

**CITY OF FROSTBURG, MARYLAND**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

***HM* Huber, Michaels  
& Company**

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Certified Public Accountants

# CITY OF FROSTBURG, MARYLAND

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council  
City of Frostburg, Maryland

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Frostburg, Maryland's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 15, 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.

*Huber, Michael + Company*

Cumberland, Maryland  
November 21, 2012

**CITY OF FROSTBURG, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2012**

## **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, 2012. 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 \$32,253,268.
- The government's total net assets increased by \$3,905,060, primarily due to increases in the government-type and business-type activities net assets resulting from the donation of property of \$1,394,700 from the State of Maryland and \$2,207,648 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 \$3,299,100, an increase of \$682,661 in comparison with the prior year. Approximately 90 percent of this total amount, or \$2,965,750, 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 \$3,000,475, or 82 percent of total general fund expenditures for the fiscal year.
- The City of Frostburg's total debt increased by \$357,608, or 4 percent during the current fiscal year.

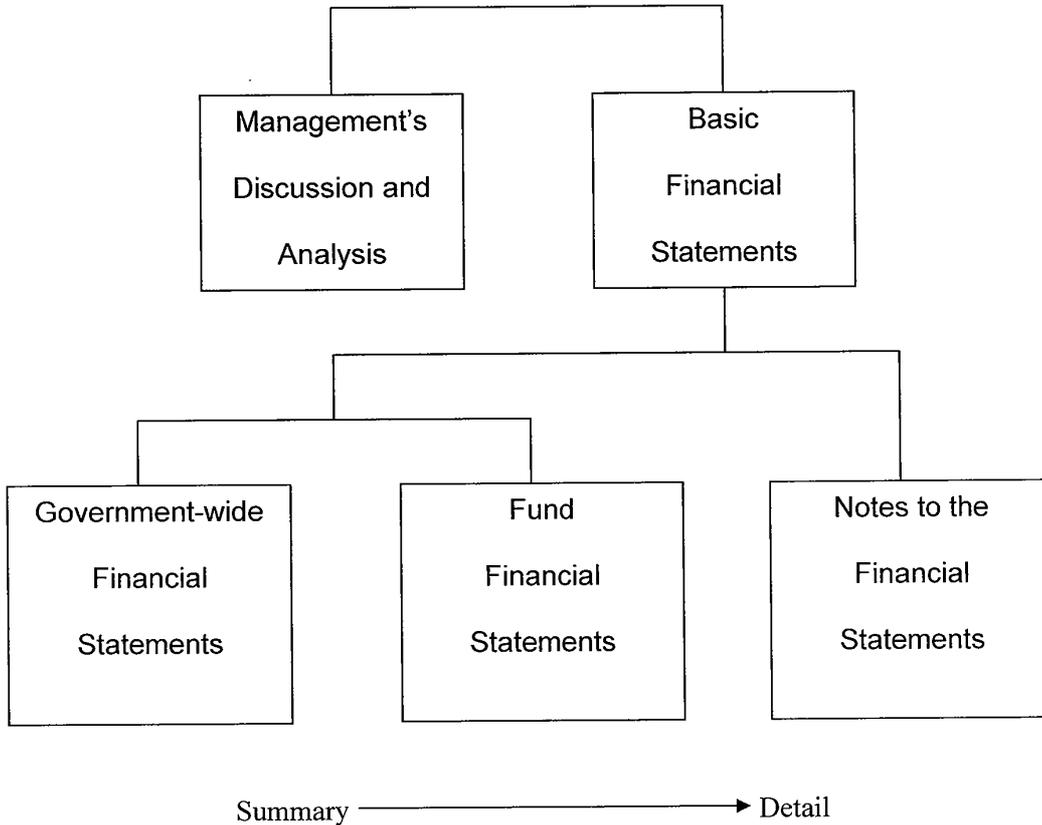
### **Overview of the Financial Statements**

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.

**Management Discussion and Analysis  
City of Frostburg**

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

The next statements (pages 18 - 24) 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 25 – 43). 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 assets and how they have changed. Net assets are the difference between the city's total assets and total liabilities. Measuring net assets 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 16 and 17 of this report.

### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the city's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Frostburg, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the city's budget ordinance. All of the funds of 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 Assets 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 Assets 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 25 - 43 of this report.

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

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

**Management Discussion and Analysis  
City of Frostburg**

increases or decreases in net assets 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 assets 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 Assets and the Statement of Activities and can be found on pages 16 - 17 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,780,901	\$ 3,045,795	\$ 2,158,060	\$ 1,993,819	\$ 5,938,961	\$ 5,039,614
Non-current assets	172,668	191,123	128,702	137,110	301,370	328,233
Capital assets	10,354,351	9,033,295	27,538,012	26,126,899	37,892,363	35,160,194
Total assets	14,307,920	12,270,213	29,824,774	28,257,828	44,132,694	40,528,041
Long-term liabilities	1,407,004	1,437,556	9,226,352	8,601,529	10,633,356	10,039,085
Other liabilities	402,043	408,840	844,027	1,731,908	1,246,070	2,140,748
Total liabilities	1,809,047	1,846,396	10,070,379	10,333,437	11,879,426	12,179,833
Net assets:						
Invested in capital assets, net of related debt	10,245,264	8,876,784	18,169,427	17,171,833	28,414,691	26,048,617
Restricted	494,182	387,339	-	-	494,182	387,339
Unrestricted	1,759,427	1,159,694	1,584,968	752,558	3,344,395	1,912,252
Total net assets	\$ 12,498,873	\$ 10,423,817	\$ 19,754,395	\$ 17,924,391	\$ 32,253,268	\$ 28,348,208

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Frostburg exceeded liabilities by \$32,253,268 as of June 30, 2012. The majority of the net assets are 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 assets (2%) 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 assets increased by \$3,905,060 for the fiscal year ended June 30, 2012.

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

- Increase in property tax revenues.
- Capital contributions of land and property.
- The grant funding received for the City Square and Street Light Retrofit projects.
- The grant funding received for the Sewer Fund CSO projects.
- The grant and loan funding received for the Hydro Electric Project.

**The City of Frostburg's Changes in Net Assets  
Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 404,900	\$ 309,902	\$ 3,967,570	\$ 3,898,430	\$ 4,372,470	\$ 4,208,332
Operating grants and contributions	800,692	321,577	-	-	800,692	321,577
Capital grants and contributions	160,416	119,302	2,047,232	1,788,455	2,207,648	1,907,757
General revenues:						
Property taxes	2,205,351	2,113,118	-	-	2,205,351	2,113,118
Other taxes	701,767	709,204	-	-	701,767	709,204
Other	221,414	236,215	815	108,115	222,229	344,330
Total revenues	4,494,540	3,809,318	6,015,617	5,795,000	10,510,157	9,604,318
<b>Expenses:</b>						
General government	483,783	423,930	-	-	483,783	423,930
Public safety	1,450,067	1,476,800	-	-	1,450,067	1,476,800
Public works	888,632	955,193	-	-	888,632	955,193
Recreation and parks	509,090	519,372	-	-	509,090	519,372
Community development	558,033	162,942	-	-	558,033	162,942
Code enforcement	144,095	161,816	-	-	144,095	161,816
Interest on long-term debt	67,908	71,779	-	-	67,908	71,779
Water, sewer and garbage	-	-	3,898,189	4,125,867	3,898,189	4,125,867
Total expenses	4,101,608	3,771,832	3,898,189	4,125,867	7,999,797	7,897,699
Change in net assets before transfers and donations	392,932	37,486	2,117,428	1,669,133	2,510,360	1,706,619
Contribution of Frostburg Armory	1,394,700	-	-	-	1,394,700	-
Transfers	287,424	302,152	(287,424)	(302,152)	-	-
Change in net assets	2,075,056	339,638	1,830,004	1,366,981	3,905,060	1,706,619
Net assets, July 1	10,423,817	10,084,179	17,924,391	16,557,410	28,348,208	26,641,589
Net assets, June 30	\$ 12,498,873	\$ 10,423,817	\$ 19,754,395	\$ 17,924,391	\$ 32,253,268	\$ 28,348,208

## **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 assets by \$2,075,056. The key elements of this increase are as follows:

- The increase in property tax revenues.
- Contribution of Frostburg Armory.
- Capital projects of City Square and Street Light Retrofit.

**Business-type activities:** Business-type activities increased the City of Frostburg's net assets by \$1,830,004. The key elements of this increase are as follows:

- The grant funding received for the Phase VICDE W. College Avenue CSO project.
- The grant funding received for the Phase VIIA W. Mechanic/Taylor Street CSO project.
- The grant funding received for the Hydro Electric 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 \$2,965,750, while total fund balance reached \$3,054,733. 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, 2012, the governmental funds of the City of Frostburg reported a combined fund balance of \$3,299,100, a 26 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 \$171,340 and is summarized as follows:

Increase in administration	\$ 134,698
Increase in street department	95,297
Increase in recreation department	6,250
Decrease in public safety	(64,905)
Total change in budget	<u>\$ 171,340</u>

During the year actual revenues exceeded the amended budget by \$431,519. Taxes were \$166,730 greater than estimated with property taxes being \$68,713 higher than expected, income taxes being \$34,949 more than budgeted and highway use tax being \$33,085 higher than expected. Grant income was \$115,928 higher than anticipated and other income was \$102,961 greater than expected.

Expenditures were less than the final budgetary estimates by \$214,585 or 5.5%. 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 assets of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year amounted to \$1,584,968. The total increase in net assets from current year operations was \$1,830,004. 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, 2012 totals \$37,892,363 (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 W. College Avenue CDE CSO Project of \$1,618,872.
- Donation of the Frostburg Armory of \$1,394,700.
- Completion of the Hydro Electric project of \$551,862.
- Work in progress on the Phase VIIA CSO Project of \$389,173.
- Completion of the City Square parking lot of \$149,670.
- Work in progress on Phase VII CSO design project of \$63,693.
- Completion of 2011/12 street paving of \$57,438.
- Work in progress of Savage Springs Study of \$27,727.
- Purchase of 2012 police cruiser of \$25,319.

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

	(net of depreciation)				Total	
	Governmental Activities		Business-Type Activities			
	2012	2011	2012	2011	2012	2011
Land and construction in progress	\$ 2,182,305	\$ 2,170,602	\$ 653,282	\$ 622,641	\$ 2,835,587	\$ 2,793,243
Buildings and systems	3,147,496	1,834,493	4,109,276	4,379,130	7,256,772	6,213,623
Improvements other than buildings	591,564	494,121	6,727,557	7,069,853	7,319,121	7,563,974
Machinery and equipment	465,988	516,106	395,060	445,824	861,048	961,930
Infrastructure	3,967,000	4,017,973	15,652,837	13,609,450	19,619,837	17,627,423
<b>Total</b>	<b>\$10,354,353</b>	<b>\$ 9,033,295</b>	<b>\$27,538,012</b>	<b>\$26,126,898</b>	<b>\$37,892,365</b>	<b>\$35,160,193</b>

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

**Long-term Debt.** As of June 30, 2012 the City of Frostburg had total bonded debt outstanding of \$10,472,674. Of this, \$1,104,089 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 1,104,089	\$ 1,160,000			\$ 1,104,089	\$ 1,160,000
Revenue bonds			\$ 9,368,585	\$ 8,955,066	\$ 9,368,585	\$ 8,955,066
<b>Total</b>	<b>\$ 1,104,089</b>	<b>\$ 1,160,000</b>	<b>\$ 9,368,585</b>	<b>\$ 8,955,066</b>	<b>\$ 10,472,674</b>	<b>\$ 10,115,066</b>

The City of Frostburg's total debt increased by \$357,608 (4%) during the past fiscal year. Debt principal payments during the past fiscal year were \$564,902.

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

**Economic Factors**

**Overview** – The largest economic impact on the City of Frostburg remains the global/national recession. The effect limits employment opportunities for both full time jobs as well as part-time. It has also held down the assessed values for real estate. The one ongoing mitigating influence on the Frostburg area is the stability of the economic impact of Frostburg State University. Added to FSU during the period covered by this report has been the economic impact of the Twin Ridges Wind Farm Project owned by Everpower. This project provided an injection of employment, supplier purchases and restaurant/hotel purchases by the contractors, subcontractors and employees working on the project. The benefits of the construction phase are expected to continue until early calendar 2013.

**Frostburg State University** – FSU remains the largest employer in the City of Frostburg. It is still one of the largest drivers in the regional Mountain Maryland economy. The enrollment is stable, with 5,400 students. Dr. Jonathan Gibraltar has announced a move to higher academic standards for enrollment and a plan to reach over 6,000 students in the next few years.

During the last three fiscal years, FSU has continued to invest in the renovation of some of the 1960's vintage dorms. During the fiscal year, FSU began a \$64 million project to build the new Center for Communications and Information Technology (CCIT). This new building will house computer science and communications programs as well as the University radio station and TV station operations. The project will be finished in January 2014. FSU is also planning a new 425 bed residential facility in the near future.

## **Management Discussion and Analysis**

### **City of Frostburg**

**Allegany Business Center at Frostburg State University (ABC @ FSU)** – During the fiscal year FSU in partnership with private developers began construction of a \$1.6 million Sustainable Energy Research Facility. It will involve building a 6,300 square foot demonstration facility that will be completely “off the grid”. It will use only electrical power generated by solar and wind systems for heating and cooling. The primary purposes of the facility are to attract additional research projects at FSU and potentially companies involved in renewal energy products or technologies.

**Main Street/Commercial Redevelopment** – Efforts to attract local shoppers and visitors to the Main Street business area grew dramatically as the City planned for its Bicentennial Celebration. The Signature Weekend for the Bicentennial was September 13, 14, 15 and 16, 2012. One of the main goals of the Steering Committee was to bring people to the City to support local retailers and restaurants.

The City, in partnership with Frostburg First Main Street Program, FSU, Allegany Arts Council, Allegany County Tourism, the Great Allegheny Passage and other event organizing groups, seeks to expand and increase the impact of the Arts and Entertainment District, the Arts Walks, Derby Day, Cruisin Main Street and Storybook Holiday. A number of groups are discussing ways to improve and expand the visits by tourists from the Western Maryland Scenic Railroad and the Great Allegheny Passage Trail, including transportation and events to draw them to the Main Street business area.

The two strip shopping centers on the east end of the City both had new tenants added during the fiscal year and are essentially fully leased.

The Prichard Building, gutted in the same fire, is still undergoing a slow but steady reconstruction. The owners of the Frostburg National Bank Building have invested in restoration of the first floor interior and upgrading the second floor while marketing the facility for commercial tenants.

**Housing Development** – The City has continued to work with the lenders on the Prichard Farm Project on possible steps in revitalizing that project. The national housing recession and resulting bank difficulties have slowed progress. Several other single family subdivisions remain in the planning stages with the City’s Department of Community Development, including Sand Spring II which would be for high valued homes.

**Regional Employers** – The City of Frostburg is also affected by the progress and success of larger employers within the City and the Region. They include:

- Frostburg State University – FSU remains the largest economic engine in all of Western Maryland, especially in Frostburg. Continued growth is expected.
- ACS, a Xerox Company - This customer service call center has well over 500 employment situations, many part-time. They continue to offer employment

## **Management Discussion and Analysis**

### **City of Frostburg**

opportunities in Frostburg and remain a growing, public company with operations across the nation and in other counties

- Active Network/Infospherix – This is a special customer service call center that employs up to 500 people during their busy season. They contract with many public agencies and private businesses. The special niche has been as a full service reservation center for State and Federal camp grounds. The company has continued to succeed and grow.
- Hamilton Communications/Maryland RELAY – This project is located in the former Micro-Integration Building in the Frostburg Industrial Park. The firm is the contractor to the State of Maryland providing RELAY services to persons with hearing disabilities.
- Sierra Hygiene - This firm, headquartered in California, leases the former Kreative Plastics Building as a fabrication plant for commercial paper products. They employ between 15 and 25 people.
- Western Maryland Health System – The Health System, which is the largest employer in Allegany County, experienced serious financial difficulties. Layoffs and cutbacks have occurred. Numerous Frostburg residents work at the new Regional Medical Center (Hospital) in Cumberland or in their numerous clinics and their Rehab Center and Nursing Home, which is located in Frostburg.
- ATK Tactical Systems – This major defense contractor located in Mineral County has continued to grow and receive Federal contracts for their products and for improvements to their facilities. Their employment ranges between 700 and 800 high paying jobs.
- NewPage – The Luke Fine Papers Mill of NewPage now employs just over 900 people, many living in Frostburg. These employees enjoy good salaries, however changes in the paper industry continue across the nation, including the Luke Mill. During the year NewPage continued to work through a Chapter 11 Bankruptcy to reorganize their debt. Consistent statements have indicated that the Luke Mill is not at risk as a result of these transactions.

**Management Discussion and Analysis  
City of Frostburg**

**Budget Highlights for the Fiscal Year Ending June 30, 2013**

**Governmental Activities:** Property taxes are expected to increase by 2.5 percent. The City will use these increases to finance programs currently in place. The City will 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 7 percent. The increase is a result of an increase in the annual appropriation to the Frostburg Fire Department and enhanced salaries for public safety employees.

The State of Maryland budget reductions the City of Frostburg experienced in Fiscal Year Ending June 30, 2012 will continue.

**Business – type Activities:** The sewer rates, which were last revised July 1, 2009 will increase by 13% to reflect the rising costs of collection, transmission and treatment of sewage. The water rates, which were revised effective July 1, 2009, will be unchanged with the exception of the rate charged to customers served by Allegany County. Their rate will increase by \$0.01 per thousand. 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 VIIA-Taylor/Mechanic Street CSO Project, the start of Phase VIIB CSO Project in the Sewer Fund and the acquisition of a utility truck in the Water 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](mailto:csandvick@allconet.org).

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,373,890	\$ 1,715,561	\$ 4,089,451
Cash and cash equivalents - restricted	84,710	-	84,710
Certificate of deposit	96,326	-	96,326
Accounts receivable	407,990	1,260,484	1,668,474
Internal balances	817,985	(817,985)	-
<b>Total Current Assets</b>	<u>3,780,901</u>	<u>2,158,060</u>	<u>5,938,961</u>
<b>Capital Assets</b>			
Non-depreciable	2,170,602	653,281	2,823,883
Depreciable, net of accumulated depreciation	8,183,749	26,884,731	35,068,480
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>10,354,351</u>	<u>27,538,012</u>	<u>37,892,363</u>
<b>Non-current Assets</b>			
Bond & loan costs, net of accumulated amortization	13,650	128,702	142,352
Notes receivable	159,018	-	159,018
<b>Total Non-current Assets</b>	<u>172,668</u>	<u>128,702</u>	<u>301,370</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,307,920</u>	<u>\$ 29,824,774</u>	<u>\$ 44,132,694</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	\$ 281,952	\$ 524,033	\$ 805,985
Salaries and benefits payable	60,091	21,141	81,232
Current portion of long-term debt	60,000	298,853	358,853
<b>Total Current Liabilities</b>	<u>402,043</u>	<u>844,027</u>	<u>1,246,070</u>
<b>Noncurrent Liabilities:</b>			
Compensated absences	325,495	143,199	468,694
Accrued post employment health insurance	37,420	13,421	50,841
Long-term debt	1,044,089	9,069,732	10,113,821
<b>Total Noncurrent Liabilities</b>	<u>1,407,004</u>	<u>9,226,352</u>	<u>10,633,356</u>
<b>TOTAL LIABILITIES</b>	<u>1,809,047</u>	<u>10,070,379</u>	<u>11,879,426</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,245,264	18,169,427	28,414,691
Restricted	494,182	-	494,182
Unrestricted	1,759,427	1,584,968	3,344,395
<b>TOTAL NET ASSETS</b>	<u>\$ 12,498,873</u>	<u>\$ 19,754,395</u>	<u>\$ 32,253,268</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, 2012

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 483,783	\$ 224,403	\$ 67,243	\$ -	\$ (192,137)	\$ -	\$ (192,137)
Public safety	1,450,067	88,009	269,148	-	(1,092,910)	-	(1,092,910)
Public works	888,632	-	23,279	132,632	(732,721)	-	(732,721)
Recreation and parks	509,090	89,238	-	27,784	(392,068)	-	(392,068)
Community development	558,033	-	441,022	-	(117,011)	-	(117,011)
Code enforcement	144,095	3,250	-	-	(140,845)	-	(140,845)
Interest on long-term debt	67,908	-	-	-	(67,908)	-	(67,908)
<b>Total Governmental Activities</b>	<b>4,101,608</b>	<b>404,900</b>	<b>800,692</b>	<b>160,416</b>	<b>(2,735,600)</b>	<b>-</b>	<b>(2,735,600)</b>
<b>Business-type Activities:</b>							
Water	1,056,510	1,129,005	-	-	-	72,495	72,495
Sewer	1,503,269	1,582,518	-	1,895,759	-	1,975,008	1,975,008
Water Surcharge	1,026,577	869,378	-	151,473	-	(5,726)	(5,726)
Garbage	311,833	386,669	-	-	-	74,836	74,836
<b>Total Business-type Activities</b>	<b>3,898,189</b>	<b>3,967,570</b>	<b>-</b>	<b>2,047,232</b>	<b>-</b>	<b>2,116,613</b>	<b>2,116,613</b>
<b>Total Primary Government</b>	<b>\$ 7,999,797</b>	<b>\$ 4,372,470</b>	<b>\$ 800,692</b>	<b>\$ 2,207,648</b>	<b>(2,735,600)</b>	<b>2,116,613</b>	<b>(618,987)</b>
<b>General Revenues:</b>							
Taxes							
Net property taxes					2,205,351	-	2,205,351
Income taxes					384,949	-	384,949
Highway use tax					103,085	-	103,085
Hotel motel tax					151,267	-	151,267
Admission taxes					62,466	-	62,466
Rental income					92,864	-	92,864
Licenses and permits					35,441	-	35,441
Interest earnings					8,494	815	9,309
Miscellaneous revenues					85,621	-	85,621
Capital contributions					1,394,700	-	1,394,700
Gain (loss) on disposal of fixed assets					(1,006)	-	(1,006)
Transfers					287,424	(287,424)	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>4,810,656</b>	<b>(286,609)</b>	<b>4,524,047</b>
<b>Change in Net Assets</b>					<b>2,075,056</b>	<b>1,830,004</b>	<b>3,905,060</b>
<b>Net Assets - July 1, 2011</b>					<b>10,423,817</b>	<b>17,924,391</b>	<b>28,348,208</b>
<b>Net Assets - June 30, 2012</b>					<b>\$ 12,498,873</b>	<b>\$ 19,754,395</b>	<b>\$ 32,253,268</b>

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

CITY OF FROSTBURG, MARYLAND

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,105,426	\$ 268,464	\$ 2,373,890
Cash and cash equivalents - restricted	84,710	-	84,710
Certificate of deposit	96,326	-	96,326
Accounts receivable	370,931	37,059	407,990
Prepaid expenses	-	-	-
Interfund receivables	874,504	-	874,504
<b>TOTAL ASSETS</b>	<u>\$ 3,531,897</u>	<u>\$ 305,523</u>	<u>\$ 3,837,420</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 251,130	\$ 4,677	\$ 255,807
Salaries and benefits payable	60,091	-	60,091
Deferred revenues	165,903	-	165,903
Interfund payables	-	56,519	56,519
<b>TOTAL LIABILITIES</b>	<u>477,124</u>	<u>61,196</u>	<u>538,320</u>
<b>FUND BALANCES</b>			
Nonspendable - Prepaid expenses	-	-	-
Restricted - Community Development Block Grants	-	244,327	244,327
Restricted - 2012 Bicentennial celebration	54,298	-	54,298
Committed - 2012 Bicentennial celebration	28,041	-	28,041
Assigned - Debt service	6,684	-	6,684
Unassigned	2,965,750	-	2,965,750
<b>TOTAL FUND BALANCE</b>	<u>3,054,773</u>	<u>244,327</u>	<u>3,299,100</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,531,897</u>	<u>\$ 305,523</u>	<u>\$ 3,837,420</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 ASSETS**  
**JUNE 30, 2012**

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 3,299,100</b>
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		10,354,351
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred revenue in the governmental funds.		
Deferred revenue from taxes receivable		165,903
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		13,650
Notes receivable do not provide current resources and are not reported in the governmental funds.		159,018
Accrued interest is recorded on fund statements only when due.		(26,145)
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	(1,044,089)	
Current portion of long-term debt	(60,000)	
Accrued post employment health insurance	(37,420)	
Compensated absences	(325,495)	
		(1,467,004)
 <b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>		 <b><u>\$ 12,498,873</u></b>

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

CITY OF FROSTBURG, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>General Fund</b>	<b>Special Revenue</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes			
Net property tax revenue	\$ 2,144,357	\$ -	\$ 2,144,357
Income taxes	384,949	-	384,949
Hotel motel tax	151,267	-	151,267
Highway use tax	103,085	-	103,085
Other taxes	153,116	-	153,116
Police protection grant	86,306	-	86,306
Public safety revenue	111,502	-	111,502
Licenses and permits	35,441	-	35,441
COPS grants	54,425	-	54,425
Rental program revenue	82,159	-	82,159
Recreational activities	89,238	-	89,238
Grant income - other	377,435	441,022	818,457
Other income	118,892	34,987	153,879
Interest	2,579	5,914	8,493
	<b>3,894,751</b>	<b>481,923</b>	<b>4,376,674</b>
<b>EXPENDITURES</b>			
Administration	797,018	-	797,018
Public safety	1,407,451	-	1,407,451
Street department	634,849	-	634,849
Recreation department	402,058	-	402,058
Debt service	55,911	-	55,911
Capital outlays	361,544	445,366	806,910
	<b>3,658,831</b>	<b>445,366</b>	<b>4,104,197</b>
<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>235,920</b>	<b>36,557</b>	<b>272,477</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers	287,424	-	287,424
Proceeds from sale of capital assets	29,896	-	29,896
Rental income	92,864	-	92,864
	<b>410,184</b>	<b>-</b>	<b>410,184</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>646,104</b>	<b>36,557</b>	<b>682,661</b>
<b>FUND BALANCE - JULY 1, 2011</b>	<b>2,408,669</b>	<b>207,770</b>	<b>2,616,439</b>
<b>FUND BALANCE - JUNE 30, 2012</b>	<b>\$ 3,054,773</b>	<b>\$ 244,327</b>	<b>\$ 3,299,100</b>

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, 2012**

<b>Total Net Change in Fund Balance - Governmental Funds</b>		<b>\$ 682,661</b>
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	361,544	
Less current year depreciation	<u>(404,285)</u>	(42,741)
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		(30,902)
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.		
		55,911
Governmental funds do not report donations of capital. However, in the statement of activities, the fair market value of the donated assets are reported as Capital Contributions.		
		1,394,700
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.		
Issuance of notes receivable	18,632	
Proceeds from notes receivable	<u>(34,987)</u>	(16,355)
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 revenues		60,994
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		3,248
Change in accrued post employment health insurance		(12,474)
Change in compensated absences		(17,886)
<b>TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<u><u>\$ 2,075,056</u></u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2012

	Water	Sewer	Water Surcharge	Garbage	Total
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 447,561	\$ -	\$ 1,146,669	\$ 121,331	\$ 1,715,561
Accounts receivable	215,572	744,159	189,692	111,061	1,260,484
Due from other proprietary funds	150,040	-	-	-	150,040
<b>Total Current Assets</b>	<u>813,173</u>	<u>744,159</u>	<u>1,336,361</u>	<u>232,392</u>	<u>3,126,085</u>
<b>Capital Assets</b>					
Non-depreciable	-	570,290	82,991	-	653,281
Depreciable, net of accumulated depreciation	1,227,729	11,014,445	14,562,438	80,119	26,884,731
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>1,227,729</u>	<u>11,584,735</u>	<u>14,645,429</u>	<u>80,119</u>	<u>27,538,012</u>
<b>Non-current Assets</b>					
Bond & loan costs, net of accumulated amortization	-	-	128,702	-	128,702
<b>TOTAL ASSETS</b>	<u>\$ 2,040,902</u>	<u>\$ 12,328,894</u>	<u>\$ 16,110,492</u>	<u>\$ 312,511</u>	<u>\$ 30,792,799</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	\$ 58,535	\$ 397,584	\$ 60,955	\$ 6,959	\$ 524,033
Salaries and benefits payable	8,700	7,541	-	4,900	21,141
Due to other funds	343,538	474,075	-	372	817,985
Due to other proprietary funds	-	-	150,040	-	150,040
Current portion of long-term debt	-	15,794	258,742	24,317	298,853
<b>Total Current Liabilities</b>	<u>410,773</u>	<u>894,994</u>	<u>469,737</u>	<u>36,548</u>	<u>1,812,052</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	76,357	36,677	-	30,165	143,199
Accrued post employment health insurance	4,631	5,552	-	3,238	13,421
Notes payable, less current portion	-	122,019	8,937,168	10,545	9,069,732
<b>Total Noncurrent Liabilities</b>	<u>80,988</u>	<u>164,248</u>	<u>8,937,168</u>	<u>43,948</u>	<u>9,226,352</u>
<b>TOTAL LIABILITIES</b>	<u>491,761</u>	<u>1,059,242</u>	<u>9,406,905</u>	<u>80,496</u>	<u>11,038,404</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	1,227,729	11,446,922	5,449,519	45,257	18,169,427
Unrestricted - undesignated	321,412	(177,270)	1,254,068	186,758	1,584,968
<b>Total Net Assets</b>	<u>1,549,141</u>	<u>11,269,652</u>	<u>6,703,587</u>	<u>232,015</u>	<u>19,754,395</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,040,902</u>	<u>\$ 12,328,894</u>	<u>\$ 16,110,492</u>	<u>\$ 312,511</u>	<u>\$ 30,792,799</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
<b>OPERATING REVENUES</b>	\$ 1,129,005	\$ 1,582,518	\$ 869,378	\$ 386,669	\$ 3,967,570
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	114,649	442,332	712,836	13,467	1,283,284
Sewer operating	-	820,233	-	-	820,233
Salaries and wages	211,578	150,036	-	123,212	484,826
Filtration contract payments	355,254	-	-	-	355,254
Employee benefits	70,731	62,247	-	50,719	183,697
Landfill charges	-	-	-	83,995	83,995
Pumping system	103,196	-	-	-	103,196
Other	88,716	12,750	60	18,022	119,548
Distribution	47,849	-	-	-	47,849
Meters expense	47,070	-	-	-	47,070
Sanitation operating	-	-	-	10,558	10,558
Payroll taxes	15,817	11,038	-	9,322	36,177
Purification	1,650	-	-	-	1,650
<b>Total Operating Expenses</b>	<u>1,056,510</u>	<u>1,498,636</u>	<u>712,896</u>	<u>309,295</u>	<u>3,577,337</u>
<b>Operating Income (Loss)</b>	<u>72,495</u>	<u>83,882</u>	<u>156,482</u>	<u>77,374</u>	<u>390,233</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Project reimbursements	-	1,895,759	151,473	-	2,047,232
Interest revenue	499	-	266	50	815
Interest expense	-	(4,633)	(313,681)	(2,538)	(320,852)
<b>Total Non-operating Revenues (Expenses)</b>	<u>499</u>	<u>1,891,126</u>	<u>(161,942)</u>	<u>(2,488)</u>	<u>1,727,195</u>
<b>Income Before Transfers</b>	72,994	1,975,008	(5,460)	74,886	2,117,428
Transfers out	(154,544)	(116,707)	-	(16,173)	(287,424)
<b>Change in Net Assets</b>	(81,550)	1,858,301	(5,460)	58,713	1,830,004
<b>TOTAL NET ASSETS - JULY 1, 2011</b>	<u>1,630,691</u>	<u>9,411,351</u>	<u>6,709,047</u>	<u>173,302</u>	<u>17,924,391</u>
<b>TOTAL NET ASSETS - JUNE 30, 2012</b>	<u>\$ 1,549,141</u>	<u>\$ 11,269,652</u>	<u>\$ 6,703,587</u>	<u>\$ 232,015</u>	<u>\$ 19,754,395</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, 2012**

	Water	Sewer	Water Surcharge	Garbage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 1,086,401	\$ 1,501,268	\$ 848,228	\$ 380,168	\$ 3,816,065
Payments to vendors	(735,905)	(999,305)	(60)	(176,233)	(1,911,503)
Payments to employees	(210,784)	(149,743)	-	(125,810)	(486,337)
<b>Net Cash Provided By Operating Activities</b>	<u>139,712</u>	<u>352,220</u>	<u>848,168</u>	<u>78,125</u>	<u>1,418,225</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out	(154,544)	(116,707)	-	(16,173)	(287,424)
Change in due to/from other funds	14,063	121,737	10,544	(1,193)	145,151
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<u>(140,481)</u>	<u>5,030</u>	<u>10,544</u>	<u>(17,366)</u>	<u>(142,273)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of capital assets	(12,183)	(2,128,938)	(1,114,037)	-	(3,255,158)
Principal paid on loans	-	(15,389)	(470,600)	(23,002)	(508,991)
Proceeds from loan	-	-	922,510	-	922,510
Project reimbursements	-	1,791,871	563,016	-	2,354,887
Interest paid on loans	-	(4,794)	(315,876)	(2,641)	(323,311)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>(12,183)</u>	<u>(357,250)</u>	<u>(414,987)</u>	<u>(25,643)</u>	<u>(810,063)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	499	-	266	50	815
<b>Net change in Cash</b>	<u>(12,453)</u>	<u>-</u>	<u>443,991</u>	<u>35,166</u>	<u>466,704</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>460,014</u>	<u>-</u>	<u>702,678</u>	<u>86,165</u>	<u>1,248,857</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 447,561</u>	<u>\$ -</u>	<u>\$ 1,146,669</u>	<u>\$ 121,331</u>	<u>\$ 1,715,561</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
<b>Operating Income</b>	\$ 72,495	\$ 83,882	\$ 156,482	\$ 77,374	\$ 390,233
<b>Adjustments Not Affecting Cash</b>					
Depreciation	114,649	442,332	704,428	13,467	1,274,876
Amortization	-	-	8,408	-	8,408
(Increase) decrease in accounts receivable	(42,604)	(81,250)	(21,150)	(6,501)	(151,505)
(Increase) decrease in prepaid expenses	4,077	4,522	-	3,067	11,666
Increase (decrease) in accounts payable and accrued expenses	(11,243)	(99,409)	-	(7,764)	(118,416)
Increase (decrease) in salaries and benefits payable	662	700	-	440	1,802
Increase (decrease) in accrued hospital insurance	1,544	1,850	-	1,080	4,474
Increase (decrease) in compensated absences	132	(407)	-	(3,038)	(3,313)
<b>Total Adjustments</b>	<u>67,217</u>	<u>268,338</u>	<u>691,686</u>	<u>751</u>	<u>1,027,992</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 139,712</u>	<u>\$ 352,220</u>	<u>\$ 848,168</u>	<u>\$ 78,125</u>	<u>\$ 1,418,225</u>

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

**CITY OF FROSTBURG, MARYLAND**  
**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 assets 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 assets 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 assets 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

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES - Continued**

expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. 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 is 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, 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, MARYLAND**

**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 assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

*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 assets. The statement of changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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, MARYLAND

### 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 potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when 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. A 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 assets 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 assets 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, MARYLAND**

**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.

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, 2012, 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 \$468,694 has been recorded in the government-wide statement of net assets, of which \$143,199 is from business-type activities. This represents an increase of \$14,573 from the prior year total of \$454,121. The change in compensated absences for business-type activities was a decrease of \$3,313.

**J. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES - Continued**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Interfund transfers for the year ended June 30, 2012 consisted of transfers of \$154,544 from the Water Fund, \$116,707 from the Sewer Fund, and \$16,173 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 assets, 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, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 343,538
General	Sewer	474,055
General	Garbage	372
General	Special Rev	56,539
		<u>\$ 874,504</u>

**L. Fund Balance**

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

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

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

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

**M. Operating Revenues and Expenses**

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

**N. Property Taxes**

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, 2012, the City had a tax margin of \$.5665 per \$100 assessed valuation.

**O. Credit Risk**

As of June 30, 2012, 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.

**P. 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.

**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, 2012, the reconciled balances of the City's deposits were \$4,270,487 and the bank balances were \$4,268,739. Of the bank balances, \$1,970,413 was covered by federal depository insurance and \$1,987,988 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.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3**      **CASH AND INVESTMENTS** -Continued

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

At June 30, 2012, the City had a certificate of deposit in the amount of \$96,326 held at a local financial institution which is included in the City's deposit figure of \$4,270,487. The certificate of deposit is set to mature in April 2013.

**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. As of June 30, 2012, \$310,339 of the City's deposits were uncollateralized and unsecured. The remainder of the City's deposits were covered by depository insurance and collateralized with securities held by the financial institution in the City's name, therefore mitigating custodial credit risk.

**NOTE 4**      **ACCOUNTS RECEIVABLE**

The City's accounts receivable as of June 30, 2012 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 188,351					\$ 188,351
Intergovernmental	178,310		374,391			552,701
Charge for services		213,927	333,662	188,678	110,144	846,411
Interest		324	966	1,014	917	3,221
Other	41,329	1,321	35,140			77,790
Total	\$ 407,990	\$ 215,572	\$ 744,159	\$ 189,692	\$ 111,061	\$ 1,668,474

At the end of the current fiscal year, deferred revenue of \$165,903 was recognized due to unavailability in the governmental fund statements.

**CITY OF FROSTBURG, MARYLAND**  
**NOTES TO THE FINANCIAL 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, 2012:

General Government	\$	79,473
Public Safety		35,382
Public Works		183,649
Recreation and Parks		<u>105,780</u>
Total	\$	<u><u>404,284</u></u>

(Note 5 continues on page 34.)

**CITY OF FROSTBURG, MARYLAND**

**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, 2012:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Non-depreciable Assets					
Land	\$ 2,083,202	\$ 12,483	\$ -	-	\$ 2,095,685
Construction-in-progress	87,400	1,553,185		(1,553,965)	86,620
Total Non-depreciable Assets	<u>2,170,602</u>	<u>1,565,668</u>	<u>-</u>	<u>(1,553,965)</u>	<u>2,182,305</u>
Depreciable Assets					
Land Improvements	879,006			149,670	1,028,676
Buildings and Improvements	3,477,394	57,187	(31,051)	1,404,295	4,907,825
Infrastructure	5,613,026	102,665			5,715,691
Machinery & equipment	1,338,924	30,724	(19,990)		1,349,658
Total Depreciable Assets	<u>11,308,350</u>	<u>190,576</u>	<u>(51,041)</u>	<u>1,553,965</u>	<u>13,001,850</u>
Less, Accumulated Depreciation for:					
Land Improvements	384,885	52,227		-	437,112
Buildings and Improvements	1,642,901	117,777	(349)	-	1,760,329
Infrastructure	1,595,053	153,638		-	1,748,691
Machinery & equipment	822,818	80,642	(19,790)	-	883,670
Total Accumulated Depreciation	<u>4,445,657</u>	<u>404,284</u>	<u>(20,139)</u>	<u>-</u>	<u>4,829,802</u>
Depreciable Assets, net of accumulated depreciation	<u>6,862,693</u>	<u>(213,708)</u>	<u>(30,902)</u>	<u>1,553,965</u>	<u>8,172,048</u>
Total Governmental Capital Assets, net of accumulated depreciation	<u>\$ 9,033,295</u>	<u>\$ 1,351,960</u>	<u>\$ (30,902)</u>	<u>\$ -</u>	<u>\$ 10,354,353</u>
<b>Business-type Activities</b>					
Non-depreciable Assets					
Land	\$ 48,299	-	-	-	\$ 48,299
Construction-in-progress	574,342	2,654,600		(2,623,959)	604,983
Total Non-depreciable Assets	<u>622,641</u>	<u>2,654,600</u>	<u>-</u>	<u>(2,623,959)</u>	<u>653,282</u>
Depreciable Assets					
Land Improvements	13,495,617				13,495,617
Buildings and Improvements	8,304,108				8,304,108
Infrastructure	17,045,852	30,750		2,606,632	19,683,234
Machinery & equipment	1,139,234			17,327	1,156,561
Total Depreciable Assets	<u>39,984,811</u>	<u>30,750</u>	<u>-</u>	<u>2,623,959</u>	<u>42,639,520</u>
Less, Accumulated Depreciation for:					
Land Improvements	6,425,764	342,296		-	6,768,060
Buildings and Improvements	3,924,978	269,854		-	4,194,832
Infrastructure	3,436,402	593,995		-	4,030,397
Machinery & equipment	693,410	68,091		-	761,501
Total Accumulated Depreciation	<u>14,480,554</u>	<u>1,274,236</u>	<u>-</u>	<u>-</u>	<u>15,754,790</u>
Depreciable Assets, net of accumulated depreciation	<u>25,504,257</u>	<u>(1,243,486)</u>	<u>-</u>	<u>2,623,959</u>	<u>26,884,730</u>
Total Business-type Capital Assets, net of accumulated depreciation	<u>\$ 26,126,898</u>	<u>\$ 1,411,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,538,012</u>

**CITY OF FROSTBURG, MARYLAND**

**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, 2012:

	Outstanding 6/30/2011	Additions	Reductions	Outstanding 6/30/2012	Due Within One Year
<b>Governmental Activities</b>					
<b>Bonds &amp; Notes Payable</b>					
Susquehanna Bank	\$ 135,000	\$ -	\$ (25,911)	\$ 109,089	\$ 25,000
Suntrust Bank - Pension Debt	1,005,000		(30,000)	975,000	35,000
State of MD - DHCD	20,000			20,000	-
Subtotal	1,160,000	-	(55,911)	1,104,089	60,000
<b>Other Obligations</b>					
Compensated Absences	307,609	17,886		325,495	-
Accrued post employment health insurance	24,947	12,473		37,420	-
<b>Total Governmental Activity Long-term Obligations</b>	<b>\$ 1,492,556</b>	<b>\$ 30,359</b>	<b>\$ (55,911)</b>	<b>\$ 1,467,004</b>	<b>\$ 60,000</b>
<b>Business-type Activities</b>					
<b>Bonds &amp; Notes Payable</b>					
MDE - Emergency Sewer Project	\$ 153,203	\$ -	\$ (15,389)	\$ 137,814	\$ 15,794
CDA - Various Projects	3,484,000		(235,600)	3,248,400	243,500
BB&T Bank - Piney Dam Project	5,260,000		(235,000)	5,025,000	-
USDA - Raw Water Line/Hydro Electric	-	922,510		922,510	15,242
M & T Bank - Garbage Truck	57,863		(23,002)	34,861	24,317
Subtotal	8,955,066	922,510	(508,991)	9,368,585	298,853
<b>Other Obligations</b>					
Compensated Absences	146,512		(3,313)	143,199	-
Accrued post employment health insurance	8,947	4,474		13,421	-
<b>Total Business-type Activity Long-term Obligations</b>	<b>\$ 9,110,525</b>	<b>\$ 926,984</b>	<b>\$ (512,304)</b>	<b>\$ 9,525,205</b>	<b>\$ 298,853</b>

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 5 installments of principal and interest and an additional 5 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 17 installments of principal and interest and an additional 16 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 8 installments of principal, interest, and issuance costs and an additional 8 installments of

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6**     **LONG TERM DEBT** - Continued

interest only remaining. On January 12, 2012, the City was notified by Maryland Department of the Environment that revolving loan funds in the amount of \$279,000 are available to the City for Phase VII-A, Taylor Street CSO Elimination Project. As of June 30, 2012, the City has not drawn on this loan.

The CDA bond payable for various projects is payable in variable annual installments of principal plus semi-annual installments for interest and issuance costs. Interest rates on the outstanding balance range from 2.00% to 4.50% and the issuance fees range from \$707 to \$806 per installment. The bond is insured and has 11 installments of principal, interest, and issuance costs and an additional 11 installments of interest and issuance costs only remaining.

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 15 installments of principal and interest and an additional 17 installments of interest only.

The loan payable to the United States Department of Agriculture for the water transmission hydro-electric project is payable in 160 quarterly installments of \$8,395 representing principal and interest. 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 17 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 \$68,832. The related amortization of the truck is included in depreciation expense.

The annual requirements to amortize all general long-term debt, as of June 30, 2012 and the effect of the refinancing on September 28, 2012, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		Total
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
2013	60,000	66,216	298,853	349,221	358,853	415,437	774,290
2014	60,000	62,872	566,101	251,589	626,101	314,461	940,562
2015	80,000	59,529	598,290	236,105	678,290	295,634	973,924
2016	70,000	56,026	621,143	219,491	691,143	275,517	966,660
2017	44,089	52,142	640,011	201,903	684,100	254,045	938,145
2018-2022	260,000	213,775	3,436,201	716,208	3,696,201	929,983	4,626,184
2023-2027	355,000	115,542	2,346,367	243,732	2,701,367	359,274	3,060,641
2028-2032	175,000	11,372	507,031	68,867	682,031	80,239	762,270
2033-2037		-	118,256	49,640	118,256	49,640	167,896
2038-2042			130,660	37,235	130,660	37,235	130,660
2043-2047			144,365	23,530	144,365	23,530	144,365
2048-2052			158,306	8,352	158,306	8,352	158,306
	<u>\$ 1,104,089</u>	<u>\$ 637,474</u>	<u>\$ 9,565,584</u>	<u>\$ 2,405,873</u>	<u>\$ 10,669,673</u>	<u>\$ 3,043,347</u>	<u>\$ 13,643,903</u>

**CITY OF FROSTBURG, MARYLAND**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6**     **LONG TERM DEBT** - Continued

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 1,084,089
Community legacy note repayments	20,000
Sewer charges	137,814
Water surcharges	9,195,910
Garbage charges	34,861
	\$ 10,472,674

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 \$67,908 in the General Fund, and \$320,852 in the Proprietary Funds for the year ended June 30, 2012.

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

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

**NOTE 8**     **PENSION PLAN**

On December 6, 1982 the City adopted a money purchase pension plan that covers substantially all of its employees. All contributions, through ICMA, are invested with the consent of the pension committee. Employees may make voluntary contributions up to 10% of their annual compensation. The City contributes 9% of total compensation for all employees who have at least one year of service, are twenty-one years of age, have at least 1,000 hours of service, and are not members of a union. Employees become fully vested after 5 years of service. For the year ended June 30, 2012, the city contributed \$3,439 to this plan for one city employee. Effective July 1, 2006, all eligible city employees entered into Maryland's State Retirement and Pension System (SRPS). In doing so the City no longer contributes to the ICMA plan for these employees.

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.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8**     **PENSION PLAN** - Continued

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 2012 was 9.83%, 9.72% for fiscal year 2011, and 6.47% for fiscal year 2010. 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 \$158,633 for the year ended June 30, 2012, \$152,102 for the year ended June 30, 2011, and \$100,723 for the year ended June 30, 2010. 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. This change was not included in the actuarial calculation of the City’s post-retirement benefit as of June 30, 2012 and the effect of the policy change on the calculation is not known.

***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, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9**     **POSTEMPLOYMENT HEALTHCARE PLAN** - Continued

Annual Required Contribution	\$ 18,446
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	\$ 18,446
Contributions Made	1,499
Increase in Net Obligation	\$ 16,947
Net OPEB Obligation (Beginning of year)	\$ 33,894
Net OPEB Obligation (End of year)	\$ 50,841

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

Ended	Annual OPEB Cost	Cost Contributed	Obligation
6/30/2012	18,446	8.1%	16,947
6/30/2011	18,446	8.1%	16,947
6/30/2010	18,446	8.1%	16,947

***Funded Status and Funding Progress*** – As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$138,183. The covered payroll (annual payroll of active employees covered by the plan) was \$1,644,898 and the ratio of the UAAL to the covered payroll was 8.4%.

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.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9**     **POSTEMPLOYMENT HEALTHCARE PLAN** - Continued

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, 2009 was 30 years.

**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 November 1, 2007 through 2012 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 \$1,989,913 and the related accumulated depreciation through June 30, 2012 was \$625,313.

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, 2012 was \$182,715.

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

2013	\$ 36,238
2014	8,451
2015	8,703
2016	2,192
2017	-
Total	<u>\$ 55,584</u>

On November 28, 2008, the City entered into an operating lease with Queen City Business Systems for a copy machine. The lease requires 60 monthly payments of \$200 per month and is set to expire on November 28, 2013.

On September 19, 2008, the City entered into an operating lease with Pitney Bowes for a postage machine. The lease requires 60 monthly payments of \$195 per month and is set to expire September 19, 2013.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 11    OPERATING LEASE - Continued**

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.

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

2013	\$ 7,068
2014	3,913
2015	2,328
2016	1,746
2017	-
Total	<u>\$ 15,055</u>

Rental income for the Armory building totaled \$84,103 for the year ended June 30, 2012. Rent expense for the copy machines and postage machine totaled \$7,068 for the year ended June 30, 2012.

**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 \$11,411 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 13    COMMITMENTS AND SUBSEQUENT EVENTS**

By June 30, 2012, Phase VII-A, Taylor Street CSO Elimination Project, was under contract to complete sewer separation and related work from Taylor Street to Mechanic Street, Mechanic Street to Maple Street as well as Aspinal Street to Maple Street. The work was 22.6% complete, using \$600,000 in Maryland Department of the Environment grant funds, \$500,000 from Community Development Block Grant and \$279,000 in Revolving Loan Funds also from MDE. City cash completed the total budget estimated at \$1,738,471.

In addition, as of June 30, 2012, the City had been notified that Phase VII-B-1 Paul Street CSO Elimination Project had been identified for funding by the Maryland Department of the Environment in the Federal Fiscal Year 2012 Water Quality State Revolving Fund (WQSRF), effective June 29, 2012. Preliminary design was underway with projected costs of \$976,830. \$470,000 of the WQSRF is the estimated principal forgiveness loan amount with \$67,000 required to be borrowed and repaid to obtain the loan forgiveness funds. City staff is meeting weekly to determine possible avenues to obtain additional funding for the project.

**CITY OF FROSTBURG, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 11      COMMITMENTS AND SUBSEQUENT EVENTS - Continued**

As of June 30, 2012, the City had been notified that the Savage Raw Water & Energy Conservation Project had been identified for funding by the Maryland Department of the Environment in the Federal Fiscal Year 2012 Drinking Water State Revolving Fund (DWSRF), effective June 29, 2012. Preliminary design was underway with projected costs of \$892,000. \$79,750 of the DWSRF is the estimated principal forgiveness loan amount with \$239,250 required to be borrowed and repaid to obtain the loan forgiveness funds. Another portion of this project was considered eligible for Green Grant funding in the amount of \$100,000. The City has applied for additional funding for this project through Community Development Block Grant and has requested MDE to reconsider the portion of the projects eligible for Green Grant.

As of June 30, 2012 the City was under contract with a design firm to produce preliminary design drawings in support of the Braddock Road Access and Safety Improvements Project, Phase I project, under the provisions of a master plan approved by the State and designed to adjust an intersection to allow development of key commercial sites near Interchange 33 of I-68. 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. Preliminary 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 2013	\$ 429,820
Fiscal Year 2014	442,324
Fiscal Year 2015	451,516
Fiscal Year 2016	466,713
Total	<u>\$ 1,790,373</u>

The City evaluated subsequent events through November 21, 2012 for possible inclusion in the financial statements and for potential required disclosures.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Budgetary Basis	
	Original	Final		
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,070,644	\$ 2,075,644	\$ 2,144,357	\$ 68,713
Income taxes	400,000	350,000	384,949	34,949
Hotel motel tax	145,000	145,000	151,267	6,267
Highway use tax	16,600	70,000	103,085	33,085
Other taxes	108,400	129,400	153,116	23,716
Police protection grant	76,050	76,050	86,306	10,256
Public safety revenue	63,920	115,000	111,502	(3,498)
Licenses and permits	39,240	33,500	35,441	1,941
COPS grants	-	45,000	54,425	9,425
Rental program revenue	93,200	81,200	82,159	959
Recreational activities	65,000	62,000	89,238	27,238
Grant income - other	26,507	261,507	377,435	115,928
Transfers from other funds	287,424	287,424	287,424	-
Other income	305,091	138,691	241,652	102,961
Interest	5,000	3,000	2,579	(421)
<b>TOTAL GENERAL FUND REVENUE</b>	<b>3,702,076</b>	<b>3,873,416</b>	<b>4,304,935</b>	<b>431,519</b>
<b>EXPENDITURES</b>				
Administration	816,473	951,171	878,071	73,100
Public safety	1,593,669	1,528,764	1,438,175	90,589
Street department	868,864	964,161	881,125	83,036
Recreation department	423,070	429,320	461,460	(32,140)
<b>TOTAL EXPENDITURES</b>	<b>3,702,076</b>	<b>3,873,416</b>	<b>3,658,831</b>	<b>214,585</b>
<b>EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 646,104</b>	<b>\$ 646,104</b>

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	\$ 4,304,935
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(287,424)
Proceeds from the sale of capital assets is income from budgetary resources but are not revenues for financial reporting purposes.	(29,896)
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.	(92,864)
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>	<b>\$ 3,894,751</b>

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 recreation department expenditures exceeded the final budgeted figure as a result of the completion of the recreation maintenance building and the work in progress on the basketball court and the swimming pool ADA chair lift projects.

The public safety department expenditures were less than the final budgeted figure as a result of savings in salaries and benefits during the hiring process for new officers.

The street department expenditures were less than the final budgeted figure as a result of the capitalization of budgeted projects.

Grant income exceeded the final budgeted figure as a result of reimbursements from Everpower Wind Holdings and the accrual of the Appalachian Regional Commission Grant for the Braddock Road Improvements Study.

Miscellaneous income exceeded the final budgeted figure as a result of the following:

- 2012 Bicentennial Fund contributions.
- Gain on disposal of assets.
- Value of real property received from tax sale.

**CITY OF FROSTBURG, MARYLAND**  
**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	\$0	\$138,183	0.0%	\$138,183	\$1,644,898	8.4%

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