

**CITY OF FROSTBURG, MARYLAND**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

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Certified Public Accountants

# CITY OF FROSTBURG, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council  
City of Frostburg, Maryland

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland, as of June 30, 2014, 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.

## ***Change in Accounting Principle***

As described in Note 15 to the financial statements, in 2014, the City adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 14, the budgetary comparison information on pages 44 – 45, and the "Schedule of Funding Progress – Other Post-Employment Benefit Plan Contribution" on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the City of Frostburg, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Frostburg, Maryland's internal control over financial reporting and compliance.

*Huber, Michael & Company*

Cumberland, Maryland  
December 1, 2014

**CITY OF FROSTBURG, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

## **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, 2014. 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 \$33,521,429.
- The government's total net position increased by \$963,643, primarily due to increases in the government-type and business-type activities net position resulting from \$1,062,621 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 \$2,928,184, a decrease of \$720,040 in comparison with the prior year. Approximately 91 percent of this total amount, or \$2,660,759, 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 \$2,660,759, or 52 percent of total general fund expenditures for the fiscal year.
- The City of Frostburg's total debt decreased by \$981,274, or 9 percent during the current fiscal year.

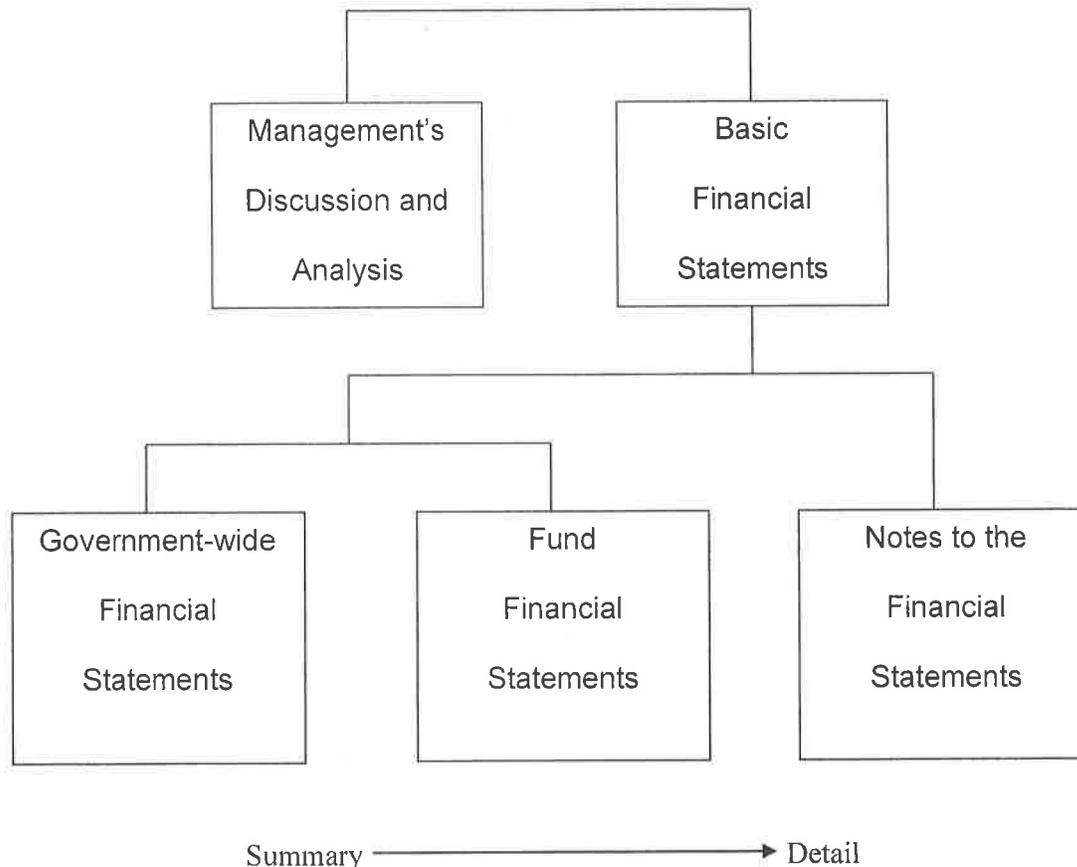
### **Overview of the Financial Statements**

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

The next statements (pages 17 - 23) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the city government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes (pages 24 – 43). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the city's

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

individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

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

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

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

The government-wide statements are divided into two categories: governmental activities and business-type activities. The governmental activities include most of the city's basic services such as public safety, streets, parks and recreation, and general administration. Taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the city charges customers to provide. These include the water, sewer and refuse services offered by the City of Frostburg.

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

### **Fund Financial Statements**

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

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

## **Management Discussion and Analysis**

### **City of Frostburg**

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

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 - 43 of this report.

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

The government-wide financial statements include the Statement of Net Position. The Statement of Net Position presents information on all of the City of Frostburg's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of

**Management Discussion and Analysis  
City of Frostburg**

Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Position and the Statement of Activities and can be found on pages 15 - 16 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013 as restated	2014	2013 as restated	2014	2013 as restated
Current and other assets	\$ 3,443,100	\$ 4,152,963	\$ 3,204,800	\$ 2,342,874	\$ 6,647,900	\$ 6,495,837
Non-current assets	80,653	111,746	-	-	80,653	111,746
Capital assets	10,163,151	10,216,405	28,107,776	28,058,635	38,270,927	38,275,040
Total assets	13,686,904	14,481,114	31,312,576	30,401,509	44,999,480	44,882,623
Long-term liabilities	465,354	1,366,680	8,873,033	9,204,909	9,338,387	10,571,589
Other liabilities	397,221	407,087	1,742,443	1,346,161	2,139,664	1,753,248
Total liabilities	862,575	1,773,767	10,615,476	10,551,070	11,478,051	12,324,837
Net assets:						
Invested in capital assets, net of related debt	10,045,169	10,134,026	18,768,531	18,624,507	28,813,700	28,758,533
Restricted	328,076	355,411	-	-	328,076	355,411
Unrestricted	2,451,084	2,217,940	1,928,569	1,225,932	4,379,653	3,443,872
Total net assets	\$ 12,824,329	\$ 12,707,377	\$ 20,697,100	\$ 19,850,439	\$ 33,521,429	\$ 32,557,816

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Frostburg exceeded liabilities by \$33,521,429 as of June 30, 2014. The majority of the net position is capital assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Frostburg's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Frostburg's net position (1%) represents resources that are subject to external restrictions on how they may be used.

The city's total net position increased by \$963,643 for the fiscal year ended June 30, 2014.

## Management Discussion and Analysis City of Frostburg

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

- Increase in property tax revenues.
- The grant and loan funding received for the Sewer Fund CSO Projects.
- The grant and loan funding received for the Savage Springs Project.
- The increase in Highway User Tax from the State of Maryland.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013 as restated	2014	2013 as restated	2014	2013 as restated
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 356,909	\$ 406,039	\$ 3,901,325	\$ 3,962,674	\$ 4,258,234	\$ 4,368,713
Operating grants and contributions	484,602	400,213	-	-	484,602	400,213
Capital grants and contributions	18,399	114,496	1,044,222	939,812	1,062,621	1,054,308
General revenues:						
Property taxes	2,268,163	2,217,595	-	-	2,268,163	2,217,595
Other taxes	868,270	747,840	-	-	868,270	747,840
Other	129,870	166,039	340,486	59,882	470,356	225,921
Total revenues	<u>4,126,213</u>	<u>4,052,222</u>	<u>5,286,033</u>	<u>4,962,368</u>	<u>9,412,246</u>	<u>9,014,590</u>
<b>Expenses:</b>						
General government	541,717	703,374	-	-	541,717	703,374
Public safety	1,709,115	1,564,234	-	-	1,709,115	1,564,234
Public works	1,055,385	930,344	-	-	1,055,385	930,344
Recreation and parks	487,203	516,696	-	-	487,203	516,696
Community development	232,941	168,411	-	-	232,941	168,411
Code enforcement	158,392	150,241	-	-	158,392	150,241
Interest on long-term debt	59,078	64,798	-	-	59,078	64,798
Water, sewer and garbage	-	-	4,204,772	4,184,431	4,204,772	4,184,431
Total expenses	<u>4,243,831</u>	<u>4,098,098</u>	<u>4,204,772</u>	<u>4,184,431</u>	<u>8,448,603</u>	<u>8,282,529</u>
Change in net position before transfers and donations	(117,618)	(45,876)	1,081,261	777,937	963,643	732,061
Transfers	234,600	268,000	(234,600)	(268,000)	-	-
Change in net position	116,982	222,124	846,661	509,937	963,643	732,061
Net assets, July 1	12,707,347	12,485,223	19,850,439	19,340,502	32,557,786	31,825,725
Net position, June 30, 2014	<u>\$ 12,824,329</u>	<u>\$ 12,707,347</u>	<u>\$ 20,697,100</u>	<u>\$ 19,850,439</u>	<u>\$ 33,521,429</u>	<u>\$ 32,557,786</u>

## **Management Discussion and Analysis**

### **City of Frostburg**

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

Governmental activities increased the city's net position by \$116,982. The key elements of this increase are as follows:

- The increase in property tax revenues.
- The increase in Highway User Tax by the State of Maryland.

**Business-type activities:** Business-type activities increased the City of Frostburg's net position by \$846,661. The key elements of this increase are as follows:

- The grant funding received for the Savage Springs water project.
- The grant funding received for the Phase VIIB-2 CSO 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 \$2,096,894, while total fund balance was \$2,660,759. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

At June 30, 2014, the governmental funds of the City of Frostburg reported a combined fund balance of \$2,928,184, a 20 percent decrease over last year. Included in this change in fund balance is a decrease in fund balance in the General Fund and an increase 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

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

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 \$2,408 and is summarized as follows:

Increase in administration	\$ 19,393
Increase in public safety	11,415
Decrease in public works	(24,400)
Decrease in recreation department	(4,000)
Total change in budget	<u>\$ 2,408</u>

During the year actual revenues exceeded the amended budget by \$231,557. Maryland income taxes were \$57,729 greater than estimated. Highway use tax was \$16,880 higher than expected and recreation activities were \$12,271 greater than anticipated. Grant income was \$91,529 higher than anticipated and police grants were \$17,075 greater than expected.

Expenditures were greater than the final budgetary estimates by \$955,357 or 23% as a result of early extinguishment of debt. Departments worked hard to stay within their budget and were encouraged to avoid unnecessary expenditures.

**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water, Water Surcharge, Sewer and Garbage Funds at the end of the fiscal year amounted to \$1,928,569. The total increase in net position from current year operations was \$846,661. 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, 2014 totals \$38,270,927 (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:

- Work in progress on the Phase VIIB-2 CSO Project of \$117,649.
- Work in progress of the Savage Springs project of \$733,635.
- Completion of 2013/14 street paving of \$114,694
- Purchase of a new plow truck of \$116,161.
- Purchase of Live Scan fingerprinting machine of \$33,400.
- Purchase of 2014 police interceptor SUV \$25,657.

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

	(net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land and construction in progress	\$ 2,307,801	\$ 2,284,803	\$ 1,328,942	\$ 628,876	\$ 3,636,743	\$ 2,913,679
Buildings and systems	2,962,696	3,030,130	3,577,472	3,841,336	6,540,168	6,871,466
Improvements other than buildings	517,211	571,988	7,911,096	8,242,098	8,428,307	8,814,086
Machinery and equipment	503,973	408,854	310,072	349,148	814,045	758,002
Infrastructure	3,871,470	3,920,630	14,980,194	14,997,177	18,851,664	18,917,807
Total	\$10,163,151	\$10,216,405	\$28,107,776	\$28,058,635	\$38,270,927	\$38,275,040

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, 2014 the City of Frostburg had total bonded debt outstanding of \$9,477,227. Of this, \$137,982 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 137,982	\$ 1,042,388			\$ 137,982	\$ 1,042,388
Revenue bonds			\$ 9,339,245	\$ 9,434,128	\$ 9,339,245	\$ 9,434,128
<b>Total</b>	<b>\$ 137,982</b>	<b>\$ 1,042,388</b>	<b>\$ 9,339,245</b>	<b>\$ 9,434,128</b>	<b>\$ 9,477,227</b>	<b>\$ 10,476,516</b>

The City of Frostburg's total debt decreased by \$999,289 (9.5%) during the past fiscal year. Debt principal payments during the past fiscal year were \$1,423,776.

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

**Economic Factors**

**Overview**

The Frostburg area economy was relatively stable during the 2013/14 Fiscal Year. Limited economic activity, either positive or negative, occurred. Similar to much of the nation, there were no major increases in employment or the announcements of major projects, but at the same time there were no major layoffs, closings or business failures. The result was stable, but relatively high unemployment and most unfortunately, ongoing low median family incomes. Impacting the City directly was a modest decrease in real property assessments on existing homes while commercial buildings saw increases in real property assessments.

The area, including the City of Frostburg, remains dominated by several large employers as well as national economic trends. Among the larger employers there are:

**Frostburg State University** – FSU remains the No. 1 factor in the Frostburg region economy. The number of full time jobs, growing enrollment and ongoing capital investments make the University the largest employer and the host of the largest construction projects. In addition the affiliated privately owned student rental industry, located in the neighborhoods surrounding the campus, provides additional capital investment, employment and property assessment support to the community.

During the last two years FSU has had one of the largest construction projects underway in the \$70 million Center for Communications and Information Technology (CCIT). The

## **Management Discussion and Analysis**

### **City of Frostburg**

CCIT will house several disciplines as well as a new planetarium and state-of-the-art green features related to lighting, HVAC and storm water.

Other important elements of the University's impact on the community include the Allegany Business Center at FSU and the tenants of the facility in that business park that employ hundreds of people; the FSU Cultural Events Series which brings regional, national and international performing arts to the campus, which attracts thousands of ticket buyers to the community for these performances; and FSU faculty and staff involvement in organizations and special events such as FrostburgFirst Main Street Program, Frostburg Business and Professional Association and the Frostburg Children's Literature Center.

**Customer Service Call Centers** – Three private companies make up the customer service call center sector in Frostburg, represent 1,124 jobs. The sector attracts both full and part time employees to fill general and specialized positions such as in health care. It also requires a number of IT and telecom professionals to manage the technology the companies deploy. Among the three, Hamilton Communications had an expansion during the year.

**Tourism** – The tourism sector is very diverse in Frostburg and is growing. In Frostburg is the second convergence of the Western Maryland Scenic Railroad and the Great Allegheny Passage. The two bring tens of thousands short term visitors to the City with a growing number of visitors who stay one or more nights or return based upon their initial visit. The other significant player in the tourism sector is again Frostburg State University. FSU's Cultural Events Series, sports camps and special events such as Homecoming, Family Weekend and Freshman Summer Planning brings thousands to the City. Another element of tourism in Frostburg are the special events led by the largest each year in the Cruisin Main Street in late August, followed shortly by the annual Block Party. In addition the annual Elks Derby Day, Appalachian Festival, Roots Music Series and Storybook Holiday attract thousands more each year. Within this element the events that are based on music have been growing with the addition of the Tri-State Banjo and Fiddle Championships and the participation of the Dell McCoury organization in that event.

**Other Sectors** – There are several other economic sectors that collectively have a major impact on Frostburg. These include: Energy with coal and wind providing jobs both permanent and construction, the Construction Industry with firms like Braddock Construction, Lashley Construction, Bill Miller Equipment and Ruby Contracting and Industrial Supply providing numerous good paying jobs, public education, specifically K – 12 is a large employer in the City with jobs at Mt. Ridge High School, Frost Elementary, Beall Elementary and the Alternative School in Eckhart. Finally, there are other significant employers in the region that employ Frostburg residents. They include CSX Transportation, NewPage Luke Paper Mill, ATK Tactical Systems, Western Maryland Health System-Hospital, Federal Bureau of Prisons, Maryland Corrections – (2) Facilities and Allegany College of Maryland. Employment among these larger regional employers has been stable or slightly declining.

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

### **Summary**

The ongoing national/global economic instability has an impact on all communities, including Frostburg. However the current situation in the Frostburg region is showing more signs of economic difficulty related to the stagnation of current employers and wages. Following these factors into the operations of the City government, the impact is seen in reduced residential real property assessments and population projections that continue to indicate decline in the near term. The City government will carefully plan spending in light of these issues.

### **Budget Highlights for the Fiscal Year Ending June 30, 2015**

**Governmental Activities:** Property tax revenue is expected to remain stable. The City will once again 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 decrease 3 percent. The decrease is a result of extinguishing the pension debt during the FYE 6/30/14, thereby reducing debt service.

**Business – type Activities:** The water and sewer rates will be unchanged. CSO surcharge and garbage rates will remain the same. Water surcharge fees will be reduced for all customers for a committed period of 2 years. Fees for water tap connections are unchanged for construction requiring the installation of a water tap. Fees for construction where a water tap exists have been established to provide for existing residential and commercial water tap credits to properties approved by the City Engineer. Meter fees are unchanged.

Capital projects budgeted include the continuation of the combined sewer overflow elimination projects with the completion of the Phase VIIB-2 CSO Project in the Sewer Fund; the completion of Phase I of the Savage Raw Water and Energy Conservation Project and the start of Phase II of the Savage Raw Water and Energy Conservation Project in the Water Surcharge Fund. An engineering study is underway on the main 16” water line through town as well as engineering and materials to complete relining the Frostburg Supply Dam located on Big Savage Mountain. Finally, funding has been secured for the replacement of the emergency generator at the Frostburg Water Treatment Plant. Additional funding for the purchase and installation of an emergency generator at the Savage Raw Water Supply Dam is anticipated.

### **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 POSITION  
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,448,404	\$ 2,730,291	\$ 5,178,695
Cash and cash equivalents - restricted	2,512	-	2,512
Certificate of deposit	98,325	-	98,325
Certificate of deposit - restricted	25,025	-	25,025
Accounts receivable	395,682	947,661	1,343,343
Internal balances	473,152	(473,152)	-
<b>Total Current Assets</b>	<u>3,443,100</u>	<u>3,204,800</u>	<u>6,647,900</u>
<b>Capital Assets</b>			
Non-depreciable	2,307,801	1,328,942	3,636,743
Depreciable, net of accumulated depreciation	7,855,350	26,778,834	34,634,184
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>10,163,151</u>	<u>28,107,776</u>	<u>38,270,927</u>
<b>Non-current Assets</b>			
Notes receivable	80,653	-	80,653
<b>Total Non-current Assets</b>	<u>80,653</u>	<u>-</u>	<u>80,653</u>
<b>TOTAL ASSETS</b>	<u>\$ 13,686,904</u>	<u>\$ 31,312,576</u>	<u>\$ 44,999,480</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	\$ 243,965	\$ 918,105	\$ 1,162,070
Salaries and benefits payable	77,056	25,677	102,733
Unearned revenue	25,000	132,713	157,713
Current portion of long-term debt	51,200	665,948	717,148
<b>Total Current Liabilities</b>	<u>397,221</u>	<u>1,742,443</u>	<u>2,139,664</u>
<b>Noncurrent Liabilities:</b>			
Compensated absences	329,152	184,554	513,706
Accrued post employment health insurance	49,420	15,182	64,602
Long-term debt	86,782	8,673,297	8,760,079
<b>Total Noncurrent Liabilities</b>	<u>465,354</u>	<u>8,873,033</u>	<u>9,338,387</u>
<b>TOTAL LIABILITIES</b>	<u>862,575</u>	<u>10,615,476</u>	<u>11,478,051</u>
<b>NET POSITION</b>			
Net investment in capital assets	10,045,169	18,768,531	28,813,700
Restricted	328,076	-	328,076
Unrestricted	2,451,084	1,928,569	4,379,653
<b>TOTAL NET POSITION</b>	<u>\$ 12,824,329</u>	<u>\$ 20,697,100</u>	<u>\$ 33,521,429</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, 2014

Primary Government Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 541,717	\$ 206,669	\$ 23,285	\$ -	\$ (311,763)	\$ -	\$ (311,763)
Public safety	1,709,115	68,319	326,217	-	(1,314,579)	-	(1,314,579)
Public works	1,055,385	-	45,955	18,399	(991,031)	-	(991,031)
Recreation and parks	487,203	78,271	-	-	(408,932)	-	(408,932)
Community development	232,941	-	89,145	-	(143,796)	-	(143,796)
Code enforcement	158,392	3,650	-	-	(154,742)	-	(154,742)
Interest on long-term debt	59,078	-	-	-	(59,078)	-	(59,078)
<b>Total Governmental Activities</b>	<b>4,243,831</b>	<b>356,909</b>	<b>484,602</b>	<b>18,399</b>	<b>(3,383,921)</b>	<b>-</b>	<b>(3,383,921)</b>
<b>Business-type Activities:</b>							
Water	1,231,084	1,066,920	-	-	(164,164)	(164,164)	(164,164)
Sewer	1,687,714	1,600,783	-	493,095	-	406,164	406,164
Water Surcharge	977,528	843,966	-	551,127	-	417,565	417,565
Garbage	308,446	389,656	-	-	-	81,210	81,210
<b>Total Business-type Activities</b>	<b>4,204,772</b>	<b>3,901,325</b>	<b>-</b>	<b>1,044,222</b>	<b>-</b>	<b>740,775</b>	<b>740,775</b>
<b>Total Primary Government</b>	<b>\$ 8,448,603</b>	<b>\$ 4,258,234</b>	<b>\$ 484,602</b>	<b>\$ 1,062,621</b>	<b>(3,383,921)</b>	<b>740,775</b>	<b>(2,643,146)</b>
<b>General Revenues:</b>							
Taxes							
Net property taxes					2,268,163	-	2,268,163
Income taxes					457,729	-	457,729
Highway use tax					228,395	-	228,395
Hotel motel tax					154,855	-	154,855
Admission taxes					27,291	-	27,291
Rental income					92,995	-	92,995
Licenses and permits					30,973	-	30,973
Interest earnings					7,478	2,986	10,464
Miscellaneous revenues					4,903	337,500	342,403
Gain (loss) on disposal of fixed assets					(6,479)	-	(6,479)
Transfers					234,600	(234,600)	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>3,500,903</b>	<b>105,886</b>	<b>3,606,789</b>
<b>Change in Net Position</b>					<b>116,982</b>	<b>846,661</b>	<b>963,643</b>
<b>Net Position - July 1, 2013, as previously stated</b>					<b>12,718,897</b>	<b>19,999,774</b>	<b>32,718,671</b>
<b>Prior Period Adjustment</b>					<b>(11,550)</b>	<b>(149,335)</b>	<b>(160,885)</b>
<b>Net Position - July 1, 2013, as restated</b>					<b>12,707,347</b>	<b>19,850,439</b>	<b>32,557,786</b>
<b>Net Position - June 30, 2014</b>					<b>\$ 12,824,329</b>	<b>\$ 20,697,100</b>	<b>\$ 33,521,429</b>

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

**CITY OF FROSTBURG, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,106,407	\$ 341,997	\$ 2,448,404
Cash and cash equivalents - restricted	2,512	-	2,512
Certificate of deposit	98,325	-	98,325
Certificate of deposit - restricted	25,025	-	25,025
Accounts receivable	379,542	16,140	395,682
Interfund receivables	563,865	(90,712)	473,153
<b>TOTAL ASSETS</b>	<u>\$ 3,175,676</u>	<u>\$ 267,425</u>	<u>\$ 3,443,101</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 243,185	\$ -	\$ 243,185
Salaries and benefits payable	77,614	-	77,614
Advanced revenue	25,000	-	25,000
<b>TOTAL LIABILITIES</b>	<u>345,799</u>	<u>-</u>	<u>345,799</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - Property taxes	169,118	-	169,118
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>169,118</u>	<u>-</u>	<u>169,118</u>
<b>FUND BALANCES</b>			
Nonspendable - Interfund receivables	563,865	-	563,865
Restricted - Community Development Block Grants	-	267,425	267,425
Unassigned	2,096,894	-	2,096,894
<b>TOTAL FUND BALANCE</b>	<u>2,660,759</u>	<u>267,425</u>	<u>2,928,184</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 3,175,676</u>	<u>\$ 267,425</u>	<u>\$ 3,443,101</u>

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

CITY OF FROSTBURG, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

<b>Total Fund Balances - Governmental Funds</b>		\$ 2,928,184
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets, net of accumulated depreciation		10,163,151
Accounts receivable from taxes not collected within 60 days of year end are reported as deferred inflows of resources in the governmental funds.		
Deferred inflows of resources from taxes receivable		169,118
Notes receivable do not provide current resources and are not reported in the governmental funds.		80,653
Accrued interest is recorded on fund statements only when due.		(223)
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	(86,782)	
Current portion of long-term debt	(51,200)	
Accrued post employment health insurance	(49,420)	
Compensated absences	(329,152)	
	(516,554)	
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>		<b>\$ 12,824,329</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, 2014**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes			
Net property tax revenue	\$ 2,283,183	\$ -	\$ 2,283,183
Income taxes	457,729	-	457,729
Hotel motel tax	154,855	-	154,855
Highway use tax	228,395	-	228,395
Other taxes	119,293	-	119,293
Police protection grant	142,186	-	142,186
Public safety revenue	92,184	-	92,184
Licenses and permits	30,973	-	30,973
COPS grants	51,339	-	51,339
Rental program revenue	78,903	-	78,903
Recreational activities	78,271	-	78,271
Grant income - other	218,831	89,145	307,976
Other income	21,951	31,095	53,046
Interest	4,116	3,361	7,477
	<u>3,962,209</u>	<u>123,601</u>	<u>4,085,810</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Administration	896,741	27,791	924,532
Public safety	1,678,287	-	1,678,287
Street department	779,280	-	779,280
Recreation department	390,841	-	390,841
Debt service	1,017,591	-	1,017,591
Capital outlays	365,675	92,050	457,725
	<u>5,128,415</u>	<u>119,841</u>	<u>5,248,256</u>
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,166,206)</u>	<u>3,760</u>	<u>(1,162,446)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers	234,600	-	234,600
Note proceeds	113,186	-	113,186
Proceeds from sale of capital assets	1,625	-	1,625
Rental income	92,995	-	92,995
	<u>442,406</u>	<u>-</u>	<u>442,406</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
<b>NET CHANGE IN FUND BALANCES</b>	(723,800)	3,760	(720,040)
<b>FUND BALANCE - JULY 1, 2013</b>	<u>3,384,559</u>	<u>263,665</u>	<u>3,648,224</u>
<b>FUND BALANCE - JUNE 30, 2014</b>	<u>\$ 2,660,759</u>	<u>\$ 267,425</u>	<u>\$ 2,928,184</u>

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

CITY OF FROSTBURG, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balance - Governmental Funds \$ (720,040)

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

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

Expenditures for capital assets	365,675	
Less current year depreciation	<u>(410,826)</u>	(45,151)

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		(8,104)
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Repayment of note proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

1,017,591

Proceeds from notes are reported as other financing sources in the governmental funds, but they are recorded as long-term liabilities in the statement of net assets.

(113,186)

Governmental funds report notes issued to citizens for capital improvements as expenditures and the subsequent repayments of these notes as income; however, these transactions are not reported in the statement of activities.

Proceeds from notes receivable	<u>(31,095)</u>	(31,095)
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Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

Change in deferred inflows of resources		(15,020)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in accrued interest		26,262
Change in accrued post employment health insurance		(3,804)
Change in compensated absences		9,529

**TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ 116,982

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2014

	Water	Sewer	Water Surcharge	Garbage	Total
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 414,842	\$ 299,469	\$ 1,764,669	\$ 251,311	\$ 2,730,291
Accounts receivable	185,443	407,629	294,868	59,721	947,661
Due from other proprietary funds	199,518	-	-	-	199,518
<b>Total Current Assets</b>	<u>799,803</u>	<u>707,098</u>	<u>2,059,537</u>	<u>311,032</u>	<u>3,877,470</u>
<b>Capital Assets</b>					
Non-depreciable	-	335,056	993,886	-	1,328,942
Depreciable, net of accumulated depreciation	1,027,596	12,326,344	13,371,709	53,185	26,778,834
<b>Total Capital Assets, net of accumulated depreciation</b>	<u>1,027,596</u>	<u>12,661,400</u>	<u>14,365,595</u>	<u>53,185</u>	<u>28,107,776</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,827,399</u>	<u>\$ 13,368,498</u>	<u>\$ 16,425,132</u>	<u>\$ 364,217</u>	<u>\$ 31,985,246</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	\$ 134,864	\$ 520,084	\$ 255,469	\$ 7,688	\$ 918,105
Salaries and benefits payable	10,291	9,425	269	5,692	25,677
Due to other funds	351,744	110,486	-	10,922	473,152
Unearned revenue	-	48,258	51,630	32,825	132,713
Due to other proprietary funds	-	22,665	176,853	-	199,518
Current portion of long-term debt	-	33,898	632,050	-	665,948
<b>Total Current Liabilities</b>	<u>496,899</u>	<u>744,816</u>	<u>1,116,271</u>	<u>57,127</u>	<u>2,415,113</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	84,954	55,385	-	44,215	184,554
Accrued post employment health insurance	5,879	6,331	-	2,972	15,182
Notes payable, less current portion	-	414,256	8,259,041	-	8,673,297
<b>Total Noncurrent Liabilities</b>	<u>90,833</u>	<u>475,972</u>	<u>8,259,041</u>	<u>47,187</u>	<u>8,873,033</u>
<b>TOTAL LIABILITIES</b>	<u>587,732</u>	<u>1,220,788</u>	<u>9,375,312</u>	<u>104,314</u>	<u>11,288,146</u>
<b>Net Position</b>					
Net investment in capital assets	1,027,596	12,213,246	5,474,504	53,185	18,768,531
Unrestricted - undesignated	212,071	(65,536)	1,575,316	206,718	1,928,569
<b>Total Net Position</b>	<u>1,239,667</u>	<u>12,147,710</u>	<u>7,049,820</u>	<u>259,903</u>	<u>20,697,100</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,827,399</u>	<u>\$ 13,368,498</u>	<u>\$ 16,425,132</u>	<u>\$ 364,217</u>	<u>\$ 31,985,246</u>

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

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	Water	Sewer	Water Surcharge (Restricted)	Garbage	Total
<b>OPERATING REVENUES</b>	\$ 1,066,920	\$ 1,600,783	\$ 843,966	\$ 389,656	\$ 3,901,325
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	115,342	513,447	711,027	13,467	1,353,283
Sewer operating	-	881,517	-	-	881,517
Salaries and wages	234,638	179,727	-	132,274	546,639
Filtration contract payments	402,936	-	-	-	402,936
Employee benefits	78,142	75,957	-	39,498	193,597
Other	182,828	18,232	46,288	18,937	266,285
Landfill charges	-	-	-	93,449	93,449
Distribution	82,175	-	-	-	82,175
Pumping system	70,550	-	-	-	70,550
Payroll taxes	17,362	12,466	-	9,416	39,244
Meters expense	43,371	-	-	-	43,371
Sanitation operating	-	-	-	1,311	1,311
Purification	3,742	-	-	-	3,742
<b>Total Operating Expenses</b>	<b>1,231,086</b>	<b>1,681,346</b>	<b>757,315</b>	<b>308,352</b>	<b>3,978,099</b>
<b>Operating Income (Loss)</b>	<b>(164,166)</b>	<b>(80,563)</b>	<b>86,651</b>	<b>81,304</b>	<b>(76,774)</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Project reimbursements	-	493,095	551,127	-	1,044,222
Water distribution purchase agreement	-	-	337,500	-	337,500
Interest revenue	699	-	2,191	97	2,987
Interest expense	-	(6,368)	(220,213)	(93)	(226,674)
<b>Total Non-operating Revenues (Expenses)</b>	<b>699</b>	<b>486,727</b>	<b>670,605</b>	<b>4</b>	<b>1,158,035</b>
<b>Income Before Transfers</b>	<b>(163,467)</b>	<b>406,164</b>	<b>757,256</b>	<b>81,308</b>	<b>1,081,261</b>
Transfers out	(105,000)	(109,600)	-	(20,000)	(234,600)
<b>Change in Net Position</b>	<b>(268,467)</b>	<b>296,564</b>	<b>757,256</b>	<b>61,308</b>	<b>846,661</b>
<b>TOTAL NET POSITION - JULY 1, 2013, as previously stated</b>	<b>1,508,134</b>	<b>11,851,146</b>	<b>6,441,899</b>	<b>198,595</b>	<b>19,999,774</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>(149,335)</b>	<b>-</b>	<b>(149,335)</b>
<b>TOTAL NET POSITION - JULY 1, 2013, as restated</b>	<b>1,508,134</b>	<b>11,851,146</b>	<b>6,292,564</b>	<b>198,595</b>	<b>19,850,439</b>
<b>TOTAL NET POSITION - JUNE 30, 2014</b>	<b>\$ 1,239,667</b>	<b>\$ 12,147,710</b>	<b>\$ 7,049,820</b>	<b>\$ 259,903</b>	<b>\$ 20,697,100</b>

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, 2014**

	Water	Sewer	Water Surcharge	Garbage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 1,073,848	\$ 1,591,765	\$ 684,435	\$ 392,438	\$ 3,742,486
Payments to vendors	(816,342)	(805,317)	(28,311)	(165,592)	(1,815,562)
Payments to employees	(229,452)	(167,763)	-	(124,120)	(521,335)
<b>Net Cash Provided By Operating Activities</b>	<u>28,054</u>	<u>618,685</u>	<u>656,124</u>	<u>102,726</u>	<u>1,405,589</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out	(105,000)	(109,600)	-	(20,000)	(234,600)
Change in due to/from other funds	(27,132)	(96,392)	(145,172)	10,418	(258,278)
<b>Net Cash Used In Noncapital Financing Activities</b>	<u>(132,132)</u>	<u>(205,992)</u>	<u>(145,172)</u>	<u>(9,582)</u>	<u>(492,878)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of capital assets	(5,063)	(809,611)	(688,636)	-	(1,503,310)
Principal paid on loans	-	(30,651)	(364,988)	(10,546)	(406,185)
Proceeds from loan	-	189,389	121,912	-	311,301
Project reimbursements	-	544,376	934,491	-	1,478,867
Interest paid on loans	-	(6,727)	(231,056)	(140)	(237,923)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>(5,063)</u>	<u>(113,224)</u>	<u>(228,277)</u>	<u>(10,686)</u>	<u>(357,250)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earned	699	-	2,191	97	2,987
<b>Net change in Cash</b>	<u>(108,442)</u>	<u>299,469</u>	<u>284,866</u>	<u>82,555</u>	<u>558,448</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>523,284</u>	<u>-</u>	<u>1,479,803</u>	<u>168,756</u>	<u>2,171,843</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 414,842</u>	<u>\$ 299,469</u>	<u>\$ 1,764,669</u>	<u>\$ 251,311</u>	<u>\$ 2,730,291</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
<b>Operating Income (Loss)</b>	\$ (164,166)	\$ (80,563)	\$ 86,651	\$ 81,304	\$ (76,774)
<b>Adjustments Not Affecting Cash</b>					
Depreciation	115,342	513,447	711,027	13,467	1,353,283
(Increase) decrease in accounts receivable	14,428	(7,061)	(157,390)	3,911	(146,112)
(Increase) decrease in prepaid expenses	1,628	1,368	-	772	3,768
Increase (decrease) in accounts payable and accrued expenses	61,073	180,480	17,977	(3,759)	255,771
Increase (decrease) in salaries and benefits payable	2,078	1,693	-	873	4,644
Increase (decrease) in unearned revenue	(7,500)	(1,957)	(2,141)	(1,129)	(12,727)
Increase (decrease) in accrued hospital insurance	2,063	1,007	-	6	3,076
Increase (decrease) in compensated absences	3,108	10,271	-	7,281	20,660
<b>Total Adjustments</b>	<u>192,220</u>	<u>699,248</u>	<u>569,473</u>	<u>21,422</u>	<u>1,482,363</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 28,054</u>	<u>\$ 618,685</u>	<u>\$ 656,124</u>	<u>\$ 102,726</u>	<u>\$ 1,405,589</u>

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

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 REPORTING ENTITY

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

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

#### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

##### A. Basis of Presentation

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

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct

CITY OF FROSTBURG

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

***Governmental Fund Types***

General Fund

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

Special Revenue Funds

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

***Proprietary Fund Types***

Water, Sewer, Water Surcharge, and Garbage Funds

The Water, Sewer, Water Surcharge, and Garbage Funds are enterprise funds used to account for the operations which are financed and operated in a manner similar to private businesses.

The intent is that the cost of providing the services to the public is to be financed or recovered primarily through user charges.

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – Continued

##### **C. Measurement Focus**

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

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

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

##### **D. Basis of Accounting**

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

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

**E. Budgets and Budgetary Accounting**

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

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

**F. Cash and Equivalents**

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

**G. Capital Assets**

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. 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% for 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 unless interim financing is not required.

**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, 2014, 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 \$513,706 has been recorded in the government-wide statement of net position, of which \$184,554 is from business-type activities. This represents an increase of \$11,136 from the prior year total of \$502,570. The change in compensated absences for business-type activities was an increase of \$20,660.

**J. Interfund Activity**

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

Exchange transactions between funds are 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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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, 2014 consisted of transfers of \$105,000 from the Water Fund, \$109,600 from the Sewer Fund, and \$20,000 from the Garbage Fund to the General Fund to help cover administrative overhead costs.

**K. Interfund Balances**

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

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 351,744
General	Sewer	110,466
General	Garbage	10,922
Special Revenue	Sewer	20
		<u>\$ 473,152</u>

**L. Deferred Inflows of Resources**

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

**M. Fund Balance**

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

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

#### **N. Operating Revenues and Expenses**

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

#### **O. Property Taxes**

Taxes are levied each July 1 on the assessed value listed as of the prior January 1 for all real property located within City boundaries which receive substantially all City services and payable without penalty until September 30. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. Assessed values are established by the Maryland Department of Assessments and Taxation based on estimates of fair market value. A revaluation of all property is required to be completed every three years and any increase in assessed value is phased in over a three year period. For the year ended June 30, 2014, the City had a tax margin of \$.5665 per \$100 assessed valuation.

#### **P. Credit Risk**

As of June 30, 2014, the City has recorded receivables from various entities and individuals. As these receivables are believed to be completely collectable, an allowance for doubtful accounts is not recorded. If an account is determined to be uncollectible, the direct write-off method is used. This does not produce a result materially different from the allowance method of accounting.

#### **Q. Estimates**

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

#### 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, 2014, the

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3** CASH AND INVESTMENTS - Continued

reconciled balances of the City's deposits were \$5,304,557 and the bank balances were \$5,314,011. Of the bank balances, \$250,200 was covered by federal depository insurance and \$5,063,811 was covered by collateral held by the financial institutions in the City's name.

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

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

At June 30, 2014, the City had a certificate of deposit in the amount of \$98,325 held at a local financial institution which matures in April 2015. The City also had a certificate of deposit in the amount of \$25,025 held at a local financial institution and restricted for a playground fund. This certificate of deposit matures in November 2015. Both certificates of deposit are included in the City's deposit figure of \$5,304,557.

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

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

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

**NOTE 4** ACCOUNTS RECEIVABLE

The City's accounts receivable as of June 30, 2014 consisted of the following:

	Governmental	Water	Sewer	Water Surcharge	Garbage	Total
Taxes	\$ 184,662	\$	\$	\$	\$	\$ 184,662
Intergovernmental	192,955		82,647	207,526		483,128
Charge for services		171,339	287,770	85,334	57,760	602,203
Interest		862	2,349	2,008	1,961	7,180
Other	18,065	13,242	34,863			66,170
Total	\$ 395,682	\$ 185,443	\$ 407,629	\$ 294,868	\$ 59,721	\$ 1,343,343

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4**    ACCOUNTS RECEIVABLE - Continued

At the end of the current fiscal year, \$132,713 of unearned revenues were recognized for billings done prior to June 30, 2014 that were for services after June 30, 2014 in the proprietary funds. In addition, \$169,118 of deferred inflows of resources were recognized as a result of unavailable revenue from property taxes in the governmental fund statements.

**NOTE 5**    CAPITAL ASSETS

Depreciation expense for governmental capital assets was charged to the following accounts as follows for the year ended June 30, 2014:

General Government	\$	87,460
Public Safety		25,381
Public Works		201,282
Recreation and Parks		96,703
Total	\$	<u>410,826</u>

(Note 5 continues on page 33.)

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

The following is a summary of the changes in the fixed asset accounts for the year ended June 30, 2014:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
<b>(Corporate)</b>					
Non-depreciable Assets					
Land	\$ 2,095,685	\$ -	\$ -	\$ -	\$ 2,095,685
Construction-in-progress	189,118	22,998	-	-	212,116
Total Non-depreciable Assets	2,284,803	22,998	-	-	2,307,801
Depreciable Assets					
Land Improvements	1,063,932	-	-	-	1,063,932
Buildings and Improvements	4,907,825	52,765	(14,000)	-	4,946,590
Infrastructure	5,828,014	114,694	-	-	5,942,708
Machinery & equipment	1,288,877	175,219	(72,694)	-	1,391,402
Total Depreciable Assets	13,088,648	342,678	(86,694)	-	13,344,632
Less, Accumulated Depreciation for:					
Land Improvements	491,944	54,777	-	-	546,721
Buildings and Improvements	1,877,695	118,169	(11,970)	-	1,983,894
Infrastructure	1,907,384	163,854	-	-	2,071,238
Machinery & equipment	880,023	74,026	(66,620)	-	887,429
Total Accumulated Depreciation	5,157,046	410,826	(78,590)	-	5,489,282
Depreciable Assets, net of accumulated depreciation	7,931,602	(68,148)	(8,104)	-	7,855,350
Total Governmental Capital Assets, net of accumulated depreciation	\$10,216,405	\$ (45,150)	\$ (8,104)	\$ -	\$ 10,163,151
<b>Business-type Activities</b>					
<b>(Water, Water Surcharge, Sewer, and Garbage)</b>					
Non-depreciable Assets					
Land	\$ 48,299	\$ -	\$ -	\$ -	\$ 48,299
Construction-in-progress	580,577	1,358,375	-	(658,309)	1,280,643
Total Non-depreciable Assets	628,876	1,358,375	-	(658,309)	1,328,942
Depreciable Assets					
Land Improvements	15,347,454	5,830	-	-	15,353,284
Buildings and Improvements	8,304,108	5,063	-	-	8,309,171
Infrastructure	19,683,234	-	-	658,309	20,341,543
Machinery & equipment	1,134,240	33,156	-	-	1,167,396
Total Depreciable Assets	44,469,036	44,049	-	658,309	45,171,394
Less, Accumulated Depreciation for:					
Land Improvements	7,105,356	336,832	-	-	7,442,188
Buildings and Improvements	4,462,772	268,927	-	-	4,731,699
Infrastructure	4,686,057	675,292	-	-	5,361,349
Machinery & equipment	785,092	72,232	-	-	857,324
Total Accumulated Depreciation	17,039,277	1,353,283	-	-	18,392,560
Depreciable Assets, net of accumulated depreciation	27,429,759	(1,309,234)	-	658,309	26,778,834
Total Business-type Capital Assets, net of accumulated depreciation	\$28,058,635	\$ 49,141	\$ -	\$ -	\$ 28,107,776

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6**      **LONG TERM DEBT**

The following is a summary of the changes in long-term debt for the year ended June 30, 2014:

	Outstanding Outstanding 6/30/2013	Additions	Reductions	Outstanding 6/30/2014	Due Within One Year
<b>Governmental Activities</b>					
Bonds & Notes Payable					
Susquehanna Bank	\$ 82,388	\$ -	\$ (72,406)	\$ 9,982	\$ 9,982
Suntrust Bank - Pension Debt	940,000		(940,000)	-	-
Susquehanna Bank - Plow Truck	-	113,186	(5,186)	108,000	21,218
State of MD - DHCD	20,000			20,000	20,000
Subtotal	1,042,388	113,186	(1,017,592)	137,982	51,200
Other Obligations					
Compensated Absences	338,676		(9,524)	329,152	-
Accrued post employment health insurance	45,616	3,804		49,420	-
Total Governmental Activity Long-term Obligations	<u>\$ 1,426,680</u>	<u>\$ 116,990</u>	<u>\$(1,027,116)</u>	<u>\$ 516,554</u>	<u>\$ 51,200</u>
<b>Business-type Activities</b>					
Bonds & Notes Payable					
MDE - Emergency Sewer Project	\$ 122,038		\$ (16,170)	\$ 105,868	\$ 16,626
CDA - Various Projects	3,004,900		(3,004,900)	-	-
USDA - Raw Water Line/Hydro Electric	907,267		(15,551)	891,716	15,864
M & T Bank - Garbage Truck	10,544		(10,544)	-	-
MDE - CSO Phase VIIA	167,379	111,621	(14,482)	264,518	13,603
Suntrust - Piney Dam Project	5,222,000		(272,000)	4,950,000	306,000
Suntrust - CDA Refinancing	-	3,126,812	(77,437)	3,049,375	310,186
MDE - CSO Phase VIIB	-	77,768		77,768	3,669
Subtotal	9,434,128	3,316,201	(3,411,084)	9,339,245	665,948
Other Obligations					
Compensated Absences	163,894	20,660		184,554	-
Accrued post employment health insurance	12,106	3,076		15,182	-
Total Business-type Activity Long-term Obligations	<u>\$ 9,610,128</u>	<u>\$ 3,339,937</u>	<u>\$(3,411,084)</u>	<u>\$ 9,538,981</u>	<u>\$ 665,948</u>

The bond payable to Susquehanna Bank is payable in variable annual installments of principal plus semi-annual installments for interest at 4.4% on the outstanding balance. The bond is uncollateralized and has 1 installment of principal and interest remaining. The loan was paid off on August 13, 2014 with a savings of \$7,731 from early extinguishment.

The loan payable to SunTrust Bank for the pension debt was payable in variable annual installments of principal and semi-annual installments of interest at 6.41% on the outstanding balance. This loan was paid off on June 25, 2014 with a savings of \$503,986 from early extinguishment.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

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 6 installments of principal, interest, and issuance costs and an additional 6 installments of 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 were available to the City for Phase VII-A, Taylor Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$760. The loan is payable in 18 installments of principal, interest, and issuance costs and an additional 18 installments of interest only.

Maryland Department of the Environment provided forgivable loan funding on \$460,301 and loan funding in the amount of \$77,768 to the City for Phase VIIB, Paul Street CSO Elimination Project. The loan is payable in variable annual installments of principal and issuance fees plus semi-annual installments of interest only at 0.90% on the outstanding balance. The issuance fees paid annually are fixed in the amount of \$203. The loan is payable in 20 installments of principal, interest and issuance fees plus 20 semi-annual installments of interest only. The City has not accrued a liability for repayment of the forgivable portion of the project. MDE will forgive the debt on April 25, 2023 if the City meets all requirements of the loan agreement. The City fully intends to meet all these requirements.

The CDA loan payable was refinanced with Suntrust Bank on October 18, 2013 with an additional \$43,700 cash included in the loan closing. Loan fees of \$20,989 were included in the refinancing. The loan carries an interest rate of 2.14%. The bond has 9 installments of principal and interest and an additional 9 installments of interest only remaining. The difference between the cash flow required to service the CDA debt and the cash flow required to service the Suntrust loan over the remaining term of the debt reflects a net savings to the City of \$263,260. The economic gain from refinancing was \$306,057.

The loan payable to Suntrust Bank for the Piney Dam project is payable in variable annual installments of principal and semi-annual installments of interest at 2.00% on the balance outstanding. The loan is payable in 14 installments of principal and interest and an additional 14 installments of interest only.

The loan payable to the United States Department of Agriculture is for the water transmission hydro-electric project. There are 152 quarterly installments of \$8,395 representing principal and interest remaining. The loan carries an interest rate of 2%.

The capital lease payable to M&T Bank was payable in 84 monthly installments of \$2,137 including interest at 5.572% on the outstanding balance. The lease was collateralized by a garbage truck. As of June 30, 2014, the lease term was completed. The original cost of the vehicle was \$149,635

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 LONG TERM DEBT - Continued

with a current book value of \$41,898. The related amortization of the truck is included in depreciation expense.

The capital lease payable to Susquehanna Bank is payable in 60 monthly installments of \$2,066 including interest at 3.63% on the outstanding balance. The lease has 57 monthly installments remaining and is collateralized by a plow truck. The original cost of the vehicle was \$116,161 with a current book value of \$108,417. 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, 2014 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	Total
2015	51,200	3,845	665,948	189,850	717,148	193,694	910,842
2016	22,001	2,787	685,852	176,125	707,853	178,912	886,765
2017	22,813	1,974	701,205	162,050	724,018	164,024	888,042
2018	23,655	1,132	711,878	147,660	735,533	148,792	884,325
2019	18,313	278	727,552	133,043	745,865	133,321	879,186
2020-2024	-	-	3,410,515	434,008	3,410,515	434,008	3,844,523
2025-2029	-	-	1,752,983	156,188	1,752,983	156,188	1,909,171
2030-2034	-	-	179,848	61,266	179,848	61,266	241,114
2035-2039	-	-	123,070	44,826	123,070	44,826	167,896
2040-2044	-	-	135,979	31,916	135,979	31,916	167,895
2045-2049	-	-	150,242	17,653	150,242	17,653	167,895
2050-2054	-	-	96,405	3,095	96,405	3,095	99,500
	<u>\$ 137,982</u>	<u>\$ 10,016</u>	<u>\$ 9,341,477</u>	<u>\$ 1,557,681</u>	<u>\$ 9,479,459</u>	<u>\$ 1,567,696</u>	<u>\$ 11,047,155</u>

The source of funds for debt retirement is as follows:

	Debt Amount
General revenue	\$ 117,982
Community legacy note repayments	20,000
Sewer charges	448,154
Water surcharges	8,891,091
	<u>\$ 9,477,227</u>

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

The City incurred interest of \$59,802 in the General Fund, of which \$724 is included in Public Works, and the City incurred interest of \$226,674 in the Proprietary Funds.

## CITY OF FROSTBURG

### NOTES TO THE FINANCIAL STATEMENTS

#### 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

The City contributes to the Maryland State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. The SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21202.

Members of the contributory pension systems are required to make contributions of 2% of earnable compensation. The City is required to contribute annually at an actuarially determined rate. The contribution rate for fiscal year 2014 was 8.89%, 7.88% for fiscal year 2013, and 9.83% for fiscal year 2012. 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 \$163,428 for the year ended June 30, 2014, \$148,083 for the year ended June 30, 2013, and \$158,633 for the year ended June 30, 2012. 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 ½ and age 60.

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN - continued

Annual Required Contribution	\$ 21,900
Interest on Net OPEB Obligation	3,813
Adjustment to Annual Required Contribution	(2,612)
Annual OPEB Cost (Expense)	\$ 23,101
Contributions Made	(16,221)
Increase in Net Obligation	\$ 6,880
Net OPEB Obligation (Beginning of year)	\$ 57,722
Net OPEB Obligation (End of year)	\$ 64,602

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

Fiscal Year Ended June 30,	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	23,101	70.2%	64,602
2013	23,101	70.2%	57,722
2012	18,446	8.1%	50,841

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

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

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

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9**      **POSTEMPLOYMENT HEALTHCARE PLAN** - continued

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

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

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

**NOTE 11**      **OPERATING LEASE**

The City leases the Armory building to the State of Maryland for space utilized by the Water Resource Administration. The City utilizes the remainder of the building. The City renewed the lease effective July 1, 2013 through 2018 with a monthly lease payment of \$7,009. The minimum lease payment for this five year period is expected to be \$84,103 per year. The City's cost of the building was \$2,042,612 and the related accumulated depreciation through June 30, 2014 was \$698,757.

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, 2014 was \$207,672.

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

2015	\$	92,806
2016		86,295
2017		84,103
2018		84,103
2019		-
Total	\$	<u><u>347,307</u></u>

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

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

CITY OF FROSTBURG

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:

2015	\$ 7,516
2016	6,934
2017	5,188
2018	4,722
2019	-
Total	<u>\$ 24,360</u>

Rental income for the Armory building and Community Center totaled \$92,995 for the year ended June 30, 2014. Rent expense for the copy machines and postage machine totaled \$7,516 for the year ended June 30, 2014.

**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 \$4,903 of insurance recoveries for the year as a result of various accidents involving City property. This amount is included in miscellaneous revenues in the government-wide statements and as other income in the governmental fund financial statements.

**NOTE 14**    COMMITMENTS AND SUBSEQUENT EVENTS

As of June 30, 2014, Phase VII-B-2, Paul Street CSO Elimination Project, was under contract to complete sewer separation and related work for the Taylor Street – Paul Street corridor. The work was 8.5% complete, using \$1,196,961 in Maryland Department of the Environment Grant Funds, \$94,120 in Maryland Department of the Environment SRF funds and \$15,000 of City cash to complete the construction budget estimated at \$1,376,961.

The City was under contract to complete Phase I of the Savage Raw Water & Energy Conservation Project. The work was substantially complete using \$102,000 in Water Supply Grant funds, \$167,250 in Drinking Water Green Grant funds both provided by the Maryland Department of the Environment and \$367,768 of Community Development Block Grant funds. City cash in the amount of \$308,463 complete the total project cost of \$945,481.

The City has been notified that Phase II of the Savage Raw Water and Energy Conservation Project has been identified for funding by the Maryland Department of the Environment. SRF Loan Funding was provided in the amount of \$450,000. \$112,500 of SRF funding will be in the form of

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

loan forgiveness and \$337,500 of SRF funding will be repaid over 19 years at a rate of .9%. City cash in the amount of \$91,685 will complete the project. Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the State of Maryland. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City was notified that funding for generators at the Water Treatment Plant and Savage Pumping Station would be provided by the Federal Emergency Management Agency in the amount of \$170,668 and Community Development Block Grant Disaster Recovery in the amount of \$55,000. City cash in the amount of \$21,760 will complete the project.

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

The City was notified that the Appalachian Regional Commission committed funding in the amount of \$1,275,000 for Phase II of the Braddock Road Access and Safety Improvements Project which would complete construction of the project.

The City was notified by the Maryland Department of Housing and Community Development that \$300,000 was being awarded to the City from the Strategic Demolition & Smart Growth Impact Fund. The City is in the process of working with the funding agent to determine if a potential project will be eligible for the program.

The City was notified by the Maryland Department of Housing and Community Development that \$50,000 was being awarded to the City for Façade Improvements. This program reimburses property owners in the business district for 50% of improvements. Nine projects have been selected for participation from applications to the City.

The City was notified by the Maryland Energy Administration that \$46,502 was being awarded to the City from the Maryland Smart Energy Communities Grant Program. The City has formed a workgroup consisting of City Staff to determine the best use of the funding. The workgroup has recommended that an energy audit be conducted. The City is permitted to spend 30% of grant funding for the purpose of conducting the energy audit. The City has procured the services of RACON Electrical in the amount of \$14,200 for the purpose of conducting the energy audit. Qualifying expenditures under the grant will be \$13,950 and \$250 will be paid using City funds. The remaining 70% of grant funding will be used for energy saving upgrades as recommended by the energy audit.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

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

The City was notified by the Maryland Department of Transportation that \$14,825 was being awarded to the City from the Maryland Bikeways Program. The funding will allow for the application of bike lanes and/or share the road signage and symbols on Bowery Street, Center Street and Depot Street.

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 2015	\$	451,516
Fiscal Year 2016		466,713
Total	\$	<u>918,229</u>

The City evaluated subsequent events through December 1, 2014 for possible inclusion in the financial statements and for potential required disclosures.

**NOTE 15** NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued Statement #65, "Items Previously Reported as Assets and Liabilities" (GASB 65) which is effective for periods beginning after December 15, 2012. This Statement provides financial reporting guidance for reclassification of certain items that were previously reported as assets and liabilities as deferred outflows resources, deferred inflows resources, or current-period outflows and inflows. The City has implemented the new standard for the year ended June 30, 2014. Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as a period cost.

The effect of the adjustment for bond issuance costs on the June 30, 2013 government-wide statement of activities would have been an increase in expenses of \$18,534. The effect of the adjustment on the June 30, 2013 statement of net position would have been a decrease in assets and a decrease in net position of \$160,885. The total net position as previously stated at July 1, 2013 was \$32,718,671. The total net position as restated after the prior period adjustment was \$32,557,786.

The effect of the adjustment for bond issuance costs on the June 30, 2013 governmental activities statement of activities would have been a decrease in expenses of \$2,100. The effect on the statement of net position would have been a decrease in assets and a decrease in unrestricted net position of \$11,550. The net position of the governmental activities as of July 1, 2013 as previously stated was \$12,718,897. The net position of the governmental activities fund as restated after the prior period adjustment was \$12,707,347.

The adjustment for bond issuance costs is recorded as a prior period adjustment of \$149,335 in the Water Surcharge Fund for the fiscal year ended June 30, 2013. The effect of the adjustment on the June 30, 2013 proprietary fund statements would have been an increase in expenses of \$20,634 in the statement of activities and the statement of revenues, expenses, and changes in net position. The effect of the adjustment on the statement of net position would have been a decrease in assets and a decrease in unrestricted net position of \$149,335. The total net position for the Water Surcharge Fund as previously stated at July 1, 2013 was \$6,441,899. The total net position, as restated after the prior period adjustment, at July 1, 2013 was \$6,292,564.

CITY OF FROSTBURG

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 15** **NEW PRONOUNCEMENTS** - continued

The Governmental Accounting Standards Board has issued GASB Statement #68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The City will implement the standard for its fiscal year that ends on June 30, 2015.

CITY OF FROSTBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
Net property tax revenue	\$ 2,158,592	\$ 2,240,000	\$ 2,283,183	\$ 43,183
Income taxes	400,000	400,000	457,729	57,729
Hotel motel tax	150,000	150,000	154,855	4,855
Highway use tax	211,515	211,515	228,395	16,880
Other taxes	138,900	122,900	119,293	(3,607)
Police protection grant	164,450	164,450	142,186	(22,264)
Public safety revenue	61,000	86,000	92,184	6,184
Licenses and permits	30,000	30,000	30,973	973
COPS grants	-	12,000	51,339	39,339
Rental program revenue	83,000	83,000	78,903	(4,097)
Recreational activities	66,000	66,000	78,271	12,271
Grant income - other	227,302	127,302	218,831	91,529
Transfers from other funds	234,600	234,600	234,600	-
Other income	127,291	127,291	116,571	(10,720)
Note proceeds	115,000	115,000	113,186	(1,814)
Interest	3,000	3,000	4,116	1,116
<b>TOTAL GENERAL FUND REVENUE</b>	<u>4,170,650</u>	<u>4,173,058</u>	<u>4,404,615</u>	<u>231,557</u>
<b>EXPENDITURES</b>				
Administration	958,896	978,289	1,864,041	(885,752)
Public safety	1,694,869	1,706,284	1,737,344	(31,060)
Street department	1,075,635	1,051,235	1,038,318	12,917
Recreation department	441,250	437,250	488,712	(51,462)
<b>TOTAL EXPENDITURES</b>	<u>4,170,650</u>	<u>4,173,058</u>	<u>5,128,415</u>	<u>(955,357)</u>
<b>EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (723,800)</u>	<u>\$ (723,800)</u>
<b>Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>				
<b>Sources/inflows of resources</b>				
Actual budgetary basis "general fund revenue" from the budgetary comparison schedule			\$ 4,404,615	
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.			(234,600)	
Proceeds from notes is income from budgetary resources but is not revenue for financial reporting purposes.			(113,186)	
Proceeds from the sale of capital assets is income from budgetary resources but is not revenue for financial reporting purposes.			(1,625)	
Rental income is income from budgetary resources but are not revenues for financial reporting purposes.			(92,995)	
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>			<u>\$ 3,962,209</u>	

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

## CITY OF FROSTBURG, MARYLAND

### NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

#### NOTE 1 BUDGET TO ACTUAL VARIANCES

The net property tax revenue exceeded the final budgeted figure as a result of an increase in real estate tax billings, an increase in interest received on taxes as well as decreases in personal property taxes.

Income tax revenue exceeded the final budgeted figure as a result of larger than anticipated receipts from the State of Maryland.

Grant income exceeded the final budgeted figure as a result of unexpected grants received from Susquehanna Bank and Allegany County late in the fiscal year.

Administration expenditures exceeded the final budgeted figure as a result of the early payoff of the pension debt.

Public safety expenditures exceeded the final budgeted figure as a result of the purchase of a police interceptor vehicle and a fingerprinting machine.

Street department expenditure were below the final budgeted figure. Street maintenance repairs and health insurance expenditures were lower than expected.

Recreation expenditures exceeded the final budgeted figure. There were reductions in summer salaries, park maintenance expenses, and pool operating expenses within the recreation program, however, the additional principal payments on outstanding debt exceeded the anticipated budget.

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

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

Valuation Date	Value of Assets	Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	of Covered Payroll
7/1/2009	\$0	\$138,183	0.0%	\$188,586	\$1,644,898	8.40%
7/1/2012	\$0	\$188,586	0.0%	\$188,586	\$1,826,535	10.32%

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