Compensated absences	(338,094)	
		(4,728,324)
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		124,893
Deferred inflows of resources related to pension plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(549,177)
Deferred inflows of resources related to OPEB plan actuarial assumptions and investment activity are not recognized in the governmental fund statements.		(27,552)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		\$ 16,874,449

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, 2022**

	General Fund	Special Revenue	Total Governmental Funds
REVENUES			
Taxes			
Net property tax revenue	\$ 3,007,108	\$ -	\$ 3,007,108
Income taxes	675,679	-	675,679
Hotel motel tax	141,111	-	141,111
Highway use tax	355,703	-	355,703
Other taxes	121,991	-	121,991
Police protection grant	135,870	-	135,870
Public safety revenue	39,001	-	39,001
Licenses and permits	58,938	-	58,938
Police grants	36,995	-	36,995
Rental program revenue	75,610	-	75,610
Recreational activities	104,905	-	104,905
Grant income - federal	950,803	-	950,803
Grant income - other	472,758	-	472,758
Other income	18,290	-	18,290
Interest	115,689	47	115,736
	6,310,451	47	6,310,498
TOTAL REVENUES			
EXPENDITURES			
Administration	1,180,588	15,436	1,196,024
Public safety	1,940,368	-	1,940,368
Street department	1,105,689	-	1,105,689
Recreation department	553,183	-	553,183
Debt service: Principal	104,827	-	104,827
Interest and issue costs	113,088	-	113,088
Capital outlays	1,200,346	-	1,200,346
	6,198,089	15,436	6,213,525
TOTAL EXPENDITURES			
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	112,362	(15,389)	96,973
OTHER FINANCING SOURCES (USES)			
Interfund transfers	357,455	-	357,455
Lease proceeds	137,740	-	137,740
Proceeds from sale of capital assets	5,448	-	5,448
Rental income	86,006	-	86,006
	586,649	-	586,649
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	699,011	(15,389)	683,622
FUND BALANCE - JULY 1, 2021, as previously stated			
	5,681,590	72,131	5,753,721
Prior period adjustment			
	22,972	-	22,972
FUND BALANCE - JULY 1, 2021			
	5,704,562	72,131	5,776,693
FUND BALANCE - JUNE 30, 2022			
	\$ 6,403,573	\$ 56,742	\$ 6,460,315

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, 2022**

Total Net Change in Fund Balance - Governmental Funds \$ 683,622

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

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

Expenditures for capital assets	1,200,346	
Less current year depreciation	<u>(728,803)</u>	
		471,543

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	(11,397)
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Lease proceeds are reported as other financing sources in governmental funds, but the proceeds are shown as long-term liabilities in the statement of net assets	(137,740)
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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.	104,827
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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	(59,827)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Change in deferred outflows of resources related to pensions	111,308
Change in deferred outflows of resources related to OPEB	(763)
Change in accrued interest	(54,582)
Change in accrued post employment health insurance	(3,544)
Change in compensated absences	(3,052)
Change in accrued pension liability	320,879
Amortization of premium on debt	9,744
Change in deferred inflows of resources related to OPEB	(21,159)
Change in deferred inflows of resources related to pensions	<u>(421,978)</u>

TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 987,881</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2022

	Water	Sewer	Water Surcharge	Garbage	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 430,452	\$ 1,174,847	\$ 313,541	\$ 153,043	\$ 2,071,883
Accounts receivable	280,269	1,131,269	98,314	72,384	1,582,236
Prepaid expenses	7,159	6,712	-	3,594	17,465
Due from other funds	161,884	181,502	41,386	353	385,125
Total Current Assets	<u>879,764</u>	<u>2,494,330</u>	<u>453,241</u>	<u>229,374</u>	<u>4,056,709</u>
Capital Assets					
Non-depreciable	-	875,124	164,022	-	1,039,146
Depreciable, net of accumulated depreciation	873,443	16,514,182	9,813,188	118,642	27,319,455
Total Capital Assets, net of accumulated depreciation	<u>873,443</u>	<u>17,389,306</u>	<u>9,977,210</u>	<u>118,642</u>	<u>28,358,601</u>
TOTAL ASSETS	<u>1,753,207</u>	<u>19,883,636</u>	<u>10,430,451</u>	<u>348,016</u>	<u>32,415,310</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	79,017	62,951	-	36,810	178,778
Deferred outflows of resources related to OPEB	10,836	7,734	-	4,641	23,211
Total Deferred Outflows of Resources	<u>89,853</u>	<u>70,685</u>	<u>-</u>	<u>41,451</u>	<u>201,989</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	124,078	649,004	11,820	21,724	806,626
Salaries and benefits payable	11,044	8,568	-	5,037	24,649
Unearned revenue	-	53,463	67,995	44,614	166,072
Current portion of leases, bonds, and notes payable	17,277	23,138	775,816	-	816,231
Total Current Liabilities	<u>152,399</u>	<u>734,173</u>	<u>855,631</u>	<u>71,375</u>	<u>1,813,578</u>
Noncurrent Liabilities					
Compensated absences	100,650	73,135	-	39,969	213,754
Accrued post employment health insurance	80,467	57,435	-	34,461	172,363
Net pension liability	159,363	126,950	-	74,280	360,593
Leases payable, less current portion	62,963	-	-	-	62,963
Notes payable, less current portion	-	239,827	2,868,122	-	3,107,949
Total Noncurrent Liabilities	<u>403,443</u>	<u>497,347</u>	<u>2,868,122</u>	<u>148,710</u>	<u>3,917,622</u>
TOTAL LIABILITIES	<u>555,842</u>	<u>1,231,520</u>	<u>3,723,753</u>	<u>220,085</u>	<u>5,731,200</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	88,409	70,427	-	41,207	200,043
Deferred inflows of resources related to OPEB	5,359	3,825	-	2,295	11,479
Total Deferred Inflows of Resources	<u>93,768</u>	<u>74,252</u>	<u>-</u>	<u>43,502</u>	<u>211,522</u>
Net Position					
Net investment in capital assets	793,203	17,126,341	6,333,272	118,642	24,371,458
Unrestricted - undesignated	400,247	1,522,208	373,426	7,238	2,303,119
Total Net Position	<u>\$ 1,193,450</u>	<u>\$ 18,648,549</u>	<u>\$ 6,706,698</u>	<u>\$ 125,880</u>	<u>\$ 26,674,577</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, 2022

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
OPERATING REVENUES	\$ 1,586,018	\$ 2,312,848	\$ 898,193	\$ 370,649	\$ 5,167,708
OPERATING EXPENSES					
Depreciation and amortization	76,770	786,177	809,068	23,465	1,695,480
Sewer operating	-	1,257,157	-	-	1,257,157
Salaries and wages	295,129	202,214	-	149,028	646,371
Filtration contract payments	474,365	-	-	-	474,365
Employee benefits	111,112	94,955	-	47,100	253,167
Other	203,717	16,050	16,710	19,374	255,851
Landfill charges	-	-	-	137,688	137,688
Distribution	105,350	-	-	-	105,350
Pumping system	62,744	-	-	-	62,744
Payroll taxes	21,140	14,308	-	10,067	45,515
Meters expense	148,746	-	-	-	148,746
Sanitation operating	-	-	-	40,278	40,278
Total Operating Expenses	<u>1,499,073</u>	<u>2,370,861</u>	<u>825,778</u>	<u>427,000</u>	<u>5,122,712</u>
Operating Income (Loss)	<u>86,945</u>	<u>(58,013)</u>	<u>72,415</u>	<u>(56,351)</u>	<u>44,996</u>
NON-OPERATING REVENUE (EXPENSES)					
Project reimbursements	404,955	1,292,172	46,509	697	1,744,333
Interest revenue	1,506	4,603	2,648	830	9,587
Gain (loss) on disposal of assets	-	7,043	-	-	7,043
Interest expense	(1,635)	(3,777)	(93,850)	-	(99,262)
Total Non-operating Revenues (Expenses)	<u>404,826</u>	<u>1,300,041</u>	<u>(44,693)</u>	<u>1,527</u>	<u>1,661,701</u>
Income (Loss) Before Transfers	491,771	1,242,028	27,722	(54,824)	1,706,697
Transfers to general fund	(105,200)	(235,440)	-	(16,815)	(357,455)
Change in Net Position	<u>386,571</u>	<u>1,006,588</u>	<u>27,722</u>	<u>(71,639)</u>	<u>1,349,242</u>
TOTAL NET POSITION - JULY 1, 2021, as previously stated	807,010	17,542,034	6,678,976	197,519	25,225,539
Prior period adjustment	(131)	99,927	-	-	99,796
TOTAL NET POSITION - JULY 1, 2021, as restated	<u>806,879</u>	<u>17,641,961</u>	<u>6,678,976</u>	<u>197,519</u>	<u>25,325,335</u>
TOTAL NET POSITION - JUNE 30, 2022	<u>\$ 1,193,450</u>	<u>\$ 18,648,549</u>	<u>\$ 6,706,698</u>	<u>\$ 125,880</u>	<u>\$ 26,674,577</u>

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

CITY OF FROSTBURG

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2022

	Water	Sewer	Water Surcharge	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 1,582,323	\$ 2,325,461	\$ 906,845	\$ 373,429	\$ 5,188,058
Payments to vendors	(1,076,113)	(1,252,106)	(16,710)	(240,359)	(2,585,288)
Payments to employees	(285,205)	(198,986)	-	(136,369)	(620,560)
Net Cash Provided By (Used In) Operating Activities	<u>221,005</u>	<u>874,369</u>	<u>890,135</u>	<u>(3,299)</u>	<u>1,982,210</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	(105,200)	(235,440)	-	(16,815)	(357,455)
Change in due to/from other funds	(161,884)	(181,502)	(41,386)	(353)	(385,125)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(267,084)</u>	<u>(416,942)</u>	<u>(41,386)</u>	<u>(17,168)</u>	<u>(742,580)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(145,815)	(1,193,352)	(79,833)	-	(1,419,000)
Proceeds from sale of capital assets	-	7,043	-	-	7,043
Principal paid on loans	-	(22,927)	(742,666)	-	(765,593)
Principal paid on leases	(9,671)	-	-	-	(9,671)
Project reimbursements	404,955	1,081,362	46,510	697	1,533,524
Interest paid on loans and leases	(1,635)	(3,865)	(96,742)	-	(102,242)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>247,834</u>	<u>(131,739)</u>	<u>(872,731)</u>	<u>697</u>	<u>(755,939)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	1,506	4,603	2,648	830	9,587
Net change in Cash	<u>203,261</u>	<u>330,291</u>	<u>(21,334)</u>	<u>(18,940)</u>	<u>493,278</u>
Cash and cash equivalents, beginning of year	<u>227,191</u>	<u>844,556</u>	<u>334,875</u>	<u>171,983</u>	<u>1,578,605</u>
Cash and cash equivalents, end of year	<u>\$ 430,452</u>	<u>\$ 1,174,847</u>	<u>\$ 313,541</u>	<u>\$ 153,043</u>	<u>\$ 2,071,883</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 86,945	\$ (58,013)	\$ 72,415	\$ (56,351)	\$ 44,996
Adjustments Not Affecting Cash					
Depreciation	76,770	786,177	809,068	23,465	1,695,480
Pension expense	39,348	31,923	-	8,755	80,026
Change in assets, liabilities, and deferred outflows and inflows					
Accounts receivable	(3,695)	13,217	7,655	4,218	21,395
Prepaid expenses	270	519	-	(582)	207
Accounts payable and accrued expenses	30,720	113,622	-	14,774	159,116
Salaries and benefits payable	2,637	575	-	2,542	5,754
Unearned revenue	-	(604)	997	(1,438)	(1,045)
Accrued health insurance	689	492	-	295	1,476
Compensated absences	7,287	2,653	-	10,117	20,057
Deferred outflows of resources - pension contributions	(23,467)	(18,699)	-	(10,918)	(53,084)
Deferred outflows of resources - post employment health	(726)	(509)	-	57	(1,178)
Deferred inflows of resources - post employment health	4,227	3,016	-	1,767	9,010
Total Adjustments	<u>134,060</u>	<u>932,382</u>	<u>817,720</u>	<u>53,052</u>	<u>1,937,214</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 221,005</u>	<u>\$ 874,369</u>	<u>\$ 890,135</u>	<u>\$ (3,299)</u>	<u>\$ 1,982,210</u>
Noncash transactions					
Capital asset acquired through leases	\$ 56,983	\$ -	\$ -	\$ -	\$ 56,983

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 **REPORTING ENTITY**

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

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

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES**

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

A. Basis of Presentation

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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

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

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

B. Fund Accounting

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

Governmental Fund Types

General Fund

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

Special Revenue Funds

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

Proprietary Fund Types

Water, Sewer, Water Surcharge, and Garbage Funds

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** – Continued

with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

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

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

D. Basis of Accounting

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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

E. Budgets and Budgetary Accounting

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

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

F. Cash and Equivalents

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

G. Capital Assets

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

H. Compensated Absences

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

No current portion of compensated absences has been recorded as the City feels that absences used during the next year will not materially exceed the absences earned during the next year. Therefore, all compensated absences within the governmental and business-type activities are recorded as long-term. The long-term portion of this liability of \$551,848 has been recorded in the government-wide statement of net position, of which \$213,754 is from business-type activities. This represents an increase of \$23,109 from the prior year total of \$528,739. The change in compensated absences for business-type activities was an increase of \$20,057.

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, 2022 consisted of transfers of \$105,200 from the Water Fund, \$235,440 from the Sewer Fund, and \$16,815 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

J. Interfund Balances

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

The composition of interfund balances as of June 30, 2022, is as follows:

Receivable Fund	Payable Fund	Amount
Water Fund	General Fund	\$ 161,884
Sewer Fund	General Fund	181,502
Water Surcharge Fund	General Fund	41,386
Garbage Fund	General Fund	353
		\$ 385,125

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 8. Deferred inflows and outflows related to the post-employment benefit program are described in Note 9. Deferred inflows related to leases are described in Note 12.

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, 2022, 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, 2022, 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 \$12,896 from the Authority during the year ended June 30, 2022. 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 \$11,114,356 and the bank balances were \$11,196,893. Of the bank balances, \$775,713 was covered by federal depository insurance, \$2,192,905 was covered by collateral held by the financial institutions in the City's name, and \$8,228,275 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, 2022, the City had a certificate of deposit in the amount of \$100,713 held at a local financial institution with a maturity date of March 12, 2023. The City also had certificates of deposit in the amounts of \$25,713 and \$10,749 held at a local financial institution and restricted for specified purposes. These certificates of deposit mature on September 21, 2022 and March 12, 2023, respectively. All certificates of deposit are included in the City's deposit figure of \$11,114,356.

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, 2022 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 167,198					\$ 167,198
Intergovernmental	734,165		607,366			1,341,531
Charge for services		278,101	490,307	95,683	69,433	933,524
Interest		1,264	4,009	2,631	2,951	10,855
Other	29,208	904	29,587			59,699
Total	<u>\$ 930,571</u>	<u>\$ 280,269</u>	<u>\$ 1,131,269</u>	<u>\$ 98,314</u>	<u>\$ 72,384</u>	<u>\$ 2,512,807</u>

At the end of the current fiscal year, \$166,072 of unearned revenues were recognized for billings done prior to June 30, 2022 that were for services after June 30, 2022 in the proprietary funds. In addition, \$124,893 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, 2022:

General Government	\$ 183,309
Public Safety	96,558
Public Works	348,028
Recreation and Parks	100,908
Total	<u>\$ 728,803</u>

(Note 5 continues of page 34.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 **CAPITAL ASSETS** – Continued

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2022:

	Beginning Balance As restated	Additions	Disposals	Transfers	Ending Balance
Governmental Activities (Corporate)					
Non-depreciable Assets					
Land	\$ 3,667,157	\$ -	\$ -	\$ -	\$ 3,667,157
Construction-in-progress	371,783	301,423	-	-	673,206
Total Non-depreciable Assets	4,038,940	301,423	-	-	4,340,363
Depreciable Assets					
Land Improvements	1,608,230	-	(7,620)	-	1,600,610
Buildings and Improvements	8,401,151	27,136	-	-	8,428,287
Infrastructure	6,497,081	51,435	-	-	6,548,516
Machinery & equipment	2,016,540	681,092	(105,836)	-	2,591,796
Right of use asset	208,445	139,260	-	-	347,705
Intangible assets	206,323	-	-	-	206,323
Total Depreciable Assets	18,937,770	898,923	(113,456)	-	19,723,237
Less, Accumulated Depreciation for:					
Land Improvements	1,010,920	58,421	(7,620)	-	1,061,721
Buildings and Improvements	2,764,917	199,434	-	-	2,964,351
Infrastructure	3,152,473	199,302	-	-	3,351,775
Machinery & equipment	1,365,472	198,911	(94,439)	-	1,469,944
Right of use asset	13,952	62,419	-	-	76,371
Intangible assets	61,897	10,316	-	-	72,213
Total Accumulated Depreciation	8,369,631	728,803	(102,059)	-	8,996,375
Depreciable Assets, net of accumulated depreciation	10,568,139	170,120	(11,397)	-	10,726,862
Total Governmental Capital Assets, net of accumulated depreciation	\$14,607,079	\$ 471,543	\$ (11,397)	\$ -	\$ 15,067,225
Business-type Activities (Water, Water Surcharge, Sewer, and Garbage)					
Non-depreciable Assets					
Land	\$ 114,022	\$ 50,000	\$ -	\$ -	\$ 164,022
Construction-in-progress	875,124	1,371,776	-	-	2,246,900
Total Non-depreciable Assets	989,146	1,421,776	-	-	2,410,922
Depreciable Assets					
Land Improvements	15,353,284	-	-	-	15,353,284
Buildings and Improvements	8,388,460	-	-	-	8,388,460
Infrastructure	30,752,483	-	-	-	30,752,483
Machinery & equipment	1,786,585	154,891	(141,141)	-	1,800,335
Right of use asset	36,442	57,363	-	-	93,805
Total Depreciable Assets	56,317,254	212,254	(141,141)	-	56,388,367
Less, Accumulated Depreciation for:					
Land Improvements	10,289,120	395,246	-	-	10,684,366
Buildings and Improvements	6,618,063	270,320	-	-	6,888,383
Infrastructure	10,781,740	937,877	-	-	11,719,617
Machinery & equipment	1,193,781	80,924	(141,141)	-	1,133,564
Right of use asset	3,645	11,113	-	-	14,758
Total Accumulated Depreciation	28,886,349	1,695,480	-	-	30,440,688
Depreciable Assets, net of accumulated depreciation	27,430,905	(1,483,226)	-	-	25,947,679
Total Business-type Capital Assets, net of accumulated depreciation	\$28,420,051	\$ (61,450)	\$ -	\$ -	\$ 28,358,601

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT**

The following is a summary of the changes in direct placement long-term debt for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds & Notes Payable					
General Obligation Bond	\$2,500,500	\$ -	\$ (50,500)	\$ 2,450,000	\$ 52,000
Bond Premium	277,690	-	(9,743)	267,947	-
Total Governmental Activity Direct Placements	<u>\$2,778,190</u>	<u>\$ -</u>	<u>\$ (60,243)</u>	<u>\$ 2,717,947</u>	<u>\$ 52,000</u>
Business-type Activities					
Bonds & Notes Payable					
USDA – Raw Water Line/Hydro Electric	\$ 773,771	-	\$ (18,242)	\$ 755,529	\$ 18,608
MDE - CSO Phase VIIA	166,687	-	(14,485)	152,202	14,614
Suntrust - Piney Dam Project	2,645,839	-	(355,000)	2,290,839	362,000
Suntrust - CDA Refinancing	729,934	-	(352,153)	377,781	377,781
MDE – CSO Phase VIIB	51,383	-	(3,906)	47,477	3,941
MDE – Savage Raw Water	237,059	-	(17,270)	219,789	17,427
MDE – CSO Phase VIIB-2	67,823	-	(4,537)	63,286	4,583
Total Business-type Activity Direct Placements	<u>\$4,672,496</u>	<u>\$ -</u>	<u>\$(765,593)</u>	<u>\$ 3,906,903</u>	<u>\$ 798,954</u>

The City has additional long-term obligations in the form of compensated absences, other post-employment benefits and pension liability. The following schedule presents this information as of June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Other Obligations					
Compensated Absences	\$ 335,042	\$ 3,052	\$ -	\$ 338,094	\$ -
Accrued post employment health insurance	410,162	3,544	-	413,706	-
Net pension liability	1,310,819	-	(320,878)	989,941	-
Total Governmental Activity Other Obligations	<u>\$2,056,023</u>	<u>\$ 6,596</u>	<u>\$ (320,878)</u>	<u>\$ 1,741,741</u>	<u>\$ -</u>
Business-type Activities					
Other Obligations					
Compensated Absences	193,697	20,057	-	213,754	-
Accrued post employment health insurance	170,887	1,476	-	172,363	-
Net pension liability	468,107	-	(107,514)	360,593	-
Total Business-type Activity Other Obligations	<u>\$ 832,691</u>	<u>\$ 21,533</u>	<u>\$ (107,514)</u>	<u>\$ 746,710</u>	<u>\$ -</u>
Total Debt and Obligations	<u><u>\$10,339,400</u></u>	<u><u>\$ 28,129</u></u>	<u><u>\$(1,254,228)</u></u>	<u><u>\$ 9,113,301</u></u>	<u><u>\$ 850,954</u></u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

In November 2019, the City issued Local Government Infrastructure Bonds through the Community Development Administration in the amount of \$2,576,814 with an average interest rate of 3.39% for the construction of a new municipal center. The bond is payable in variable annual installments of principal plus semi-annual installments of interest and issuance fees. The issuance fees paid semi-annually range from \$611 to \$1,059 per payment. The bond is payable over a 30 year term and has 27 payments of principal, interest, and issuance costs and an additional 27 payments of interest and issuance costs only remaining. The unspent portion at June 30, 2022 was \$214,412 which is being held in an escrow account by the State of Maryland.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 120 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan has 10 installments of principal, interest, and issuance costs and an additional 10 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 6 installments of principal and interest and an additional 6 installments of interest only remaining.

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

Maryland Department of the Environment provided forgivable loan funding of \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan has payable in 12 installments of principal, interest and issuance fees plus 12 semi-annual installments of interest only remaining. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on April 25, 2023 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

On October 24, 2014, Maryland Department of the Environment provided forgivable loan funding of \$112,500 and loan funding in the amount of \$337,500 to the City for the Savage Raw Water and Energy Conservation Project. The loan is payable in variable annual installments of

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$922. The loan has 12 installments of principal, interest and issuance fees plus 12 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 13 installments of principal, interest and issuance fees plus 13 semi-annual installments of interest only remaining.

The annual requirements to amortize all direct placement debt, as of June 30, 2022 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2023	52,000	102,897	798,954	83,326	850,954	186,223	1,037,177
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
2028-2032	342,500	429,188	723,010	89,762	1,065,510	518,950	1,584,460
2033-2037	416,000	352,953	178,314	53,661	594,314	406,614	1,000,928
2038-2042	509,000	261,409	130,660	37,235	639,660	298,644	938,304
2043-2047	618,000	148,250	144,365	23,530	762,365	171,780	934,145
2048-2052	283,000	21,958	158,349	8,308	441,349	30,266	471,615
2053-2057	-	-	-	-	-	-	-
2058-2062	-	-	-	-	-	-	-
	<u>\$2,450,000</u>	<u>\$1,705,830</u>	<u>\$4,672,496</u>	<u>\$ 500,063</u>	<u>\$6,356,903</u>	<u>\$2,205,893</u>	<u>\$ 8,562,796</u>

The source of funds for debt retirement is as follows:

	<u>Debt Amount</u>
General revenue	\$ 2,450,000
Sewer charges	262,965
Water surcharges	<u>3,643,938</u>
	<u>\$ 6,356,903</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

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

The City incurred interest of \$102,949 in the General Fund and \$99,262 in the Proprietary Funds, which includes interest on leases recognized in accordance with GASB 87.

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

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

NOTE 8 **PENSION PLAN**

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

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

An individual who is a member of the SRPS is eligible for full pension benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Members who attain age 55 with at least 15 years of service eligibility are also eligible for early service pension benefits. The early service benefit is at a reduced rate based on the number of months the retirement dates 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 8 **PENSION PLAN** - Continued

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

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

All member benefits are adjusted each year on July 1 based on the Consumer Price Index (CPI). The increase is limited to 3% for an individual who is a member of the SRPS prior to July 1, 2011. The increase is capped at the 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, 2022 was 7.04% plus a 2.42% surcharge totaling 9.46% 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 \$199,806 for the year ended June 30, 2022.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions - At June 30, 2022, the City reported a liability of \$1,350,533 for its proportionate share of the System's liability. The net pension liability was measured as of June 30, 2021, 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, 2021, actuarially determined. At June 30, 2021, the City's proportion was 0.009 percent, and was 0.008 percent at June 30, 2020, representing an increase of 0.001 percent.

For the year ended June 30, 2022, the City recognized pension expense of \$241,199. At June 30, 2022, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 616,763
Changes in assumptions	261,407	28,946
Difference between actual and expected experience		103,511
Change in Proportionate Share	209,353	-
City contributions subsequent to the measurement date	199,806	
TOTALS	<u>\$ 670,566</u>	<u>\$ 749,220</u>

The City reported \$199,806, 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, 2023.

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

<u>For the year ended June 30,</u>	<u>TOTAL</u>
2022	\$ (90,692)
2023	(69,879)
2024	(68,852)
2025	(95,873)
2026	46,836
Total	<u>\$ (278,460)</u>

Actuarial Assumptions - The total pension liability in the June 30, 2021 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 9.25%, 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 8 **PENSION PLAN** - Continued

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37.00%	4.70%
Private Equity	13.00%	6.50%
Rate Sensitive Credit	19.00%	-0.40%
Opportunity	9.00%	2.60%
Real Assets	14.00%	4.20%
Absolute Return	8.00%	2.00%
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	2,300,147	1,350,533	562,834

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 **PENSION PLAN** - Continued

compensation with the City also contributing 9% of total compensation. Upon enrollment in the SRPS, the City discontinued contributions to the ICMA plan but allowed employees to continue their voluntary contributions. On July 21, 2016 the City approved the Frostburg Police Officers Pension Enhancement Plan. For certified police officers who complete their enrollment in the plan, the City contributes 2% of the officer's base salary towards a qualifying retirement account. For years ending after June 30, 2018, the City increased this contribution to 3% of the officer's base salary. In addition, if an enrolled officer elects to contribute at least 1% of their base salary, the City will match with an additional 1% of base salary. The City contributed \$24,657 towards the plan during the fiscal year ending June 30, 2022.

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

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

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

Number of Active Employees	38
Number of Retirees	<u>2</u>
Total Number	<u><u>40</u></u>

Contributions – The plan is funded on a pay as you go basis and is expected to continue on this basis. The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. The City pays all benefits from its general fund. The City paid \$28,035 in benefits during the year ended June 30, 2022.

OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources - At June 30, 2022, the City reported a liability of \$586,069. The net OPEB liability was measured as of June 30, 2022 using employee data as of June 30, 2022.

For the year ended June 30, 2022, the City recognized OPEB expense of \$62,809. At June 30, 2022, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 60,154	\$ (32,315)
Difference between expected and actual experience	18,767	(6,716)
TOTALS	<u>\$ 78,921</u>	<u>\$ (39,031)</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>
2023	\$ 13,786
2024	13,786
2025	13,786
2026	739
2027	(1,290)
Thereafter	(917)
Total	<u>\$ 39,890</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	3.54%, changed from 2.16% 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 \$625.30 for medical per month.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

Trend	Premiums are assumed to increase initially at a rate of 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 3.54%. As the OPEB is unfunded, the discount rate is based on a twenty-year municipal bond index. The GO Bond Buyer Index was used to approximate those yields as of June 30, 2022.

Sensitivity of the City’s Net OPEB Liability to Changes in the Discount Rate - The following presents the City’s net OPEB liability calculated using the discount rate of 3.54% as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is a percentage point lower (2.54%) or a percentage point higher (4.54%) than the current rate.

	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
City's net OPEB liability	<u>\$ 631,007</u>	<u>\$ 586,069</u>	<u>\$ 546,745</u>

Sensitivity of the City’s Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the City’s net OPEB liability calculated using the healthcare cost trend rate of 6.75% 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 (5.75% to 3.5%) or a percentage point higher (7.75% to 5.5%) than the current rate:

	1% Decrease 5.75% to 3.5%	Current Discount Trend Rate 6.75% to 4.5%	1% Increase 7.75% to 5.5%
City's net OPEB liability	<u>\$ 543,970</u>	<u>\$ 586,069</u>	<u>\$ 635,621</u>

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2021	\$581,049	\$ -	\$581,049
Changes for the year			
Service cost	36,774	-	36,774
Interest	12,249	-	12,249
Change of benefit terms			
Difference between expected & actual experience	22,118	-	22,118
Assumption changes	(38,086)	-	(38,086)
Contributions - employer	-	28,035	(28,035)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(28,035)	(28,035)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	5,020	-	5,020
City's net OPEB liability June 30, 2022	<u>\$ 586,069</u>	<u>\$ -</u>	<u>\$ 586,069</u>

NOTE 10 **COMMUNITY DEVELOPMENT SPECIAL PROJECTS FUND - INDIRECT COSTS**

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

NOTE 11 **TAX ABATEMENTS**

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 **TAX ABATEMENTS** - Continued

each year. The local office of the Maryland Department of Assessments and Taxations provides the annual report to the City of the approved EZ properties, the eligible assessment increase, and the applicable credit percentage.

Enterprise Zone tax credits are reflected as an adjustment to the original real estate tax bills issued to the property owners if the credit exceeds \$1,000. For credits less than \$1,000, the property owner receives a refund of the tax credit after their original real estate tax bill has been paid. The City requests annual reimbursement from the Maryland Department of Assessments and Taxation for 50% of the approved EZ tax credits during the fiscal year. For the fiscal year ending June 30, 2022, the City recorded EZ tax credits in the amount of \$2,597 and received \$1,298 from the State of Maryland.

NOTE 12 **LEASES**

Lessee - The City is a lessee of ten vehicles under a noncancellable master lease agreement. The City is also a lessee of three copiers under one noncancellable lease agreement. 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 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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 LEASES – Continued

The total right of use assets and related accumulated depreciation of the underlying assets by fund are as follows:

Right of Use Assets as of June 30, 2022	Governmental Activities			Business-type Activities		
	Amount	Accumulated Amortization	Net Value	Amount	Accumulated Amortization	Net Value
Vehicles	\$ 310,481	\$ 65,736	\$ 244,745	\$ 93,805	\$ 14,758	\$ 79,047
Copiers	37,224	10,635	26,589	-	-	-
Total	<u>\$ 347,705</u>	<u>\$ 76,371</u>	<u>\$ 271,334</u>	<u>\$ 93,805</u>	<u>\$ 14,758</u>	<u>\$ 79,047</u>

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

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2023	\$ 63,656	\$ 8,790	\$ 17,277	\$ 3,387	\$ 80,933	\$ 12,177	\$ 93,110
2024	66,019	6,427	18,081	2,583	84,100	9,010	93,110
2025	68,472	3,974	18,923	1,741	87,395	5,715	93,110
2026	60,769	1,468	16,528	879	77,297	2,347	79,644
2027	9,721	107	9,432	204	19,153	311	19,464
2028-2032	-	-	-	-	-	-	-
	<u>\$ 268,637</u>	<u>\$ 20,766</u>	<u>\$ 80,241</u>	<u>\$ 8,794</u>	<u>\$ 348,878</u>	<u>\$ 29,560</u>	<u>\$ 378,438</u>

Lessor - 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, 2022 was \$75,804. Interest income related to these leases for the year ended June 30, 2022 was \$47,460.

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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 **RISK OF LOSS**

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

NOTE 14 **INSURANCE RECOVERIES**

The City may receive insurance recoveries during the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements. The City received \$8,799 of insurance recoveries during the current year.

NOTE 15 **COMMITMENTS AND SUBSEQUENT EVENTS**

As of June 30, 2022, the CSO Elimination Project, Phase IX-B, Stoyer Street Corridor was under construction. The total project cost is expected to be \$2,397,577. The City has the following funding commitments for this project: Maryland Department of the Environment, Bay Restoration Fund, \$2,001,787, and City cash \$395,589. As of June 30, 2022, the City had incurred expenses of \$1,707,017.

As of June 30, 2022, 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, 2022, the City had incurred expenses of \$233,981.

As of June 30, 2022, design was underway for the Frostburg Gateway Improvement Project which includes a full-sized roundabout at the intersection of Braddock Road, Center Street, Bowery Street, and Welsh Hill Road. Funding for the project is provided by three Appalachian Regional Commission (ARC) grants, including Phase I (\$450,000), Phase II (\$ 1,500,000), and Phase III (\$ 1,000,000). An additional \$1,000,000 of ARC funding is expected to be reallocated from another Allegany County project to the Gateway Improvement project. It is expected that the project will go to construction in 2024. The full Phase I ARC grant and an estimated additional \$ 450,000 from Phase II funds will be required to complete the design and bid documents. The Maryland Department of Transportation State Highway Administration is administering the current grant directly on behalf of the City. As of June 30, 2022, design expenses totaled \$639,359.

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, entered into a binding letter of interest with a developer for a one-year study period. That period extends to September 8, 2023.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 COMMITMENTS AND SUBSEQUENT EVENTS - Continued

On July 28, 2021, the City of Frostburg received the first disbursement of American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) 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 into contracts for the following projects that may use ARPA funds:

- Replacement of the chlorine tank at the water treatment plant - \$116,800
- Architectural/engineering services for a childcare facility - \$68,035
- Replacement of the Centennial Hill Pump Station - \$822,813; Grant funding from Maryland Smart Energy Communities (MSEC) is also available for this project in the amount of \$71,777.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies. 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, 2023 for possible inclusion in the financial statements and for potential required disclosures.

NOTE 16 NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2022 that have effective dates that impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

GASB Statement Number 87, *Leases*, is effective for the City for the year ending June 30, 2022. The objective of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **NEW PRONOUNCEMENTS** – Continued

establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. It is believed this Statement will increase the usefulness of financial statements by requiring reporting of certain lease liabilities that are currently not reported by requiring lessees and lessors to report leases under a single model. The Statement will also require certain notes to the financial statements related to the timing, significance, and purpose of leasing arrangements.

GASB Statement Number 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for the City for the year ending June 30, 2022. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The Statement establishes accounting requirements for interest cost incurred before the end of a construction period. It is believed the Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period.

GASB Statement Number 91, *Conduit Debt Obligations*, will be effective for the City for the year ending June 30, 2023. The primary objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related not disclosures. The Statement clarifies the existing definition of conduit debt obligations, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required noted disclosures.

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **NEW PRONOUNCEMENTS** – Continued

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

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 **NEW PRONOUNCEMENTS** – Continued

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

NOTE 17 **PRIOR PERIOD ADJUSTMENT**

Two prior period adjustments were made to the financial statements for the year ended June 30, 2021. One of the adjustments was made to the Sewer Fund as the result of project reimbursement revenue not being properly recognized in the proper period. The adjusted was the result of an understatement of revenue and net position for the year ended June 30, 2021.

As previously noted, the City implemented GASB Statement Number 87, *Leases*, for the year ended June 30, 2022. The implementation required a prior period adjustment to the General Fund and Water Fund. The City has accounted for the implementation as a change in accounting principle and has presented the cumulative effect of the change as a restatement of the beginning fund balances and net position for the year ended June 30, 2022.

The impacts on beginning fund balances, as well as the effect of the implementation for the one year ended June 30, 2021 change in fund balances and change in net position are presented below.

Government-wide Financial Statements

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Increase (decrease) in beginning Net Position, July 1, 2021	92,372	99,796	192,168
Increase (decrease) in change in Net Position for the year ended June 30, 2021	28,397	99,416	127,813

Fund Financial Statements

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Increase (decrease) in beginning Fund Balance, July 1, 2021	22,972	(131)	99,927
Increase (decrease) in change in Fund Balance for the year ended June 30, 2021	23,869	(511)	99,927

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
Taxes				
Net property tax revenue	\$ 2,814,100	\$ 2,914,100	\$ 3,007,108	\$ 93,008
Income taxes	545,000	585,000	675,679	90,679
Hotel motel tax	110,000	110,000	141,111	31,111
Highway use tax	310,000	310,000	355,703	45,703
Other taxes	94,000	109,000	121,991	12,991
Police protection grant	135,000	135,000	135,870	870
Public safety revenue	19,400	35,000	39,001	4,001
Licenses and permits	29,000	47,500	58,938	11,438
Police grants	28,000	38,000	36,995	(1,005)
Rental program revenue	75,750	75,750	75,610	(140)
Recreational activities	70,000	88,000	104,905	16,905
Grant income - other	329,500	491,000	740,332	249,332
Transfers from other funds	357,455	357,455	357,455	-
Other income	123,700	905,700	792,973	(112,727)
Interest	-	10,000	115,689	105,689
Fund balance	157,435	-	-	-
TOTAL GENERAL FUND REVENUE	5,198,340	6,211,505	6,759,360	547,855
EXPENDITURES				
Administration	1,329,620	1,545,385	1,659,220	(113,835)
Public safety	2,055,320	2,066,820	1,969,703	97,117
Street department	1,219,625	1,924,225	1,799,279	124,946
Recreation department	593,775	675,075	632,147	42,928
TOTAL EXPENDITURES	5,198,340	6,211,505	6,060,349	151,156
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 699,011	\$ 699,011

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	\$ 6,759,360
Differences - budget to GAAP:	
Transfers from other funds are inflows from budgetary resources but are not revenues for financial reporting purposes	(357,455)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes	(86,006)
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes	(5,448)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 6,310,451

Uses/outflows of resources

Actual budgetary basis "general fund revenue" from the budgetary comparison schedule	\$ 6,198,089
Differences - budget to GAAP:	
Capital assets acquired through leases are not included as expenditures for budgetary purposes but are for financial reporting purposes	(137,740)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 6,060,349

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

CITY OF FROSTBURG, MARYLAND
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1 **BUDGET TO ACTUAL VARIANCES**

Administration expenses exceeded the budget by \$113,835 due in part to the recording of capital outlay expenses. Expenses incurred for installation of HVAC equipment at the Armory and work-in-progress on the childcare center design were within the budgetary estimates. The expenses recorded for work-in-progress on the Center Street Gateway project had not been included in the budget however which contributed to a budget to actual variance.

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>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%	0.0080%	0.0070%	0.0070%	0.0060%	0.0070%	0.0080%	0.0070%
City's proportionate share of the net pension liability	\$ 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	\$ 2,172,676	\$ 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	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	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>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	\$ 199,806	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contributions in relation to the contractually required contribution	\$ 199,806	\$ 198,366	\$ 168,756	\$ 152,255	\$ 143,794	\$ 128,933	\$ 136,106	\$ 169,575
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll - Employee Retirement System	\$ 2,112,110	\$ 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	9.46%	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 2021 actuarial valuation as compared to the 2020 actuarial valuation

Changes in the 2021 valuation

- Inflation assumption changed from 2.60% general and 3.10% wage to 2.25% general and 2.75% wage
- Salary increase assumption changed from a range of 3.10% to 11.60% to a range of 2.75% to 9.25%
- Investment rate of return and discount rate changed from 7.40% to 6.80%

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**

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

Mortality tables changed from Pub-2010 General Headcount-weighted with fully generational MP-2020 scale to Pub-2010 General Headcount-weighted with fully generational MP-2021 scale.

Discount rate was changed from 2.16% in the prior study to 3.54%.

Healthcare cost trend assumption was changed from 6.75% decreasing by 0.25% per year until it reaches 4.5% to 7.5% for 2022 decreasing by 0.25% per year until it reaches 4.5%.

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