

CITY OF FROSTBURG, MARYLAND
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

CITY OF FROSTBURG, MARYLAND

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3-14
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20
Statement of Net Position – Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
NOTES TO FINANCIAL STATEMENTS	24-42
REQUIRED SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	43
Notes to Required Supplemental Information	44
Schedule of Funding Progress – Other Post Employment Benefit Plan Contribution	45
COMPLIANCE AND INTERNAL CONTROL REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46-47
Schedule of Findings and Responses	48-52

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Frostburg, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 14, the budgetary comparison information on pages 43 – 44, and the "Schedule of Funding Progress – Other Post-Employment Benefit Plan Contributions" on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Frostburg, Maryland's internal control over financial reporting and compliance.

Huber, Michael & Company

Cumberland, Maryland
December 16, 2013

CITY OF FROSTBURG, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2013

City of Frostburg Management's Discussion and Analysis

As management of the City of Frostburg, we offer readers of the City of Frostburg's financial statements this narrative overview and analysis of the financial activities of the City of Frostburg for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the city's financial statements, which follow this narrative.

Financial Highlights

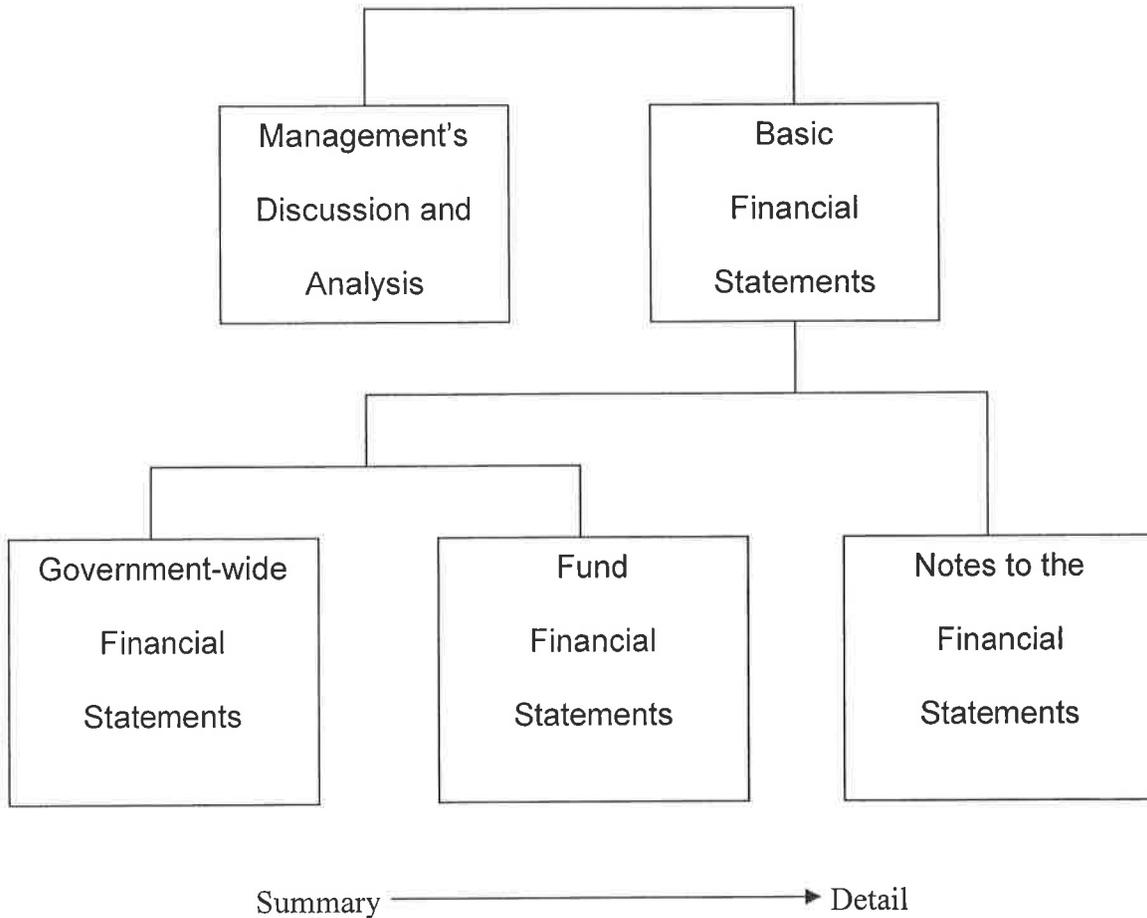
- The assets of the City of Frostburg exceeded its liabilities at the close of the fiscal year by \$32,718,671.
- The government's total net position increased by \$465,403, primarily due to increases in the government-type and business-type activities net position resulting from \$1,054,308 of capital grants for projects.
- As of the close of the current fiscal year, the City of Frostburg's governmental funds reported combined ending fund balances of \$3,648,224, an increase of \$349,124 in comparison with the prior year. Approximately 92 percent of this total amount, or \$3,354,781, 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 \$3,384,559, or 86 percent of total general fund expenditures for the fiscal year.
- The City of Frostburg's total debt increased by \$3,842, or less than 1 percent during the current fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 15 & 16) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City of Frostburg financial status.

The next statements (pages 17 - 23) are **Fund Financial Statements**. These statements 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 (pages 24 – 42). The notes to the financial statements explain in detail some of the data contained in those

Management Discussion and Analysis

City of Frostburg

statements. After the notes, supplemental information is provided to show details about the city's individual funds. Budgetary information required by the General Statutes also can be found in this part 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, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the city 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 and total liabilities. 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, streets, parks and recreation, and general administration. Taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the city charges customers to provide. These include the water, sewer and refuse services offered by the City of Frostburg.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the city's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called 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 that helps him or her 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

Management Discussion and Analysis City of Frostburg

Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 & Council about which services to provide and how to pay for them. It also authorizes the city to obtain funds from identified sources to finance these current period activities. The budgetary statement provided 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 & Council; 2) the final budget as amended by the Mayor & Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 - 42 of this report.

Government-Wide Financial Analysis

The government-wide financial statements include the Statement of Net Position. The Statement of Net Position presents information on all of the City of Frostburg's assets and liabilities, with the difference between the two reported as net position. Over time,

Management Discussion and Analysis City of Frostburg

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 is also included in the government-wide financial statements. The focus of the Statement of Activities is to show 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 flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Position and the Statement of Activities and can be found on pages 15 - 16 of this report.

**The City of Frostburg's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012 as restated	2013	2012 as restated
Current and other assets	\$ 4,152,963	\$ 3,780,901	\$ 2,342,874	\$ 2,031,762	\$ 6,495,837	\$ 5,812,663
Non-current assets	123,296	172,668	149,335	128,702	272,631	301,370
Capital assets	10,216,405	10,354,351	28,058,635	27,538,012	38,275,040	37,892,363
Total assets	14,492,664	14,307,920	30,550,844	29,698,476	45,043,508	44,006,396
Long-term liabilities	1,366,680	1,407,004	9,030,546	9,226,352	10,397,226	10,633,356
Other liabilities	407,087	402,043	1,520,524	1,002,921	1,927,611	1,404,964
Total liabilities	1,773,767	1,809,047	10,551,070	10,229,273	12,324,837	12,038,320
Net position:						
Invested in capital assets, net of related debt	10,134,026	10,245,264	18,624,507	18,169,427	28,758,533	28,414,691
Restricted	355,411	494,182	-	-	355,411	494,182
Unrestricted	2,229,460	1,759,427	1,375,267	1,299,776	3,604,727	3,059,203
Total net position	\$ 12,718,897	\$ 12,498,873	\$ 19,999,774	\$ 19,469,203	\$ 32,718,671	\$ 31,968,076

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Frostburg exceeded liabilities by \$32,718,671 as of June 30, 2013. The majority of the net position is capital assets. These capital assets are used to provide services to citizens; consequently, these assets 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 City of Frostburg's net position (1%) represents resources that are subject to external restrictions on how they may be used.

Management Discussion and Analysis

City of Frostburg

The city's total net position increased by \$750,595 for the fiscal year ended June 30, 2013.

Several particular aspects of the City financial operations positively influenced the increase in total governmental net position:

- Increase in property tax revenues.
- The grant funding received for the Sewer Fund CSO projects.
- The grant funding received for the Savage Springs Project.

The City of Frostburg's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012 as restated	2013	2012 as restated
Revenues:						
Program revenues:						
Charges for services	\$ 406,039	\$ 404,900	\$ 3,962,674	\$ 3,961,158	\$ 4,368,713	\$ 4,366,058
Operating grants and contributions	400,213	800,692	-	-	400,213	800,692
Capital grants and contributions	114,496	160,416	939,812	2,047,232	1,054,308	2,207,648
General revenues:						
Property taxes	2,217,595	2,205,351	-	-	2,217,595	2,205,351
Other taxes	747,840	701,767	-	-	747,840	701,767
Other	166,039	221,414	59,882	815	225,921	222,229
Total revenues	<u>4,052,222</u>	<u>4,494,540</u>	<u>4,962,368</u>	<u>6,009,205</u>	<u>9,014,590</u>	<u>10,503,745</u>
Expenses:						
General government	705,474	483,783	-	-	705,474	483,783
Public safety	1,564,234	1,450,067	-	-	1,564,234	1,450,067
Public works	930,344	888,632	-	-	930,344	888,632
Recreation and parks	516,696	509,090	-	-	516,696	509,090
Community development	168,411	558,033	-	-	168,411	558,033
Code enforcement	150,241	144,095	-	-	150,241	144,095
Interest on long-term debt	64,798	67,908	-	-	64,798	67,908
Water, sewer and garbage	-	-	4,163,797	3,897,144	4,163,797	3,897,144
Total expenses	<u>4,100,198</u>	<u>4,101,608</u>	<u>4,163,797</u>	<u>3,897,144</u>	<u>8,263,995</u>	<u>7,998,752</u>
Change in net position before transfers and donations	(47,976)	392,932	798,571	2,112,061	750,595	2,504,993
Contribution of Frostburg Armory	-	1,394,700	-	-	-	1,394,700
Transfers	268,000	287,424	(268,000)	(287,424)	-	-
Change in net position	220,024	2,075,056	530,571	1,824,637	750,595	3,899,693
Net assets, July 1	12,498,873	10,423,817	19,469,203	17,644,566	31,968,076	28,068,383
Net position, June 30, 2013	<u>\$ 12,718,897</u>	<u>\$ 12,498,873</u>	<u>\$ 19,999,774</u>	<u>\$ 19,469,203</u>	<u>\$ 32,718,671</u>	<u>\$ 31,968,076</u>

Management Discussion and Analysis City of Frostburg

Governmental activities: Readers will note 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 with revenues for that particular program reported to the right. The result is a Net Revenue/(Expense). The reason for this format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each 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 \$220,024. The key elements of this increase are as follows:

- The increase in property tax revenues.
- The payment by Everpower of their easement agreement.
- The grant funding received for the recreation projects.
- The grant funding received for the improvements to Frost Avenue.
- The grant funding recorded for the Braddock Road Improvements Study.

Business-type activities: Business-type activities, net of the prior period adjustment, increased the City of Frostburg's net position by \$245,379. The key elements of this increase are as follows:

- The grant funding received for the Phase VIIA W. Mechanic/Taylor Street CSO project.
- The grant funding received for the Phase VIIB Paul Street CSO project.
- The grant funding received for the Savage Springs Project.

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 City of Frostburg's financing requirements. 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 \$2,623,369, while total fund balance reached \$3,384,559. 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.

Management Discussion and Analysis City of Frostburg

At June 30, 2013, the governmental funds of the City of Frostburg reported a combined fund balance of \$3,648,224, an 11 percent increase over last year. Included in this change in fund balance is an increase in fund balance in the General Fund and in fund balance in the Special Revenue Fund.

General Fund Budgetary Highlights: During the fiscal year, the Mayor & City Council publicly amended the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The difference between the original and the final amended budget was an increase of \$6,200 and is summarized as follows:

Increase in administration	\$ 25,577
Decrease in public safety	(126,977)
Increase in public works	72,600
Decrease in recreation department	35,000
Total change in budget	<u>\$ 6,200</u>

During the year actual revenues exceeded the amended budget by \$407,056. Maryland income taxes were \$72,682 greater than estimated. Admission & amusement taxes were \$3,726 higher than expected. Grant income was \$163,565 higher than anticipated and other income was \$64,092 greater than expected.

Expenditures were less than the final budgetary estimates by \$77,270 or 2.0%. Departments were aware of the economic trials facing the City and were encouraged to avoid unnecessary expenditures.

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 amounted to \$1,375,267. The total increase in net position from current year operations was \$530,571. 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, 2013 totals \$38,275,040 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

**Management Discussion and Analysis
City of Frostburg**

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

- Completion of the Taylor Street Phase VIIA CSO Project of \$1,851,837.
- Work in progress on the Paul Street Phase VIIB-2 CSO Project of \$192,769.
- Work in progress of the Savage Springs project of \$176,042.
- Completion of 2012/13 street paving of \$87,796.
- Completion of basketball courts on S. Water Street of \$27,636.
- Purchase and installation of ADA compliant pool chair lifts of \$7,620.

**The City of Frostburg's Capital Assets
Figure 4**

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and construction in progress	\$ 2,284,803	\$ 2,182,305	\$ 628,877	\$ 653,282	\$ 2,913,680	\$ 2,835,587
Buildings and systems	3,030,130	3,147,496	3,841,336	4,109,276	6,871,466	7,256,772
Improvements other than buildings	571,988	591,564	8,242,098	6,727,557	8,814,086	7,319,121
Machinery and equipment	408,854	465,988	349,147	395,060	758,001	861,048
Infrastructure	3,920,630	3,967,000	14,997,177	15,652,837	18,917,807	19,619,837
Total	\$10,216,405	\$10,354,353	\$28,058,635	\$27,538,012	\$38,275,040	\$37,892,365

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, 2013 the City of Frostburg had total bonded debt outstanding of \$10,476,516. Of this, \$1,042,388 is debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources.

**Management Discussion and Analysis
City of Frostburg**

**The City of Frostburg's Outstanding Debt
General Obligation and Revenue Bonds
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 1,042,388	\$ 1,104,089			\$ 1,042,388	\$ 1,104,089
Revenue bonds			\$ 9,434,128	\$ 9,368,585	\$ 9,434,128	\$ 9,368,585
Total	\$ 1,042,388	\$ 1,104,089	\$ 9,434,128	\$ 9,368,585	\$ 10,476,516	\$ 10,472,674

The City of Frostburg's total debt increased by \$3,842 (<1%) during the past fiscal year. Debt principal payments during the past fiscal year were \$360,537.

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

Economic Factors

Overview - The economy for the Frostburg area is both stable and diverse. Overall the City's real estate values have remained steady during the recent economic recession, while values in other communities have declined substantially. Other evidence is found in the real growth numbers in population between the 2000 and 2010 Census. Again, all other communities in the region have lost population during this same decade.

As for the diversity of the Frostburg area economy, the following brief listing of the top economic factors reveals the various elements of the economy.

Frostburg State University – Without any question FSU is the number one driving force in the Frostburg area economy. Faculty, administration and other staff along with the food service contracts dominate the area with 988 jobs. Adding the local suppliers and vendors and the direct jobs grows to over 1,000. In addition the campus has seen a string of massive construction projects over the last decade adding hundreds of temporary, high paying construction jobs on-site and at local suppliers. One significant additional industry often left out of the conversation is the impact FSU has through the student rental housing industry. The vast majority of the City's 1,900 plus rental units are designed and used for FSU students. This significant residential element is the basis for numerous local property management companies, suppliers and supports higher real estate values in the City. Other impacts include FSU's hosting of the Allegany Business Center at Frostburg State University, home of a major private employer and the numerous visitors to Frostburg attracted by FSU's Cultural Events Series and numerous summer camps. In so many aspects FSU is the No. 1 economic engine for the Frostburg area.

Management Discussion and Analysis City of Frostburg

Customer Service Call Centers – The second economic element affecting the Frostburg area may be surprising to many, but the three private companies that make up the customer service call center sector represent 1,124 jobs. This sector of the economy has seen some significant changes with the acquisition of ACS by Xerox and new contracts and jobs at all three companies. The three firms in Frostburg are part of a larger industry sector in Allegany County that includes the MVA Call Center and Care First. The sector attracts both full and part time employees to fill general and specialized positions such as in health care. It also requires a number of IT and telecom professionals to manage the technology the companies deploy.

Healthcare – The third sector of the Frostburg area economy is mirrored across the nation. Healthcare is one of the largest sectors of the national economy and in Frostburg it is seen in the two nursing and rehab centers, a significant regional dental practice, two pharmacies and several smaller private medical practices. The single largest player is the Western Maryland Health System who operates the Frostburg Nursing and Rehab Center, an Urgent Care Clinic and a Lab in the City. Also notable is the expansive dental operations of Dr. Diane D. Romaine and Associates. The healthcare sector provides over 300 jobs, many with higher wages and benefits.

Tourism/Visitor Industry – Often the topic of public and political discussion, the tourism sector is far more diverse in Frostburg than most other locations in the County. In Frostburg is the second convergence of the Western Maryland Scenic Railroad and the Great Allegheny Passage. The two then bring thousands of short term visitors to the City with a growing number of visitors who stay one or more nights or return based upon their initial visit. The other significant player in the tourism sector is again Frostburg State University. FSU's Cultural Events Series, sports camps and special events such as Homecoming, Family Weekend and Freshman Summer Planning brings thousands to the City. Another element of tourism in Frostburg are the special events led by the largest each year with Cruisin Main Street in late August, followed shortly by the annual Block Party. In addition the annual Elks Derby Day, Appalachian Festival, Roots Music Series and Storybook Holiday attract thousands more each year. A final, but important element is the attraction of visitors from the tri-state region to Frostburg for fine dining experiences nearly every night of the week.

Other Sectors – There are four other economic sectors that collectively have a major impact on Frostburg. These include the energy industry with coal and wind providing jobs both permanent and construction. The construction industry remains strong with firms like Braddock Construction, Lashley Construction, Bill Miller Equipment and Ruby's Contracting and Industrial Supply providing numerous good paying jobs. Public education, specifically K – 12 is a large employer in the City with jobs at Mt. Ridge High School, Frost Elementary, Beall Elementary and the Alternative School in Eckhart. Finally Frostburg has become one of the locations where new people to the area choose to live when taking jobs at the Western Maryland Health Center, NewPage Fine Papers Mills, ATK Tactical Systems, Federal Correction Institution, the two state prisons and CSX. These people have sustained the real estate market in the Frostburg area,

Management Discussion and Analysis City of Frostburg

particularly in the \$225,000 to above the \$300,000 level. This has added to the stable real estate assessed values in the City.

Summary

Of course the Great National Recession remains the biggest threat to the City's growth. Yet the current state of the Frostburg area economy is clearly both stable and diverse. These are considered excellent factors to base future growth and progress upon.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: Property taxes are expected to increase by 1.7 percent. The City will use these increases to finance programs currently in place. The City continues to receive \$200,000 from Frostburg State University to enhance public safety salaries and training and provide support for first responders

Budgeted expenditures in the General Fund are expected to increase 10 percent. The increase is a result of an increase of hotel/motel tax funding requested by local organizations, salary increases for employees, and planned capital purchase of a plow truck for Public Works.

Business – type Activities: The sewer rates, which were last revised July 1, 2009 will remain unchanged. The water rates, which were revised effective July 1, 2009, and adjusted for customers served by Allegany County on July 1, 2012 will be unchanged. All other water surcharge, CSO surcharge and garbage rates will remain the same. Fees for tap connections and meters will be unchanged.

Capital projects budgeted include the continuation of the combined sewer overflow elimination projects with the completion of the Phase VIIB-1 Paul Street CSO Project, the start of Phase VIIB-2 CSO Project in the Sewer Fund; the completion of Phase I of the Savage Raw Water and Energy Conservation Project and the start of the Phase II of the Savage Raw Water and Energy Conservation Project in the Water Surcharge Fund.

Requests for Information

This report is designed to provide an overview of the City finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Candace R. Sandvick, P.O. Box 440, Frostburg, MD 21532, 301-689-6000 x13, csandvick@allconet.org.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,893,217	\$ 2,171,843	\$ 5,065,060
Cash and cash equivalents - restricted	2,512	-	2,512
Certificate of deposit	97,981	-	97,981
Accounts receivable	410,149	898,694	1,308,843
Prepaid expenses	17,673	3,768	21,441
Internal balances	731,431	(731,431)	-
Total Current Assets	<u>4,152,963</u>	<u>2,342,874</u>	<u>6,495,837</u>
Capital Assets			
Non-depreciable	2,284,803	628,876	2,913,679
Depreciable, net of accumulated depreciation	7,931,602	27,429,759	35,361,361
Total Capital Assets, net of accumulated depreciation	<u>10,216,405</u>	<u>28,058,635</u>	<u>38,275,040</u>
Non-current Assets			
Bond & loan costs, net of accumulated amortization	11,550	149,335	160,885
Notes receivable	111,746	-	111,746
Total Non-current Assets	<u>123,296</u>	<u>149,335</u>	<u>272,631</u>
TOTAL ASSETS	<u>\$ 14,492,664</u>	<u>\$ 30,550,844</u>	<u>\$ 45,043,508</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 284,945	\$ 771,272	\$ 1,056,217
Salaries and benefits payable	62,142	24,230	86,372
Deferred revenue	-	145,440	145,440
Current portion of long-term debt	60,000	405,219	465,219
Total Current Liabilities	<u>407,087</u>	<u>1,346,161</u>	<u>1,753,248</u>
Noncurrent Liabilities:			
Compensated absences	338,676	163,894	502,570
Accrued post employment health insurance	45,616	12,106	57,722
Long-term debt	982,388	9,028,909	10,011,297
Total Noncurrent Liabilities	<u>1,366,680</u>	<u>9,204,909</u>	<u>10,571,589</u>
TOTAL LIABILITIES	<u>1,773,767</u>	<u>10,551,070</u>	<u>12,324,837</u>
NET POSITION			
Net investment in capital assets	10,134,026	18,624,507	28,758,533
Restricted	355,411	-	355,411
Unrestricted	2,229,460	1,375,267	3,604,727
TOTAL NET POSITION	<u>\$ 12,718,897</u>	<u>\$ 19,999,774</u>	<u>\$ 32,718,671</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, 2013

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government						
Governmental Activities:						
General government	\$ 705,474	\$ 401	\$ -	\$ (458,318)	\$ -	\$ (458,318)
Public safety	1,364,234	329,113	-	(1,163,283)	-	(1,163,283)
Public works	930,344	47,918	99,480	(782,946)	-	(782,946)
Recreation and parks	516,696	-	15,016	(421,557)	-	(421,557)
Community development	168,411	22,781	-	(145,630)	-	(145,630)
Code enforcement	150,241	-	-	(142,918)	-	(142,918)
Interest on long-term debt	64,798	-	-	(64,798)	-	(64,798)
Total Governmental Activities	4,100,198	400,213	114,496	(3,179,450)	-	(3,179,450)
Business-type Activities:						
Water	1,073,373	-	-	-	(17,316)	(17,316)
Sewer	1,705,579	-	853,921	-	796,635	796,635
Water Surcharge	1,072,970	-	85,891	-	(117,136)	(117,136)
Garbage	311,875	-	-	-	76,506	76,506
Total Business-type Activities	4,163,797	-	939,812	-	738,689	738,689
Total Primary Government	\$ 8,263,995	\$ 400,213	\$ 1,054,308	(3,179,450)	738,689	(2,440,761)
General Revenues:						
Taxes						
Net property taxes	2,217,595	-	-	2,217,595	-	2,217,595
Income taxes	472,682	-	-	472,682	-	472,682
Highway use tax	56,081	-	-	56,081	-	56,081
Hotel motel tax	155,351	-	-	155,351	-	155,351
Admission taxes	63,726	-	-	63,726	-	63,726
Rental income	91,440	-	-	91,440	-	91,440
Licenses and permits	30,124	-	-	30,124	-	30,124
Interest earnings	10,021	-	-	10,021	2,846	12,867
Miscellaneous revenues	40,085	-	-	40,085	-	40,085
Timber sales	-	-	-	-	74,394	74,394
Gain (loss) on disposal of fixed assets	(5,631)	-	-	(5,631)	(17,358)	(22,989)
Transfers	268,000	-	-	268,000	(268,000)	-
Total General Revenues, Special Items, Extraordinary Items and Transfers	3,399,474	-	-	3,399,474	(208,118)	3,191,356
Change in Net Position	220,024	-	-	220,024	530,571	750,595
Net Position - July 1, 2012, as previously stated	12,498,873	-	-	12,498,873	19,754,395	32,253,268
Prior Period Adjustment	-	-	-	-	(285,192)	(285,192)
Net Position - July 1, 2012, as restated	12,498,873	-	-	12,498,873	19,469,203	31,968,076
Net Position - June 30, 2013	\$ 12,718,897	\$ 19,999,774	\$ -	\$ 12,718,897	\$ 19,999,774	\$ 32,718,671

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

CITY OF FROSTBURG, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,629,339	\$ 263,878	\$ 2,893,217
Cash and cash equivalents - restricted	2,512	-	2,512
Certificate of deposit	97,981	-	97,981
Accounts receivable	410,149	-	410,149
Prepaid expenses	17,673	-	17,673
Interfund receivables	731,412	20	731,432
TOTAL ASSETS	<u>\$ 3,889,066</u>	<u>\$ 263,898</u>	<u>\$ 4,152,964</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 256,058	\$ 233	\$ 256,291
Salaries and benefits payable	64,311	-	64,311
TOTAL LIABILITIES	<u>320,369</u>	<u>233</u>	<u>320,602</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	184,138	-	184,138
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>184,138</u>	<u>-</u>	<u>184,138</u>
FUND BALANCES			
Nonspendable - Prepaid expenses	17,673	-	17,673
Nonspendable - Interfund receivables	731,412	20	731,432
Restricted - Community Development Block Grants	-	263,645	263,645
Assigned - Debt service	12,105	-	12,105
Unassigned	2,623,369	-	2,623,369
TOTAL FUND BALANCE	<u>3,384,559</u>	<u>263,665</u>	<u>3,648,224</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,889,066</u>	<u>\$ 263,898</u>	<u>\$ 4,152,964</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, 2013

Total Fund Balances - Governmental Funds		\$ 3,648,224
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		10,216,405
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		
Deferred inflows of resources from taxes receivable		184,138
Loan costs incurred during refinancing are expensed when paid in the governmental fund statements but are amortized on the government-wide statements.		
Bond & loan costs, net of accumulated amortization		11,550
Notes receivable do not provide current resources and are not reported in the governmental funds.		111,746
Accrued interest is recorded on fund statements only when due.		(26,486)
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
Long-term debt	(982,388)	
Current portion of long-term debt	(60,000)	
Accrued post employment health insurance	(45,616)	
Compensated absences	(338,676)	
		(1,426,680)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 12,718,897</u>

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, 2013**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Net property tax revenue	\$ 2,199,361	\$ -	\$ 2,199,361
Income taxes	472,682	-	472,682
Hotel motel tax	155,351	-	155,351
Highway use tax	56,081	-	56,081
Other taxes	156,103	-	156,103
Police protection grant	86,306	-	86,306
Public safety revenue	94,552	-	94,552
Licenses and permits	30,124	-	30,124
COPS grants	13,464	-	13,464
Rental program revenue	80,419	-	80,419
Recreational activities	80,123	-	80,123
Grant income - other	390,867	22,781	413,648
Other income	99,943	47,273	147,216
Interest	4,256	5,765	10,021
	<u>3,919,632</u>	<u>75,819</u>	<u>3,995,451</u>
TOTAL REVENUES			
EXPENDITURES			
Administration	990,466	-	990,466
Public safety	1,533,594	-	1,533,594
Street department	678,202	-	678,202
Recreation department	418,469	-	418,469
Debt service	61,701	-	61,701
Capital outlays	266,854	56,481	323,335
	<u>3,949,286</u>	<u>56,481</u>	<u>4,005,767</u>
TOTAL EXPENDITURES			
EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(29,654)</u>	<u>19,338</u>	<u>(10,316)</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers	268,000	-	268,000
Rental income	91,440	-	91,440
	<u>359,440</u>	<u>-</u>	<u>359,440</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	329,786	19,338	349,124
FUND BALANCE - JULY 1, 2012	<u>3,054,773</u>	<u>244,327</u>	<u>3,299,100</u>
FUND BALANCE - JUNE 30, 2013	<u>\$ 3,384,559</u>	<u>\$ 263,665</u>	<u>\$ 3,648,224</u>

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

CITY OF FROSTBURG, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balance - Governmental Funds		\$ 349,124
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	266,854	
Less current year depreciation	<u>(399,169)</u>	(132,315)
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		(5,631)
Governmental funds report bond & loan costs as expenditures. However, in the statement of activities, these costs are amortized over the life of the bond.		
Current year amortization		(2,100)
Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		61,701
Governmental funds report notes issued to citizens for capital improvements as expenditures and the subsequent repayments of these notes as income; however, these transactions are not reported in the statement of activities.		
Proceeds from notes receivable	<u>(47,273)</u>	(47,273)
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		18,235
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 accrued interest		(339)
Change in accrued post employment health insurance		(8,197)
Change in compensated absences		(13,181)
		<u> </u>
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 220,024</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2013

	Water	Sewer	Water Surcharge	Garbage	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 523,284	\$ -	\$ 1,479,803	\$ 168,756	\$ 2,171,843
Accounts receivable	199,871	451,849	183,342	63,632	898,694
Prepaid expenses	1,628	1,368	-	772	3,768
Due from other proprietary funds	152,545	-	-	-	152,545
Total Current Assets	<u>877,328</u>	<u>453,217</u>	<u>1,663,145</u>	<u>233,160</u>	<u>3,226,850</u>
Capital Assets					
Non-depreciable	-	404,535	224,341	-	628,876
Depreciable, net of accumulated depreciation	1,137,875	12,367,222	13,858,010	66,652	27,429,759
Total Capital Assets, net of accumulated depreciation	<u>1,137,875</u>	<u>12,771,757</u>	<u>14,082,351</u>	<u>66,652</u>	<u>28,058,635</u>
Non-current Assets					
Bond & loan costs, net of accumulated amortization	-	-	149,335	-	149,335
TOTAL ASSETS	<u>\$ 2,015,203</u>	<u>\$ 13,224,974</u>	<u>\$ 15,894,831</u>	<u>\$ 299,812</u>	<u>\$ 31,434,820</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 73,791	\$ 560,743	\$ 125,243	\$ 11,495	\$ 771,272
Salaries and benefits payable	8,213	7,732	3,466	4,819	24,230
Due to other funds	331,903	399,023	-	505	731,431
Deferred revenue	7,500	50,215	53,771	33,954	145,440
Due to other proprietary funds	-	16,260	136,285	-	152,545
Current portion of long-term debt	-	29,687	364,988	10,544	405,219
Total Current Liabilities	<u>421,407</u>	<u>1,063,660</u>	<u>683,753</u>	<u>61,317</u>	<u>2,230,137</u>
Noncurrent Liabilities					
Compensated absences	81,846	45,114	-	36,934	163,894
Accrued post employment health insurance	3,816	5,324	-	2,966	12,106
Notes payable, less current portion	-	259,730	8,769,179	-	9,028,909
Total Noncurrent Liabilities	<u>85,662</u>	<u>310,168</u>	<u>8,769,179</u>	<u>39,900</u>	<u>9,204,909</u>
TOTAL LIABILITIES	<u>507,069</u>	<u>1,373,828</u>	<u>9,452,932</u>	<u>101,217</u>	<u>11,435,046</u>
Net Position					
Net investment in capital assets	1,137,875	12,482,340	4,948,184	56,108	18,624,507
Unrestricted - undesignated	370,259	(631,194)	1,493,715	142,487	1,375,267
Total Net Position	<u>1,508,134</u>	<u>11,851,146</u>	<u>6,441,899</u>	<u>198,595</u>	<u>19,999,774</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,015,203</u>	<u>\$ 13,224,974</u>	<u>\$ 15,894,831</u>	<u>\$ 299,812</u>	<u>\$ 31,434,820</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, 2013

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
OPERATING REVENUES	\$ 1,056,057	\$ 1,648,293	\$ 869,943	\$ 388,381	\$ 3,962,674
OPERATING EXPENSES					
Depreciation and amortization	119,254	499,060	791,635	13,467	1,423,416
Sewer operating	-	941,098	-	-	941,098
Salaries and wages	222,133	159,983	-	121,925	504,041
Filtration contract payments	385,457	-	-	-	385,457
Employee benefits	58,605	70,607	-	52,484	181,696
Other	77,250	16,885	166	13,079	107,380
Landfill charges	-	-	-	92,646	92,646
Distribution	90,860	-	-	-	90,860
Pumping system	69,444	-	-	-	69,444
Payroll taxes	16,217	11,073	-	8,622	35,912
Meters expense	34,153	-	-	-	34,153
Sanitation operating	-	-	-	8,424	8,424
Total Operating Expenses	<u>1,073,373</u>	<u>1,698,706</u>	<u>791,801</u>	<u>310,647</u>	<u>3,874,527</u>
Operating Income (Loss)	<u>(17,316)</u>	<u>(50,413)</u>	<u>78,142</u>	<u>77,734</u>	<u>88,147</u>
NON-OPERATING REVENUE (EXPENSES)					
Project reimbursements	-	853,921	85,891	-	939,812
Timber sales	74,394	-	-	-	74,394
Interest revenue	769	-	1,976	101	2,846
Loss on disposal of assets	(17,358)	-	-	-	(17,358)
Interest expense	-	(6,873)	(281,170)	(1,227)	(289,270)
Total Non-operating Revenues (Expenses)	<u>57,805</u>	<u>847,048</u>	<u>(193,303)</u>	<u>(1,126)</u>	<u>710,424</u>
Income Before Transfers	40,489	796,635	(115,161)	76,608	798,571
Transfers out	(93,830)	(155,920)	-	(18,250)	(268,000)
Change in Net Position	<u>(53,341)</u>	<u>640,715</u>	<u>(115,161)</u>	<u>58,358</u>	<u>530,571</u>
TOTAL NET POSITION - JULY 1, 2012, as previously stated	1,549,141	11,269,652	6,703,587	232,015	19,754,395
Prior Period Adjustment	<u>12,334</u>	<u>(59,221)</u>	<u>(146,527)</u>	<u>(91,778)</u>	<u>(285,192)</u>
TOTAL NET POSITION - JULY 1, 2012, as restated	<u>1,561,475</u>	<u>11,210,431</u>	<u>6,557,060</u>	<u>140,237</u>	<u>19,469,203</u>
TOTAL NET POSITION - JUNE 30, 2013	<u>\$ 1,508,134</u>	<u>\$ 11,851,146</u>	<u>\$ 6,441,899</u>	<u>\$ 198,595</u>	<u>\$ 19,999,774</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, 2013

	Water	Sewer	Water Surcharge	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 1,091,592	\$ 1,662,067	\$ 869,441	\$ 377,986	\$ 4,001,086
Payments to vendors	(719,173)	(956,166)	-	(171,664)	(1,847,003)
Payments to employees	(217,131)	(151,355)	-	(115,237)	(483,723)
Net Cash Provided By Operating Activities	155,288	554,546	869,441	91,085	1,670,360
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	(93,830)	(155,920)	-	(18,250)	(268,000)
Change in due to/from other funds	(14,140)	(58,792)	(24,259)	133	(97,058)
Net Cash Provided By (Used In) Noncapital Financing Activities	(107,970)	(214,712)	(24,259)	(18,117)	(365,058)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(47,008)	(1,580,646)	(51,375)	-	(1,679,029)
Proceeds from sale of assets	250	-	-	-	250
Principal paid on loans	-	(15,776)	(258,742)	(24,316)	(298,834)
Loan costs paid	-	-	(107,841)	-	(107,841)
Proceeds from loan	-	167,379	197,000	-	364,379
Project reimbursements	-	1,094,384	-	-	1,094,384
Timber sales	74,394	-	-	-	74,394
Interest paid on loans	-	(5,175)	(293,066)	(1,328)	(299,569)
Net Cash Used In Capital and Related Financing Activities	27,636	(339,834)	(514,024)	(25,644)	(851,866)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earned	769	-	1,976	101	2,846
Net change in Cash	75,723	-	333,134	47,425	456,282
Cash and cash equivalents, beginning of year	447,561	-	1,146,669	121,331	1,715,561
Cash and cash equivalents, end of year	\$ 523,284	\$ -	\$ 1,479,803	\$ 168,756	\$ 2,171,843
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	\$ (17,316)	\$ (50,413)	\$ 78,142	\$ 77,734	\$ 88,147
Adjustments Not Affecting Cash					
Depreciation	119,254	499,060	704,428	13,467	1,336,209
Amortization	-	-	87,207	-	87,207
(Increase) decrease in accounts receivable	28,035	22,576	21,647	8,669	80,927
(Increase) decrease in prepaid expenses	(1,628)	(1,368)	-	(772)	(3,768)
Increase (decrease) in accounts payable and accrued expenses	15,256	85,093	179	4,629	105,157
Increase (decrease) in salaries and benefits payable	(487)	191	-	(81)	(377)
Increase (decrease) in deferred revenue	7,500	(8,802)	(22,162)	(19,058)	(42,522)
Increase (decrease) in accrued hospital insurance	(815)	(228)	-	(272)	(1,315)
Increase (decrease) in compensated absences	5,489	8,437	-	6,769	20,695
Total Adjustments	172,604	604,959	791,299	13,351	1,582,213
Net Cash Provided By Operating Activities	\$ 155,288	\$ 554,546	\$ 869,441	\$ 91,085	\$ 1,670,360

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 responsibilities. 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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

Proprietary Fund Type

Water, Sewer, Water Surcharge, and Garbage Funds

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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 reconciliation 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 (e.g., revenues) and decreases (e.g., 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 deferred 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

The City reports deferred revenue on its combined balance sheet. Deferred 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 the incurring of qualifying expenditures. In subsequent periods, where both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred 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.

These 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 funds.

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 is removed from the books with any gain or loss reflected as income. The City maintains a capitalization threshold of \$5,000. Public domain ("infrastructure") general fixed assets including roads, bridges, curbs and gutters,

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. 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

In the Water Fund, depreciation is recorded at a rate of 2.2% of the current year acquisitions and 3.33% of the prior years fixed asset balance for infrastructure. Machinery and equipment is depreciated as per the schedule above. Depreciation was recorded at the rate of 2.5% of the EDA water improvements and the Piney Dam construction projects.

H. Capitalized Interest

Interest costs incurred by proprietary funds on debt where the proceeds were used to finance the construction of assets are capitalized.

I. 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.

At June 30, 2013, no liability has been recorded for the current portion of compensated absences 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 are recorded as long-term. The long-term portion of this liability of \$502,570 has been recorded in the government-wide statement of net position, of which \$163,894 is from business-type activities. This represents an increase of \$33,876 from the prior year total of \$468,694. The change in compensated absences for business-type activities was an increase of \$20,695.

J. 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** - Continued

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, 2013 consisted of transfers of \$93,830 from the Water Fund, \$155,920 from the Sewer Fund, and \$18,250 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

K. 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, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 331,903
General	Sewer	399,003
General	Garbage	505
Special Revenue	Sewer	20
		<u>\$ 731,431</u>

L. Deferred Inflows of Resources

In addition to liabilities, the statement of net position/balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental fund reports unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

M. 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 expenditure is made from multiple unrestricted resources, the City's order of spending will be committed, assigned, and unassigned.

N. 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.

O. Property Taxes

Taxes are levied each July 1 on the assessed value listed as of the prior January 1 for all real property located within City boundaries which receive substantially all City services and payable without penalty until September 30. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. Assessed values are established by the Maryland Department of Assessments and Taxation based on estimates of fair market value. A revaluation of all property is required to be completed every three years and any increase in assessed value is phased in over a three year period. For the year ended June 30, 2013, the City had a tax margin of \$.5665 per \$100 assessed valuation.

P. Credit Risk

As of June 30, 2013, 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 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, 2013, the reconciled balances of the City's deposits were \$5,165,553 and the bank balances were \$5,172,236.

Of the bank balances, \$253,367 was covered by federal depository insurance and \$4,918,869 was covered by collateral held by the financial institutions in the City's name.

The investment policy of the City is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, and return on investment.

At June 30, 2013, the City had a certificate of deposit in the amount of \$97,981 held at a local financial institution which is included in the City's deposit figure of \$5,165,553. The certificate of deposit is set to mature in April 2015.

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 **ACCOUNTS RECEIVABLE**

The City's accounts receivable as of June 30, 2013 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 229,557	\$	\$	\$	\$	\$ 229,557
Intergovernmental	124,021		133,928			257,949
Charge for services		197,756	282,277	96,016	62,240	638,289
Interest		359	1,297	1,435	1,392	4,483
Other	56,571	1,756	34,347	85,891		178,565
Total	\$ 410,149	\$ 199,871	\$ 451,849	\$ 183,342	\$ 63,632	\$ 1,308,843

At the end of the current fiscal year, \$145,440 of deferred revenues were recognized for billings done prior to June 30, 2013 that were for services after June 30, 2013 in the proprietary funds. In addition, \$184,138 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 expense for governmental capital assets was charged to the following accounts as follows for the year ended June 30, 2013:

General Government	\$ 86,956
Public Safety	25,677
Public Works	188,704
Recreation and Parks	97,832
Total	<u>\$ 399,169</u>

(Note 5 continues on page 33.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS – Continued

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2013:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Non-depreciable Assets					
Land	\$ 2,095,685	\$ -	\$ -	\$ -	\$ 2,095,685
Construction-in-progress	86,620	137,754	-	(35,256)	189,118
Total Non-depreciable Assets	2,182,305	137,754	-	(35,256)	2,284,803
Depreciable Assets					
Land Improvements	1,028,676	-	-	35,256	1,063,932
Buildings and Improvements	4,907,825	-	-	-	4,907,825
Infrastructure	5,715,691	112,323	-	-	5,828,014
Machinery & equipment	1,349,658	16,775	(77,556)	-	1,288,877
Total Depreciable Assets	13,001,850	129,098	(77,556)	35,256	13,088,648
Less, Accumulated Depreciation for:					
Land Improvements	437,112	54,832	-	-	491,944
Buildings and Improvements	1,760,329	117,366	-	-	1,877,695
Infrastructure	1,748,691	158,693	-	-	1,907,384
Machinery & equipment	883,670	68,278	(71,925)	-	880,023
Total Accumulated Depreciation	4,829,802	399,169	(71,925)	-	5,157,046
Depreciable Assets, net of accumulated depreciation	8,172,048	(270,071)	(5,631)	35,256	7,931,602
Total Governmental Capital Assets, net of accumulated depreciation	\$ 10,354,353	\$ (132,317)	\$ (5,631)	\$ -	\$ 10,216,405
Business-type Activities					
Non-depreciable Assets					
Land	\$ 48,299	\$ -	\$ -	\$ -	\$ 48,299
Construction-in-progress	604,983	1,827,431	-	(1,851,837)	580,577
Total Non-depreciable Assets	653,282	1,827,431	-	(1,851,837)	628,876
Depreciable Assets					
Land Improvements	13,495,617	-	-	1,851,837	15,347,454
Buildings and Improvements	8,304,108	-	-	-	8,304,108
Infrastructure	19,683,234	-	-	-	19,683,234
Machinery & equipment	1,156,561	47,009	(69,330)	-	1,134,240
Total Depreciable Assets	42,639,520	47,009	(69,330)	1,851,837	44,469,036
Less, Accumulated Depreciation for:					
Land Improvements	6,768,060	337,296	-	-	7,105,356
Buildings and Improvements	4,194,832	267,940	-	-	4,462,772
Infrastructure	4,030,397	655,660	-	-	4,686,057
Machinery & equipment	761,501	75,313	(51,722)	-	785,092
Total Accumulated Depreciation	15,754,790	1,336,209	(51,722)	-	17,039,277
Depreciable Assets, net of accumulated depreciation	26,884,730	(1,289,200)	(17,608)	1,851,837	27,429,759
Total Business-type Capital Assets, net of accumulated depreciation	\$ 27,538,012	\$ 538,231	\$ (17,608)	\$ -	\$ 28,058,635

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT**

The following is a summary of the changes in long-term debt for the year ended June 30, 2013:

	Outstanding 6/30/2012	Additions	Reductions	Outstanding 6/30/2013	Due Within One Year
Governmental Activities					
Bonds & Notes Payable					
Susquehanna Bank	\$ 109,089	\$ -	\$ (26,701)	\$ 82,388	\$ 25,000
Suntrust Bank - Pension Debt	975,000	-	(35,000)	940,000	35,000
State of MD - DHCD	20,000	-	-	20,000	-
Subtotal	1,104,089	-	(61,701)	1,042,388	60,000
Other Obligations					
Compensated Absences	325,495	13,181	-	338,676	-
Accrued post employment health insurance	37,420	8,196	-	45,616	-
Total Governmental Activity Long-term Obligations	<u>\$ 1,467,004</u>	<u>\$ 21,377</u>	<u>\$ (61,701)</u>	<u>\$ 1,426,680</u>	<u>\$ 60,000</u>
Business-type Activities					
Bonds & Notes Payable					
MDE - Emergency Sewer Project	\$ 137,814	\$ -	\$ (15,776)	\$ 122,038	\$ 16,205
CDA - Various Projects	3,248,400	-	(243,600)	3,004,900	77,437
BB&T Bank - Piney Dam Project	5,025,000	-	(5,025,000)	-	-
USDA - Raw Water Line/Hydro Electric	922,510	-	(15,243)	907,267	15,551
M & T Bank - Garbage Truck	34,861	-	(24,317)	10,544	10,544
MDE - CSO Phase VIIA	-	167,379	-	167,379	13,482
Suntrust - Piney Dam Project	-	5,222,000	-	5,222,000	272,000
Subtotal	9,368,585	5,389,379	(5,323,834)	9,434,128	405,219
Other Obligations					
Compensated Absences	143,199	20,695	-	163,894	-
Accrued post employment health insurance	13,421	-	(1,315)	12,106	-
Total Business-type Activity Long-term Obligations	<u>\$ 9,525,205</u>	<u>\$ 5,410,074</u>	<u>\$ (5,325,149)</u>	<u>\$ 9,610,128</u>	<u>\$ 405,219</u>

The bond payable to Susquehanna Bank is payable in variable annual installments of principal plus semi-annual installments for interest at 4.4% on the outstanding balance. The bond is uncollateralized and has 4 installments of principal and interest and an additional 4 installments of interest only remaining.

The loan payable to SunTrust Bank refinanced the State Retirement and Pension System of Maryland debt and is payable in variable annual installments of principal and semi-annual installments of interest at 6.41% on the balance outstanding. The loan is uncollateralized and 16 installments of principal and interest and an additional 15 installments of interest only remain.

On May 15, 2009, the City received a \$100,000 loan from the Maryland Department of Housing and Community Development (a portion of which, up to \$80,000 may be forgiven) for the purpose of funding Community Legacy Rehabilitation Projects. The City feels it has completed all the requirements for the maximum amount to be forgiven. The remaining \$20,000 portion of the loan not subject to forgiveness carries a 0.0% interest rate and has a maturity date of December 31, 2014. The City has not discounted the loan for the below market interest rate being carried on the loan.

The bond payable to the Maryland Department of Environment is payable in variable annual installments of principal and issuance fees plus semi-annual installments for interest at 2.50% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$979. The bond has 7 installments of principal, interest, and issuance costs and an additional 7 installments of interest only remaining.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. As of June 30, 2013, the City has drawn \$167,379 on this loan. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan is payable in 19 installments of principal, interest, and issuance costs and an additional 18 installments of interest only.

The CDA bond payable for various projects is payable in variable annual installments of principal plus semi-annual installments for interest and issuance costs. The bond was refinanced on October 18, 2013 with Suntrust Bank with an additional \$72,550 cash included in the loan closing. Closing costs of \$40,503 were funded with the additional cash. The loan payable to Suntrust Bank is payable in 10 variable annual installments of principal and an additional 10 installments of interest only. The loan carries an interest rate of 2.14%.

The loan payable to BB&T Bank is payable in variable annual installments of principal and semi-annual installments of interest at 3.32% on the outstanding balance. The bond was refinanced on September 28, 2012 with Suntrust Bank with an additional \$197,000 cash included in the loan closing. Closing costs of \$55,949 were funded from the additional cash. The loan payable to Suntrust Bank is payable in variable annual installments of principal and semi-annual installments of interest at 2.00% on the balance outstanding. The loan is payable in 14 installments of principal and interest and an additional 16 installments of interest only.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 156 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

The capital lease payable to M&T Bank is payable in 84 monthly installments of \$2,137 including interest at 5.572% on the outstanding balance. The lease has 5 monthly installments remaining and is collateralized by a garbage truck. The original cost of the vehicle was \$149,635 with a current book value of \$55,365. The related amortization of the truck is included in depreciation expense.

(Note 6 continues on page 36).

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 **LONG TERM DEBT** - Continued

The annual requirements to amortize all general long-term debt, as of June 30, 2013 and the effect of the refinancing on October 18, 2013, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		Total
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
2014	60,000	62,872	405,219	164,094	465,219	226,966	692,185
2015	80,000	59,529	662,279	188,860	742,279	248,389	990,668
2016	70,000	56,026	682,150	175,228	752,150	231,254	983,404
2017	42,388	52,142	697,470	161,186	739,858	213,328	953,186
2018	45,000	49,197	708,109	146,830	753,109	196,027	949,136
2019-2023	280,000	196,468	3,707,969	507,623	3,987,969	704,091	4,692,060
2024-2028	375,000	92,146	2,102,887	194,868	2,477,887	287,014	2,764,901
2029-2033	90,000	2,878	171,709	63,157	261,709	66,035	327,744
2034-2038			120,639	47,257	120,639	47,257	167,896
2039-2043			133,292	34,602	133,292	34,602	167,894
2044-2048			147,275	20,621	147,275	20,621	167,896
2049-2053			127,664	5,415	127,664	5,415	133,079
	<u>\$ 1,042,388</u>	<u>\$ 571,258</u>	<u>\$ 9,666,662</u>	<u>\$ 1,709,741</u>	<u>\$ 10,709,050</u>	<u>\$ 2,280,999</u>	<u>\$ 12,990,049</u>

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 1,022,388
Community legacy note repayments	20,000
Sewer charges	289,417
Water surcharges	9,134,167
Garbage charges	10,544
	<u>\$ 10,476,576</u>

All compensated absences in the governmental activities will be paid out of the general fund. All compensated absences in the proprietary funds will be paid out of the funds where the liability was incurred. The City feels employee absences 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.

The City incurred interest of \$64,798 in the General Fund, and \$289,270 in the Proprietary Funds for the year ended June 30, 2013.

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.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN

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. 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, 301 West Preston Street, Baltimore, Maryland 21202.

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 fiscal year 2013 was 7.88%, 9.83% for fiscal year 2012, and 9.72% for fiscal year 2011. 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 \$148,083 for the year ended June 30, 2013, \$158,633 for the year ended June 30, 2012, and \$152,102 for the year ended June 30, 2011. The City contribution was equal to the required contribution for the year.

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description – The City sponsors a single-employer post-retirement medical plan. The plan provides medical and prescription benefits to eligible retirees and their spouses. Coverage is available for employees who retire at age 60 until they are eligible for Medicare benefits. The contribution requirements of plan members and the City are established and may be amended by the Mayor and City Council. 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.

The Mayor and City Council adopted Resolution 2010-17 on May 20, 2010 which expanded the post employment benefits to include health insurance for employees who retire on Accidental Disability with the State Pension System between the age of 58 and ½ and age 60.

Funding Policy – The City is currently reviewing its options with respect to pre-funding these liabilities beyond its annual pay-go requirements.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 **POSTEMPLOYMENT HEALTHCARE PLAN** – Continued

Annual Required Contribution	\$ 21,900
Interest on Net OPEB Obligation	3,813
Adjustment to Annual Required Contribution	<u>(2,612)</u>
Annual OPEB Cost (Expense)	\$ 23,101
Contributions Made	<u>(16,221)</u>
Increase in Net Obligation	<u>\$ 6,880</u>
Net OPEB Obligation (Beginning of year)	\$ 50,841
Net OPEB Obligation (End of year)	\$ 57,721

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$188,586 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$188,586. The covered payroll (annual payroll of active employees covered by the plan) was \$1,826,535 and the ratio of the UAAL to the covered payroll was 10.32%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.50% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan assets at the valuation date, and an initial annual healthcare cost trend rate of 8.00%. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan assets returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2012 was 27 years.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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

NOTE 11 **OPERATING LEASE**

The City leases the Armory building to the State of Maryland for space utilized by the Water Resource Administration. The City utilizes the remainder of the building. The City renewed the lease effective July 1, 2013 through 2018 with a monthly lease payment of \$7,009. The minimum lease payment for this five year period is expected to be \$84,103 per year. The City's cost of the building was \$2,042,612 and the related accumulated depreciation through June 30, 2013 was \$664,852.

The City entered into a lease agreement with the Allegany County Human Resources Development Commission for the front section of the Community Center building on Water Street. The lease is effective October 1, 2010 through September 30, 2015 with a monthly lease payment of \$649 for the first year. The minimum lease payment for the five year period is expected to be \$7,791 payable per year. The lease contains an annual escalator clause of 3% per year for the remainder of the agreement. The City's cost of the building was \$541,722 and the related accumulated depreciation through June 30, 2013 was \$195,193.

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

2014	\$	92,554
2015		92,806
2016		86,295
2017		84,103
2018		84,103
Total	\$	<u>439,861</u>

On July 23, 2013, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$277 per month and is set to expire on July 23, 2018.

On February 21, 2013, the City entered into an operating lease with Pitney Bowes for a postage machine. The lease requires 60 monthly payments of \$155 per month and is set to expire March 30, 2018.

On March 23, 2011, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$194 per month and is set to expire on March 23, 2016.

(Note 11 continued on page 40)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 **OPERATING LEASE** – Continued

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

2013	\$	7,439
2014		7,516
2015		6,934
2016		5,188
2017		4,722
Total	\$	<u>31,799</u>

Rental income for the Armory building and Community Center totaled \$91,440 for the year ended June 30, 2013. Rent expense for the copy machines and postage machine totaled \$6,948 for the year ended June 30, 2013.

NOTE 12 **RISK OF LOSS**

The City utilizes commercial insurance for employee life, health, disability, and workers' compensation as well as its property and liability insurance. 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 13 **INSURANCE RECOVERIES**

The City received \$26,097 of insurance recoveries for 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.

NOTE 14 **COMMITMENTS AND SUBSEQUENT EVENTS**

As of June 30, 2013, the City was in the process of closing out the construction contract for Combined Sewer Overflow Elimination Project, Phase VII-A. Final quantities were approved in mid-August, with project costs at 1.98% over construction estimate. Final project costs associated with the project totaled \$1,851,837.

As of June 30, 2013, Phase VII-B-1, Paul Street CSO Elimination Project, was under contract to complete sewer separation and related work for the Taylor Street – Paul Street corridor. The work was 30.43% complete, using \$550,000 in Maryland Department of the Environment State Revolving Loan Funds (SRF), \$84,075 in Maryland Department of the Environment Grant funds and \$15,000 of City cash to complete the project budget estimated at \$649,075.

In addition, as of June 30, 2013, the City had been notified that Phase VII-B-2 Paul Street CSO Elimination Project had been identified for funding by the Maryland Department of the Environment in the Federal Fiscal Year 2013 Water Quality State Revolving Loan Fund. Design was underway with projected costs of \$2,055,107. An additional \$115,625 of WQSRF funding has been earmarked with additional grant funding pending legislative session.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 **COMMITMENTS AND SUBSEQUENT EVENTS** - Continued

As of June 30, 2013, the City was under contract to complete Phase I of the Savage Raw Water & Energy Conservation Project. The work was 25.11% complete, using \$102,000 in Water Supply Grant funds, \$167,250 in Drinking Water Green Grant funds both provided by the Maryland Department of the Environment and \$367,768 of Community Development Block Grant funds. City cash in the amount of \$63,846 complete the project budget.

In addition, as of June 30, 2013 the City has been notified that Phase II of the Savage Raw Water and Energy Conservation Project has been identified for funding by the Maryland Department of the Environment in the Federal Fiscal Year 2013 Drinking Water State Revolving Loan Fund. \$100,000 of SRF and \$331,684 of Green Funds have been earmarked for the project. Design is underway with total project costs projected at \$523,369.

As of June 30, 2013 the City was under contract with a design firm to produce design drawings in support of the Braddock Road Access and Safety Improvements Project. Phase I of the project consists of design of the entire project and the construction of a deceleration lane into Braddock Street. The work along the MD 736 corridor, Braddock Road, is supported by a \$500,000 Appalachian Regional Commission Local Access Road program grant approved early in City Fiscal Year 2011, with the balance of \$625,000 from the City and \$25,000 from a private partner, the Woda Group. Engineering is ongoing with this project.

The City contracts with Maryland Environmental Service for the operation of the Frostburg Water Filtration Plant. The remainder of the five-year contract has estimated budget totals as follows:

Fiscal Year 2014	\$	442,324
Fiscal Year 2015		451,516
Fiscal Year 2016		466,713
Total	\$	<u>1,360,553</u>

On August 15, 2013, the Mayor and Council approved Resolution 2013-44 approving the purchase of a new Dump/Plow Truck from Freightliner of Hagerstown in an amount not to exceed \$115,000. The selection of the vendor and specifications were based on a prior bid of Allegany County. On October 17, 2013, the Mayor and City Council approved a Resolution accepting a proposal from Susquehanna Financing, Inc. for the financing of the new plow truck with the financed amount set at \$113,186; a term of sixty months; an interest rate of 3.36% and a monthly payment of \$2,065.65. Delivery of the truck is expected in late December 2013.

The City evaluated subsequent events through December 16, 2013 for possible inclusion in the financial statements and for potential required disclosures.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 **NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued Statement #63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," (GASB 63) which is effective for periods beginning after December 15, 2011. The purpose of this Statement is to provide financial reporting guidance for deferred outflows or resources and deferred inflows. This statement also amends the net asset reporting requirements in Statement #34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The City has implemented the new standard for the year ended June 30, 2013.

NOTE 16 **PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was made to the government-wide financial statements for the year ended June 30, 2013 in the business-type activities in the amount of \$285,192. The adjustment corrects improper revenue recognition policies for water and sewer service charges as well as utility surcharges in the sewer, water surcharge, and garbage funds.

The effect of the adjustment on the June 30, 2012 government-wide statements of activities would have been a decrease in revenues of \$6,411 and a decrease in expenses of \$1,045 for total decrease of \$5,366 in the change in net position. The effect of the adjustment on the June 30, 2012 statement of net position would have been a decrease in accounts receivable of \$126,298, decrease in accounts payable of \$29,066 and an increase in deferred revenues of \$187,960.

The effect of the adjustment on the June 30, 2012 proprietary fund statements would have been as follows:

- Water Fund - decrease in revenues and change in net position of \$637 in the statement of revenues, expenses, and changes in net position. The effect of the adjustment on the statement of net position would have been an increase in accounts receivable of \$12,334 and an increase in unrestricted net position of \$12,334.
- Sewer Fund - decrease in revenues of \$6,953, increase in expenses of \$1,045 and decrease in change in net position of \$7,998 in the statement of revenues, expenses, and changes in net position. The effect of the adjustment on the statement of net position would have been a decrease in accounts receivable of \$29,271, decrease in accounts payable of \$29,066, an increase in deferred revenues of \$59,016 and a decrease in unrestricted net position of \$59,221.
- Water Surcharge Fund - increase in revenues and change in net position of \$1,761 in the statement of revenues, expenses, and changes in net position. The effect of the adjustment on the statement of net position would have been a decrease in accounts receivable of \$70,594, an increase in deferred revenues of \$75,933, and a decrease in unrestricted net position of \$146,527.
- Garbage Fund - increase in revenues and change in net position of \$1,508 in the statement of revenues, expenses, and changes in net position. The effect of the adjustment on the statement of net position would have been a decrease in accounts receivable of \$38,766, an increase in deferred revenues of \$53,012, and a decrease in unrestricted net position of \$91,778.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted			
	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Net property tax revenue	\$ 2,121,753	\$ 2,126,753	\$ 2,199,361	\$ 72,608
Income taxes	400,000	400,000	472,682	72,682
Hotel motel tax	145,000	145,000	155,351	10,351
Highway use tax	64,700	64,700	56,081	(8,619)
Other taxes	108,900	151,900	156,103	4,203
Police protection grant	76,050	76,050	86,306	10,256
Public safety revenue	63,920	95,420	94,552	(868)
Licenses and permits	27,000	27,500	30,124	2,624
COPS grants	-	-	13,464	13,464
Rental program revenue	93,200	93,200	80,419	(12,781)
Recreational activities	62,000	66,000	80,123	14,123
Grant income - other	227,302	227,302	390,867	163,565
Transfers from other funds	267,900	267,900	268,000	100
Other income	205,091	127,291	191,383	64,092
Interest	3,000	3,000	4,256	1,256
TOTAL GENERAL FUND REVENUE	3,865,816	3,872,016	4,279,072	407,056
EXPENDITURES				
Administration	877,813	903,390	1,025,466	(122,076)
Public safety	1,757,349	1,630,372	1,550,369	80,003
Street department	810,564	883,164	903,999	(20,835)
Recreation department	420,090	455,090	469,452	(14,362)
TOTAL EXPENDITURES	3,865,816	3,872,016	3,949,286	(77,270)
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ 329,786	\$ 329,786

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	\$ 4,279,072
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(268,000)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.	(91,440)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 3,919,632

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**

The net property tax revenue exceeded the final budgeted figure as a result of an increase in corporation personal property tax assessments as well as a decrease in authorized abatements.

Grant income exceeded the final budgeted figure as a result of the receipt of additional grants throughout the fiscal year.

Miscellaneous income exceeded the final budgeted figure primarily as a result of the Everpower easement payments.

The administration expenditures exceeded the final budgeted figure as a result of additional expenditures for building maintenance and improvements to the Frostburg Armory required by Maryland Department of the Environment for lease renewal. The City also incurred additional expenses related to the Frostburg 2012 Bicentennial celebration.

The street department expenditures exceeded the final budgeted figure as a result of additional expenditures for salt and abrasives during the winter and increases to the annual paving project.

The recreation department expenditures exceeded the final budgeted figure due to the retirement of an employee and the subsequent payment of accrued benefits.

CITY OF FROSTBURG, MARYLAND

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFIT PLAN CONTRIBUTION

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2012	\$0	\$188,586	0.0%	\$188,586	\$1,826,535	10.32%

The City has elected to apply the GASB Statement prospectively and as a result the liability at transition was \$0.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor and City Council
City of Frostburg, Maryland
Frostburg, Maryland

We have audited , in accordance with the 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, financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Frostburg, Maryland's basic financial statements and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Frostburg, Maryland's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Frostburg, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Frostburg, Maryland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-1 and 2013-1 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-2 to be a significant deficiency.

Compliance and Other Matters

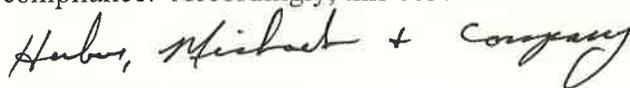
As part of obtaining reasonable assurance about whether City of Frostburg, Maryland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Governmental Auditing Standards* and which is disclosed in the accompanying schedule of findings and responses as item 2013-3.

City of Frostburg, Maryland's Response to Findings

City of Frostburg, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Frostburg, Maryland's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Cumberland, Maryland
December 16, 2013

CITY OF FROSTBURG, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2013

Material Weakness

2012-1 Police Fines and Forfeitures Not Adequately Communicated to the Finance Department

Criteria: The system of internal controls should be designed to ensure that all financial activities of the City are appropriately and timely accounted for in the City's accounting system and ultimately, the financial statements.

Condition: The City has not properly designed its system of internal controls to ensure revenue and accounts receivable from fines and forfeitures are being adequately communicated to the Finance Department for financial reporting.

Context: In our testing of the City's public safety revenue for the 2012 audit, we noted a large increase in fines and forfeitures income over previous years. Upon further inquiry, we determined police tickets written in previous years were not properly reported to the Finance Department in the year written. In our testing for 2013, we noted the finding was still not corrected.

Effect: The revenues generated from the Police fines and forfeitures were not recognized in the proper period. In addition, there is no way for the Finance Department to monitor the collection attempts being made by the Police Department.

Cause: The City does not have controls in place to ensure that all monetary Police citations are being reported to the Finance Department and to ensure that someone is attempting to collect outstanding monetary citations in a timely fashion.

Recommendation: We recommend the City establish procedures that would report all monetary Police citations written for a specified period be reported to the Finance Department for proper inclusion in the City's financial system. We also recommend the City designate an individual be responsible for making sure attempts at outstanding citations are being timely made and followed up on.

Views of responsible official and planning corrective actions: The City agrees with the finding. On Tuesday and Friday of each week, the Police Department will provide the Finance Department money and a report of all funds received by 12:00 noon in order for the Finance Department to include these funds in the daily bank deposit. Additionally

CITY OF FROSTBURG, MARYLAND

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended June 30, 2013

2012-1 Police Fines and Forfeitures Not Adequately Communicated to the Finance Department (continued)

The Police Department and the Finance Department will create the necessary reporting to permit citizens to pay their fines, etc... at City Hall directly to the Finance Department during normal business hours. This will be an additional service to the citizens, but will not replace the ability for the citizens to pay their fines, etc... at the Police Department during off hours, nights and weekends. The Finance Department is also working with the Police Department to be able to access their reporting system in order to accurately track the flow of tickets/citations written and subsequent payments or attempts at collection of unpaid items.

2013-1 Material Adjustments Required to Previously Issued Financial Statements

Criteria: The accounting system should be designed to ensure the City's revenue recognition procedures are in accordance with generally accepted accounting principles.

Condition: The City bills its surcharge fees in advance of the period the fees are for and recognizes the surcharge fees as revenue when they are billed rather than when the period of service has ended. In addition, the City accrued surcharge fees based on the periods of the meter readings rather than based on the period the surcharge fee applied.

Context: During our testing of unbilled receivables, we requested clarification of the periods of service covered by the surcharge fees being accrued as unbilled receivables. Based on the Director of Finance's response, we determined the fees were being billed in advance of the period covered.

Effect: The City's financial statements have been materially misstated in previous years.

Cause: The City did not feel this recognition policy materially affected the annual revenues for these charges because the City recognized four quarters of surcharge fees each year. The City failed to recognize the affect the method of recognition had on the statement of position which resulted in material overstatements of accounts receivable and net position.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2013**

2013-1 Material Adjustments Required to Previously Issued Financial Statements (continued)

Recommendation: We recommend the City adopt revenue recognition procedures to ensure revenue is being recognized in accordance with generally accepted accounting principles.

Views of responsible official and planning corrective actions: The City of Frostburg agrees with the finding. The yearend procedures have been modified to recognize as deferred revenue, charges for trash, water surcharge, CSO surcharge and bay restoration fees based upon the percentage of days charged for the service after July 1st for billings made prior to the end of the fiscal year.

Significant Deficiency

2013-2 Improper Tax Rates were used when Corporate Taxes were Billed

Criteria: The City should have controls in place to ensure individual and entities within the City are being billed the appropriate tax rates as adopted by the City.

Condition: The City does not have adequate controls in place to test the accuracy of its tax billings.

Context: During our testing of corporate tax revenues, we noted that approximately 5% of the City's corporate tax billings were billed based on the City's real estate tax rate of \$0.5665 rather than the corporate tax rate of \$1.41625.

Effect: The City under billed some of its corporations by approximately \$4,504.

Cause: The City manually calculates and bills its corporate taxes throughout the year based on assessments received from the state of Maryland. The City does not have a control in place to test the taxes being calculated based on the assessments prior to the billings being performed and mailed.

Recommendation: We recommend the City adopt an additional control to ensure the proper tax rates are being applied to the assessed values prior to the billings being mailed.

CITY OF FROSTBURG, MARYLAND

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended June 30, 2013

2013-2 Improper Tax Rates were used when Corporate Taxes were Billed (continued)

Views of responsible official and planning corrective actions: The City agrees with the finding. The City has already added an additional step in the billing process to ensure that proper rates are being applied to assessed values prior to billings. As billing certifications are received from the Maryland Department of Assessments and Taxation, a manual calculation of the tax is performed. As an additional control, a step has been added to the billing system to automatically apply the correct tax rate to all certifications.

Compliance Finding

2013-3 Lack of Adequate Grant Documentation Available for Testing

Criteria: The City should have controls in place to ensure it is in compliance with the requirements within its grant documents.

Condition: The City did not maintain paper copies of grant documents for grants received by the Police Department.

Context: During our testing of grant compliance and in our determination of whether a single audit would be required, we requested copies of two grants received by the Police Department. The Police Department has not been able to provide us with the requested grant documentation

Effect: The City is unable to ensure it is complying with all the requirements of a grant and to properly determine its level of federal funding.

Cause: The City does not have an adequate control in place to ensure its Police Department is complying with the requirements of its grants.

Recommendation: We recommend the City adopt a policy that requires the Finance Department to be provided with copies of all grants received. We also recommend that someone within the Finance Department verify the terms of the grants are being complied with.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2013**

2013-3 Lack of Adequate Grant Documentation Available for Testing (continued)

Views of responsible official and planning corrective actions: The Mayor and City Council will be asked to approve a new requirement for all Departments that all grants must be formally accepted by the Mayor and City Council in a monthly City Council meeting prior to implementation. This approval will take the form of a resolution and include details of the sources and uses of the funds, authorizations for signatures, and/or any special procurement processes. In cases where the City is a sub-recipient of a grant or loan, this process would also be required if there is a grant agreement or other document that details the transaction where the City is to be a party in the agreement. If the City is a sub-recipient for grants or loans that does not have an agreement as part of the transaction, the approval process will not be required, but the Finance Department must be provided with a copy of any and all communications that details the sources and uses of the funds.