

City of Aberdeen, Maryland

Financial Report

Fiscal Year Ended June 30, 2019

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Aberdeen, 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 aggregate remaining fund information of the City of Aberdeen, Maryland, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditor's 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 auditor's 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 aggregate remaining fund information of the City of Aberdeen, Maryland, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, the Schedule of Changes in the City's Net Pension (Asset) Liability and Related Ratios on pages 70 – 71, the Schedule of City Contributions – Pension on page 72, the Schedule of Changes in the City's Net OPEB Liability and Related Ratios on page 73, the Schedule of City Contributions – OPEB on page 74, the Schedule of Investment Returns – Pension and OPEB on page 75, and the Notes to the Required Supplementary Information on pages 76-77, 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 (GASB) 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 October 28, 2019, on our consideration of the City of Aberdeen, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Aberdeen, Maryland's internal control over financial reporting and compliance.

RSM US LLP

Frederick, Maryland
October 28, 2019

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

Introduction

As management of the City of Aberdeen, Maryland (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. The Management's Discussion and Analysis (MD&A) is best understood if read in conjunction with the City's basic financial statements.

Financial Highlights

1. The City's assets plus deferred outflows exceeded its liabilities plus deferred inflows at the close of the most recent fiscal year by \$85.8 million (*net position*). Of this amount, \$19.5 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
2. The City's total net position increased \$3.9 million. Most of this increase is attributable to increased charges for services, state shared/other local taxes, and miscellaneous revenues, along with savings in expenses.
3. The City's total long-term liabilities decreased by \$1.4 million during the current fiscal year from \$24.0 million to \$22.6 million.
4. As of the close of the current fiscal year, the City's governmental funds, on a current financial resource basis, reported a combined ending fund balance of \$16.8 million. This represents an increase of \$1.5 million over the prior year. About 77% (\$13.0 million) is unassigned and is available for spending at the City's discretion.
5. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13.0 million or 83% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City'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 and condition of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation, municipal buildings, and economic and community development. The business-type activities of the City include water, sewer, and stadium operations.

The government-wide financial statements include only the City because the City has no component unit relationships with any other agency. The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds – the General, Special Revenue, and Capital Projects funds. During the year ended June 30, 2019, the City discontinued the Special Revenue Fund in accordance with GASB 54. The fund's remaining resources were transferred to the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the various governmental funds.

The City adopts an annual appropriated budget for its individual governmental funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget. The governmental funds financial statements can be found on pages 16 to 20 of this report.

Proprietary funds. The City maintains only enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Stadium funds. The basic proprietary fund financial statements can be found on pages 21 to 23 of this report.

Fiduciary funds. The City maintains three separate fiduciary funds, which are used to report assets held in a trust or agency capacity for others and which therefore cannot be used to support the City's own programs. The City uses fiduciary funds to account for the City of Aberdeen Defined Benefit Pension Plan, the City of Aberdeen Police Department Pension Plan, and the City of Aberdeen OPEB Trust Fund. The basic fiduciary fund financial statements can be found on page 24 of this report.

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

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 are part of the basic financial statements and can be found on pages 25 to 69 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment (OPEB) benefits to its employees. Required supplementary information can be found on pages 70 to 77 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$85.8 million at the close of the most recent fiscal year. The City of Aberdeen net position is divided into three categories – net investment in capital assets, restricted, and unrestricted net position.

The largest portion of the City's net position (77%) reflects its investment in capital assets net of depreciation (e.g., land and improvements, buildings, machinery, equipment, vehicles, infrastructure, and improvements); less any un-matured debt used to acquire these assets. The debt used to acquire these assets must be repaid using other financial resources because the assets themselves cannot be used for repayment.

Restricted net position of \$106 thousand (0.1% of total net position) represents the City's net pension asset.

Unrestricted net position of the government-wide financial statements has a balance of \$19.5 million (23% of total net position) that may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, all categories of net position are positive for both the government as a whole as well as for the governmental and business-type activities.

The City's net position experienced a 4.8% increase. Most of this increase is attributable to increased charges for services, state shared/other local taxes, and miscellaneous revenues, along with savings in expenses.

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

The following table summarizes the net position for governmental and business-type activities as of June 30, 2019 and 2018:

	Governmental Activities (000)		Business-type Activities (000)		Total (000)	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 18,712	\$ 16,941	\$ 5,524	\$ 6,461	\$ 24,236	\$ 23,402
Capital assets, net	27,267	26,599	56,467	56,594	83,734	83,193
Total assets	45,979	43,540	61,991	63,055	107,970	106,595
Deferred Outflows of Resources	2,843	1,590	222	55	3,065	1,645
Liabilities						
Long-term liabilities	8,003	7,843	14,588	16,118	22,591	23,961
Other liabilities	1,153	1,021	833	907	1,986	1,928
Total liabilities	9,156	8,864	15,421	17,025	24,577	25,889
Deferred Inflows of Resources	636	515	43	-	679	515
Net Position						
Net investment in capital assets	23,675	22,534	42,510	40,971	66,185	63,505
Restricted	106	42	-	-	106	42
Unrestricted	15,249	13,175	4,239	5,114	19,488	18,289
Total Net Position	\$ 39,030	\$ 35,751	\$ 46,749	\$ 46,085	\$ 85,779	\$ 81,836

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

The following table indicates the changes in net position for governmental and business-type activities for the years ended June 30, 2019 and 2018:

	Governmental Activities (000)		Business-type Activities (000)		Total (000)	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for service	\$ 3,124	\$ 3,022	\$ 6,437	\$ 6,249	\$ 9,561	\$ 9,271
Operating grants/contributions	2,491	2,195	120	120	2,611	2,315
Capital grants/contributions	677	1,165	472	456	1,149	1,621
General revenues:						
Property taxes	10,987	10,986	-	-	10,987	10,986
State shared/other local taxes	2,149	1,681	260	123	2,409	1,804
Miscellaneous	809	(269)	106	63	915	(206)
Total revenues	20,237	18,780	7,395	7,011	27,632	25,791
Program Expenses						
General government	3,845	3,813	-	-	3,845	3,813
Public safety	6,535	6,155	-	-	6,535	6,155
Public works	5,051	5,338	-	-	5,051	5,338
Parks and recreation	155	193	-	-	155	193
Interest on long-term debt	129	100	-	-	129	100
Utilities and other enterprise funds	-	-	7,974	8,234	7,974	8,234
Total expenses	15,715	15,599	7,974	8,234	23,689	23,833
Increase (decrease) in net position before transfers	4,522	3,181	(579)	(1,223)	3,943	1,958
Transfers	(1,243)	(722)	1,243	722	-	-
Increase (decrease) in net position	3,279	2,459	664	(501)	3,943	1,958
Net Position, July 1	35,751	33,292	46,085	46,586	81,836	79,878
Net Position, June 30	\$ 39,030	\$ 35,751	\$ 46,749	\$ 46,085	\$ 85,779	\$ 81,836

City of Aberdeen, Maryland

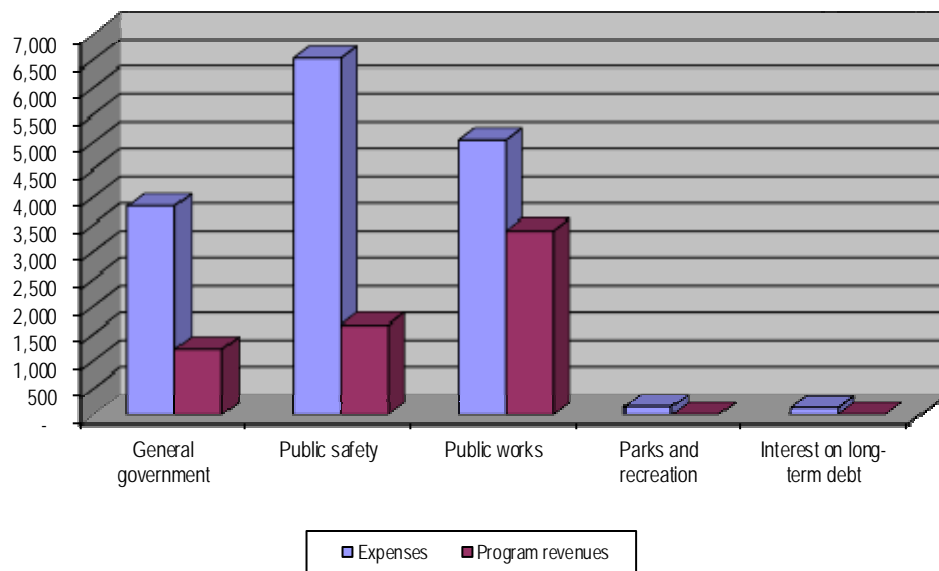
Management's Discussion and Analysis

June 30, 2019

Governmental activities: The increase in net position for governmental activities was \$3.3 million, which is \$820 thousand higher when compared to the 2018 increase of \$2.5 million. This increase largely resulted from increased revenues on charges for service (\$102 thousand more than the prior year), operating grants/contributions (\$296 thousand more than the prior year), state shared/other local taxes (\$468 thousand more than the prior year), and miscellaneous revenues (\$1.1 million higher than the prior year), partially offset by a decrease in capital grants/contributions (\$488 thousand less than the prior year). Total expenditures remained largely consistent with 2018 as an increase in public safety (\$380 thousand more than the prior year) is offset by decreases in public works (\$287 thousand less than the prior year). Transfers also increased \$521 thousand compared to 2018. There were no other significant fluctuations compared to 2018.

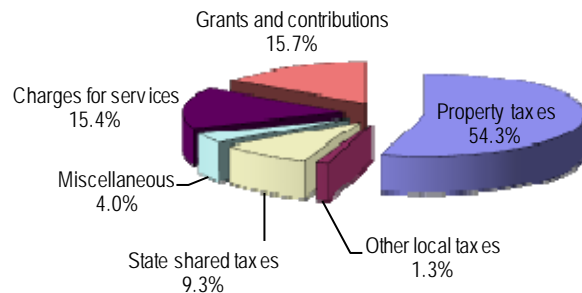
The following chart compares the Expenses and Program Revenues of the City's Governmental Activities:

Expenses and Program Revenues Governmental Activities (000)



The following chart shows Revenues by Source of the City's Governmental Activities:

Revenues by Source Governmental Activities



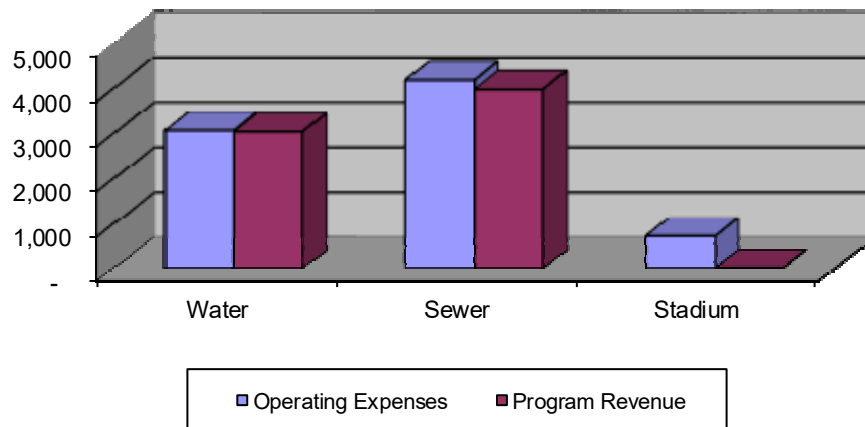
City of Aberdeen, Maryland Management's Discussion and Analysis June 30, 2019

Business-type activities: Business-type activities increased the City's net position by \$664 thousand, which is \$1.2 million more than the decrease from 2017 to 2018. Key elements of this increase are as follows:

- Charges for services increased \$188 thousand primarily due to a \$79 thousand increase in revenue from capital connection charges during 2019.
- State shared and other local taxes increased \$137 thousand due to a corresponding increase in revenue from admissions and amusements tax during 2019.
- Business-type expenses decreased by \$260 thousand primarily due to decreases in costs of services provided to customers.
- Transfers from Governmental Activities increased \$521 thousand compared to 2018.

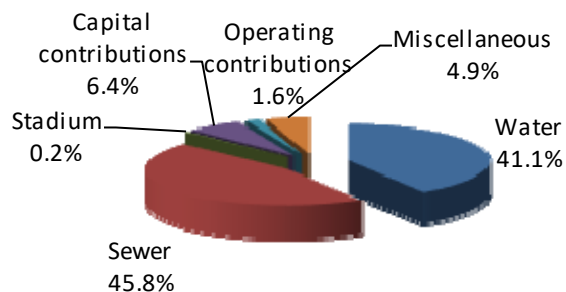
The following chart compares the Expenses and Program Revenues of the City's Business-Type Activities.

Expenses and Program Revenues Business-Type Activities (000)



The following chart shows Revenues by Source of the City's Business-Type Activities:

Revenues by Source Business-Type Activities



City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net current financial resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending balances of \$16.8 million, an increase of \$1.4 million in comparison with the prior year. Approximately 77% of this total amount (\$13.0 million) constitutes unassigned fund balance, which represents working capital available to support governmental operating needs and future years' expenditures. The remainder of fund balance is classified to reflect constraints on the City's remaining fund balance, including: 1) non-spendable fund balance for other assets, including prepaid items, and inventory (\$10 thousand) and 2) assigned balances for general government, public safety, public works, storm water management and capital projects (\$3.8 million).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$13.0 million, which represents 89% of total fund balance. 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. Unassigned fund balance represents 83% of total General Fund expenditures, while total fund balance represents 94% of that same amount. The General Fund balance increased by \$1.2 million during the current fiscal year. The key elements are:

- Total revenues were higher than total expenditures by \$3.9 million.
- Total revenues increased \$865 thousand compared to 2018.
- Total expenditures were \$322 thousand lower than 2018.
- Proceeds from sale of capital assets increased \$417 thousand compared to 2018.
- Transfers out were \$3.3 million, which were made largely for the funding of capital projects in other funds. Transfers out were \$53 thousand lower than 2018.

Financial resources of the Capital Project Fund are used in the acquisition or construction of major capital projects not financed by the proprietary funds. At the end of the current fiscal year, fund balance of \$18 thousand was assigned to public works, \$108 thousand was assigned to storm water management, and the remaining fund balance of \$2.1 million was assigned to capital projects for a total fund balance of \$2.2 million. The fund balance increased by \$340 thousand during the current fiscal year. The key elements are:

- Revenue was \$223 thousand less than 2018 due to decreased grant revenue.
- Expenditures were \$251 thousand more than 2018 due to more public works projects.
- Total transfers in were \$2.1 million from the general fund for capital projects funding, a decrease of \$519 thousand compared to 2018.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the three funds at the end of the year amounted to \$3.4 million for the Water Fund, \$566 thousand for the Sewer Fund, and \$239 thousand for the Stadium Fund. The total net position increased by \$664 thousand. Other factors concerning these funds' finances have been addressed in the discussion of the City's business-type activities.

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

General Fund Budgetary Highlights

The final budget for the General Fund expenditures was increased \$548 thousand (4%) over the original budget to adjust for situations arising during the year. The most significant increases were \$276 thousand increase in general government and a \$139 thousand increase in public safety.

Income taxes were \$481 thousand higher than budgeted due to higher than expected receipts of shared tax income from the state. License and permit revenue exceeded budget by \$359 thousand, which is almost entirely related to higher public works agreement revenue than anticipated. Interest income was \$265 thousand higher than budgeted because of the better than expected performance on the City's investments.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$83.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles, infrastructure (including park facilities, roads, highways and bridges) and construction in progress. The total net increase in the City's capital assets for the current fiscal year was \$541 thousand or 0.7% (a 2.5% increase for governmental activities and a 0.2% decrease for business-type activities). The major capital asset activities in the current year included street resurfacing of approximately \$989 thousand, sewer system replacements of approximately \$631 thousand, and stadium structural repairs for approximately \$608 thousand.

City of Aberdeen's Capital Assets (Net of Depreciation)

	Governmental Activities (000)		Business-type Activities (000)		Total (000)	
	2019	2018	2019	2018	2019	2018
Land	\$ 5,476	\$ 5,476	\$ 1,963	\$ 1,963	\$ 7,439	\$ 7,439
Buildings	4,321	4,424	12,805	12,626	17,126	17,050
Improvements other than buildings	342	359	1,354	1,450	1,696	1,809
Machinery and equipment	1,468	959	2,090	2,174	3,558	3,133
Vehicles	1,107	1,450	-	-	1,107	1,450
Recreational facilities	314	257	-	-	314	257
Infrastructure	13,445	12,887	-	-	13,445	12,887
Capital lease assets	618	728	14	-	632	728
Water and sewer systems	-	-	37,861	38,042	37,861	38,042
Construction in progress	176	59	380	339	556	398
Total	\$ 27,267	\$ 26,599	\$ 56,467	\$ 56,594	\$ 83,734	\$ 83,193

Additional information on the City's capital assets can be found in Note 6 of this report.

City of Aberdeen, Maryland

Management's Discussion and Analysis

June 30, 2019

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$22.6 million. The full faith and credit and unlimited taxing power of the City are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

City of Aberdeen's Outstanding Long-term Liabilities

	Governmental Activities (000)		Business-type Activities (000)		Total (000)	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 2,908	\$ 3,287	\$ 6,118	\$ 7,106	\$ 9,026	\$ 10,393
Notes payable	-	-	7,839	8,527	7,839	8,527
Capital leases	673	764	14	-	687	764
Compensated absences	624	589	161	146	785	735
Net pension liabilities	1,541	1,487	-	-	1,541	1,487
Net OPEB liability	2,246	1,703	424	297	2,670	2,000
Premiums	11	13	32	42	43	55
Total	\$ 8,003	\$ 7,843	\$ 14,588	\$ 16,118	\$ 22,591	\$ 23,961

During the current fiscal year, the City's total long-term liabilities decreased by \$1.4 million or 6%. The City has strictly adhered to its debt repayment amortization schedules.

The amount of general obligation debt the City may issue is not limited by State statute or local ordinance. However, the City adheres to a fiscal policy adopted by its elected officials that prohibits general obligation debt from exceeding 15% of the assessed value of taxable property. The City was in compliance at June 30, 2019. Additional information on the City's long-term liabilities can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

- Regional employment that also impacts the City has been stable and is expected to remain stable. The Harford County unemployment rate is 3.7% which is lower than the Maryland unemployment rate of 3.9%. The County unemployment rates is the same as the National rate at 3.7%.
- Aberdeen Proving Ground (APG) is home to a workforce of 21,000+ employees. APG's mission is primarily RDT&E (Research, Development, Communication, Cybersecurity, Test and Evaluation) and features a large civilian based employment population working in highly skilled disciplines with advanced degrees. The installation continues to be postured for additional mission and job growth as APG expands its global presence in salient and relevant world issues.
- New construction, both residential and commercial, is expected to continue at a moderate rate, which will impact the real estate tax base.
- The real estate tax rate was reduced to \$0.6400 per \$100 of assessed value for the FY 2020 budget.
- The water base rate was increased to \$19.68 and the sewer base rate remains unchanged at \$23.65 for the FY 2020 budget.

The above factors were considered in preparing the City of Aberdeen's budget for fiscal year 2020.

City of Aberdeen, Maryland
Management's Discussion and Analysis
June 30, 2019

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance, City of Aberdeen, 60 North Parke Street, Aberdeen, MD 21001 or by telephone at (410) 272-1600.

City of Aberdeen, Maryland

Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Assets			
Cash and cash equivalents	\$ 14,751,488	\$ 4,088,613	\$ 18,840,101
Investments	2,051,061	-	2,051,061
Receivables, current	1,632,778	1,259,480	2,892,258
Prepays	9,186	36,122	45,308
Internal balances	160,000	(160,000)	-
Inventory	1,116	137,914	139,030
Receivables, noncurrent	-	161,705	161,705
Capital assets			
Nondepreciable assets	5,651,968	2,342,975	7,994,943
Net of accumulated depreciation	21,615,103	54,123,932	75,739,035
Net pension asset	106,472	-	106,472
Total assets	45,979,172	61,990,741	107,969,913
Deferred Outflows of Resources			
Loss on refunding	-	46,725	46,725
Pension related items	1,887,029	-	1,887,029
OPEB related items	956,087	175,476	1,131,563
Total deferred outflows of resources	2,843,116	222,201	3,065,317
Liabilities			
Accounts payable	448,290	698,814	1,147,104
Accrued liabilities	187,953	117,910	305,863
Unearned revenue	36,639	16,305	52,944
Other liabilities	480,396	-	480,396
Noncurrent liabilities			
Due within one year	873,756	1,801,404	2,675,160
Due in more than one year	7,129,048	12,786,869	19,915,917
Total liabilities	9,156,082	15,421,302	24,577,384
Deferred Inflows of Resources			
Pension related items	405,971	-	405,971
OPEB related items	230,482	42,301	272,783
Total deferred inflows of resources	636,453	42,301	678,754
Net Position			
Net investment in capital assets	23,675,321	42,509,743	66,185,064
Restricted - pension	106,472	-	106,472
Unrestricted	15,247,960	4,239,596	19,487,556
Total net position	\$ 39,029,753	\$ 46,749,339	\$ 85,779,092

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

Statement of Activities
Year Ended June 30, 2019

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
General government	\$ 3,844,952	\$ 232,336	\$ 938,103	\$ 57,272	\$ (2,617,241)	\$ -	\$ (2,617,241)
Public safety	6,535,392	56,662	1,520,915	94,571	(4,863,244)	-	(4,863,244)
Public works	5,050,716	2,834,960	32,284	525,036	(1,658,436)	-	(1,658,436)
Parks and recreation	155,040	-	-	-	(155,040)	-	(155,040)
Interest on long-term debt	129,355	-	-	-	(129,355)	-	(129,355)
Total governmental activities	15,715,455	3,123,958	2,491,302	676,879	(9,423,316)	-	(9,423,316)
Business-Type Activities							
Water	3,064,432	3,036,169	-	-	-	(28,263)	(28,263)
Sewer	4,179,053	3,386,368	120,000	471,990	-	(200,695)	(200,695)
Stadium	730,718	14,280	-	-	-	(716,438)	(716,438)
Total business-type activities	7,974,203	6,436,817	120,000	471,990	-	(945,396)	(945,396)
Total primary government	\$ 23,689,658	\$ 9,560,775	\$ 2,611,302	\$ 1,148,869	(9,423,316)	(945,396)	(10,368,712)
General revenues							
Property tax					10,987,022	-	10,987,022
Income tax – shared					1,886,645	-	1,886,645
Admission and amusements tax – shared					-	260,214	260,214
Other local taxes					262,721	-	262,721
Interest earnings					285,154	30,231	315,385
Gain on disposal of capital assets					523,573	-	523,573
Gain on sale of property					-	75,810	75,810
Transfers					(1,243,030)	1,243,030	-
Total general revenues and transfers					12,702,085	1,609,285	14,311,370
Change in net position					3,278,769	663,889	3,942,658
Net position							
Beginning					35,750,984	46,085,450	81,836,434
Ending					\$ 39,029,753	\$ 46,749,339	\$ 85,779,092

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Special Revenue Fund	Capital Projects Fund	Governmental Funds
Assets				
Cash and cash equivalents	\$ 12,387,956	\$ -	\$ 2,363,532	\$ 14,751,488
Investments	2,051,061	-	-	2,051,061
Receivables (net of allowance for uncollectibles)	1,632,778	-	-	1,632,778
Due from other funds	160,000	-	-	160,000
Prepays	9,186	-	-	9,186
Inventory	1,116	-	-	1,116
Total assets	\$ 16,242,097	\$ -	\$ 2,363,532	\$ 18,605,629
Liabilities				
Accounts payable	\$ 260,441	\$ -	\$ 187,849	\$ 448,290
Accrued liabilities	187,953	-	-	187,953
Unearned revenue	36,639	-	-	36,639
Other liabilities	480,396	-	-	480,396
Total liabilities	965,429	-	187,849	1,153,278
Deferred Inflows of Resources				
Unavailable revenue – property taxes and grants	620,518	-	-	620,518
Unavailable rebate	19,342	-	-	19,342
Total deferred inflows of resources	639,860	-	-	639,860
Fund Balances				
Non-spendable				
Prepays	9,186	-	-	9,186
Inventory	1,116	-	-	1,116
Assigned				
General government	1,621,738	-	-	1,621,738
Public safety	9,000	-	-	9,000
Public works	-	-	17,612	17,612
Stormwater management	-	-	108,155	108,155
Capital projects	-	-	2,049,916	2,049,916
Unassigned	12,995,768	-	-	12,995,768
Total fund balances	14,636,808	-	2,175,683	16,812,491
Total liabilities, deferred inflows of resources and fund balances	\$ 16,242,097	\$ -	\$ 2,363,532	\$ 18,605,629

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019**

Fund Balances – Total Governmental Funds		\$ 16,812,491
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost of capital assets	\$ 50,808,931	
Accumulated depreciation	(23,541,860)	
		27,267,071
Net pension asset in governmental activities is not a financial resource and therefore not reported in the funds.		106,472
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		639,860
Deferred outflows not included in the governmental funds:		
Pension related items	1,887,029	
OPEB related items	956,087	
		2,843,116
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds payable	(2,907,600)	
Capital leases	(673,093)	
Net pension liabilities	(1,541,217)	
Net OPEB liability	(2,245,715)	
Accumulated unused compensated absences	(624,122)	
Bond premiums	(11,057)	
		(8,002,804)
Deferred inflows not included in the governmental funds:		
Pension related items	(405,971)	
OPEB related items	(230,482)	
		(636,453)
Net position of governmental activities		\$ 39,029,753

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
Year Ended June 30, 2019**

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 13,014,782	\$ -	\$ -	\$ 13,014,782
Licenses and permits	461,753	-	-	461,753
Intergovernmental	2,983,134	116,835	16,968	3,116,937
APG management fees	2,244,677	-	-	2,244,677
Miscellaneous	797,253	-	-	797,253
Total revenues	19,501,599	116,835	16,968	19,635,402
Expenditures:				
Current:				
General government	2,478,280	27,097	-	2,505,377
Public safety	4,556,018	-	-	4,556,018
Public works	3,545,884	-	654,795	4,200,679
Parks and recreation	94,107	-	-	94,107
Miscellaneous	3,300,513	-	-	3,300,513
Capital outlay	956,020	104,625	1,163,187	2,223,832
Debt service:				
Principal	539,701	-	-	539,701
Interest and fees	131,585	-	-	131,585
Total expenditures	15,602,108	131,722	1,817,982	17,551,812
Excess (deficiency) of revenue over (under) expenditures	3,899,491	(14,887)	(1,801,014)	2,083,590
Other Financing Sources (Uses):				
Transfers in (out)	(3,328,919)	(54,800)	2,140,689	(1,243,030)
Proceeds from sale of capital assets	523,573	-	-	523,573
Proceeds from capital leases	69,500	-	-	69,500
Total other financing sources (uses)	(2,735,846)	(54,800)	2,140,689	(649,957)
Net change in fund balances	1,163,645	(69,687)	339,675	1,433,633
Fund Balances:				
Beginning	13,473,163	69,687	1,836,008	15,378,858
Ending	<u>\$ 14,636,808</u>	<u>\$ -</u>	<u>\$ 2,175,683</u>	<u>\$ 16,812,491</u>

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2019**

Net Change in Fund Balances – Total Governmental Funds	\$	1,433,633
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Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlays	2,223,832
Depreciation expense	(1,555,301)

Some expenses reported in the statement of activities, do not require the use of current resources and, therefore are not reported as expenditures in the governmental funds. The details are as follows:

Compensated absences	(35,232)
Pension expense, including related deferrals	471,328
OPEB expense, including related deferrals	170,457

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position. Issuance of bonds, capital leases or other obligations provides current financial resource to governmental funds, but the issuance increases noncurrent liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Principal repayments	539,701
Issuance of capital leases	(69,500)
Amortization of premiums	2,230

Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered available revenues and are deferred in the governmental funds. Unavailable revenue increased this year.

78,279

Long-term rebates for cost reductions will not be collected for several months after the fiscal year ends. As such, these rebates are not considered available and are deferred in the governmental funds. Unavailable rebates increased this year.

19,342

Change in net position of governmental activities

\$ 3,278,769

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 12,396,988	\$ 12,396,988	\$ 13,014,782	\$ 617,794
Licenses and permits	101,800	101,800	461,753	359,953
Intergovernmental	2,867,932	2,894,432	2,983,134	88,702
APG management fees	750,000	750,000	649,998	(100,002)
Miscellaneous	172,075	264,825	797,253	532,428
Total revenues	16,288,795	16,408,045	17,906,920	1,498,875
Expenditures:				
General government	2,684,086	2,960,440	2,670,165	290,275
Public safety	4,555,372	4,694,493	4,561,029	133,464
Public works	2,735,225	2,780,981	2,740,341	40,640
Parks and recreation	166,750	186,750	115,814	70,936
Miscellaneous	4,067,748	4,115,248	3,279,013	836,235
Debt service				
Principal	532,805	546,166	539,701	6,465
Interest	125,375	131,121	131,585	(464)
Total expenditures	14,867,361	15,415,199	14,037,648	1,377,551
Other Financing Sources (Uses):				
Proceeds from capital leases	-	86,000	69,500	(16,500)
Transfers in	-	100,000	54,800	(45,200)
Transfers out	(2,808,719)	(3,383,719)	(3,383,719)	-
Appropriation of fund balance	1,387,285	2,204,873	-	(2,204,873)
Total other financing uses	(1,421,434)	(992,846)	(3,259,419)	(2,266,573)
Net change in fund balance – budgetary basis	\$ -	\$ -	609,853	\$ 609,853
Adjustments to Conform with Generally Accepted Accounting Principles (GAAP)			<u>553,792</u>	
Net Change in Fund Balance – GAAP Basis			1,163,645	
Fund Balance:				
Beginning			<u>13,473,163</u>	
Ending			<u><u>\$ 14,636,808</u></u>	

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

Statement of Net Position – Proprietary Funds
June 30, 2019

	Business-Type Activities – Enterprise Funds			
	Water Utility	Sewer Utility	Stadium	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,455,556	\$ 318,415	\$ 314,642	\$ 4,088,613
Receivables, current	507,077	750,602	1,801	1,259,480
Prepays	3,433	32,689	-	36,122
Inventory	60,155	77,759	-	137,914
Total current assets	4,026,221	1,179,465	316,443	5,522,129
Noncurrent assets:				
Receivables, noncurrent	-	161,705	-	161,705
Capital assets, net	9,516,144	33,898,720	13,052,043	56,466,907
Total noncurrent assets	9,516,144	34,060,425	13,052,043	56,628,612
Total assets	13,542,365	35,239,890	13,368,486	62,150,741
Deferred Outflows of Resources				
Deferred outflows for OPEB	67,812	107,664	-	175,476
Deferred charge on refunding	46,725	-	-	46,725
	114,537	107,664	-	222,201
Liabilities				
Current liabilities:				
Accounts payable	433,945	192,461	72,408	698,814
Due to other funds	-	160,000	-	160,000
Accrued liabilities	41,033	71,915	4,962	117,910
Unearned revenue	-	16,305	-	16,305
Notes payable	-	697,563	-	697,563
Bonds payable	441,116	-	578,583	1,019,699
Capital lease	580	2,354	-	2,934
Compensated absences	20,010	61,198	-	81,208
Total current liabilities	936,684	1,201,796	655,953	2,794,433
Noncurrent liabilities:				
Notes payable	-	7,141,728	-	7,141,728
Bonds payable	4,466,258	-	664,425	5,130,683
Capital lease	3,029	8,271	-	11,300
Compensated absences	15,073	64,433	-	79,506
OPEB liabilities	132,697	290,955	-	423,652
Total noncurrent liabilities	4,617,057	7,505,387	664,425	12,786,869
Total liabilities	5,553,741	8,707,183	1,320,378	15,581,302
Deferred Inflows of Resources				
Deferred inflows for OPEB	16,347	25,954	-	42,301
	16,347	25,954	-	42,301
Net Position				
Net investment in capital assets	4,651,886	26,048,822	11,809,035	42,509,743
Unrestricted	3,434,928	565,595	239,073	4,239,596
Total net position	\$ 8,086,814	\$ 26,614,417	\$ 12,048,108	\$ 46,749,339

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Statement of Revenues, Expenses, and Changes in
Fund Net Position – Proprietary Funds
Year Ended June 30, 2019**

	Business-Type Activities – Enterprise Funds			
	Water Utility	Sewer Utility	Stadium	Total
Operating Revenues:				
Charges for services	\$ 2,827,216	\$ 3,225,636	\$ -	\$ 6,052,852
Other operating revenues	197,227	249,102	274,494	720,823
Miscellaneous	11,726	31,630	-	43,356
	<u>3,036,169</u>	<u>3,506,368</u>	<u>274,494</u>	<u>6,817,031</u>
Operating Expenses:				
Cost of service	1,996,189	2,484,382	275,184	4,755,755
Other operating expenses	321,671	355,932	-	677,603
Depreciation	575,853	1,244,229	423,764	2,243,846
	<u>2,893,713</u>	<u>4,084,543</u>	<u>698,948</u>	<u>7,677,204</u>
Operating income (loss)	<u>142,456</u>	<u>(578,175)</u>	<u>(424,454)</u>	<u>(860,173)</u>
Non-Operating Revenues (Expenses):				
Investment interest	514	612	-	1,126
Interest income on notes receivable	-	-	29,105	29,105
Gain on sale of property	-	-	75,810	75,810
Interest expense	(170,719)	(94,510)	(31,770)	(296,999)
	<u>(170,205)</u>	<u>(93,898)</u>	<u>73,145</u>	<u>(190,958)</u>
Loss before transfers and capital grants and contributions	<u>(27,749)</u>	<u>(672,073)</u>	<u>(351,309)</u>	<u>(1,051,131)</u>
Transfers in	-	-	1,243,030	1,243,030
Capital grants and contributions	-	471,990	-	471,990
	<u>-</u>	<u>471,990</u>	<u>-</u>	<u>471,990</u>
Change in net position	<u>(27,749)</u>	<u>(200,083)</u>	<u>891,721</u>	<u>663,889</u>
Net Position:				
Beginning	8,114,563	26,814,500	11,156,387	46,085,450
Ending	<u>\$ 8,086,814</u>	<u>\$ 26,614,417</u>	<u>\$ 12,048,108</u>	<u>\$ 46,749,339</u>

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

Statement of Cash Flows – Proprietary Funds Year Ended June 30, 2019

	Business-Type Activities – Enterprise Funds			
	Water Utility	Sewer Utility	Stadium	Total
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 3,030,067	\$ 3,406,927	\$ 11,390	\$ 6,448,384
Receipts from other sources	-	145,174	260,721	405,895
Payments to employees	(611,061)	(1,225,146)	-	(1,836,207)
Payments to suppliers	(1,732,069)	(1,729,077)	(240,900)	(3,702,046)
Net cash provided by operating activities	686,937	597,878	31,211	1,316,026
Cash Flows from Non-Capital Financing Activities:				
Internal activity receipts from other funds	100,024	252,508	33,000	385,532
Internal activity disbursements to other funds	(100,024)	(92,508)	(33,000)	(225,532)
Transfers in	-	-	1,243,030	1,243,030
Net cash provided by non-capital financing activities	-	160,000	1,243,030	1,403,030
Cash Flows from Capital and Related Financing Activities:				
Principal payments on capital leases	(391)	(1,875)	-	(2,266)
Principal payments on notes payable	-	(687,907)	-	(687,907)
Principal payments on bonds payable	(428,000)	-	(560,000)	(988,000)
Interest paid	(167,944)	(96,332)	(42,473)	(306,749)
Capital grants and contributions	-	471,990	-	471,990
Purchase of capital assets	(392,937)	(952,620)	(754,815)	(2,100,372)
Net cash used in capital and related financing activities	(989,272)	(1,266,744)	(1,357,288)	(3,613,304)
Cash Flows from Investing Activities:				
Investment earnings	514	612	-	1,126
Principal collections on notes receivable	-	-	75,810	75,810
Interest received on notes receivable	-	-	29,105	29,105
Net cash provided by investing activities	514	612	104,915	106,041
Net increase (decrease) in cash and cash equivalents	(301,821)	(508,254)	21,868	(788,207)
Cash and Cash Equivalents:				
Beginning of year	3,757,377	826,669	292,774	4,876,820
End of year	<u>\$ 3,455,556</u>	<u>\$ 318,415</u>	<u>\$ 314,642</u>	<u>\$ 4,088,613</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 142,456	\$ (578,175)	\$ (424,454)	\$ (860,173)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	575,853	1,244,229	423,764	2,243,846
Net OPEB expense adjustment for changes in net OPEB liability and other OPEB related deferred outflows and deferred inflows	(6,338)	1,911	-	(4,427)
Changes in assets and liabilities:				
Receivables	(6,102)	42,339	676	36,913
Prepays	(3,433)	(32,689)	-	(36,122)
Inventory	22,097	(33,585)	-	(11,488)
Accounts payable	(46,538)	(63,609)	34,115	(76,032)
Accrued liabilities	1,705	6,191	-	7,896
Deferred revenue	-	3,394	(2,890)	504
Compensated absences	7,237	7,872	-	15,109
Net cash provided by operating activities	\$ 686,937	\$ 597,878	\$ 31,211	\$ 1,316,026
Supplemental Schedule of Noncash Capital and Related Financing Activities				
Obligations under capital lease incurred for purchase of equipment	\$ 4,000	\$ 12,500	\$ -	\$ 16,500

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

**Statement of Fiduciary Net Position
As of June 30, 2019**

	Pension and Other Post Employment Benefits Trusts
Assets	
Investments at fair-value:	
Pooled separate accounts	\$ 15,140,540
Insurance contract, at cost	<u>1,187,113</u>
Total assets	<u><u>\$ 16,327,653</u></u>
Net Position	
Restricted for pension/other post-employment benefits	<u><u>\$ 16,327,653</u></u>

City of Aberdeen, Maryland

**Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2019**

Net Position – Beginning	<u>\$ 14,871,346</u>
Additions	
Contributions:	
Employer contributions	1,351,053
Plan member contributions	<u>162,936</u>
	1,513,989
Net investment income	<u>924,667</u>
Total additions	<u>2,438,656</u>
Deductions	
Benefit payments	921,532
Administrative expenses and other	<u>60,817</u>
Total deductions	<u>982,349</u>
Change in net position	<u>1,456,307</u>
Net Position – Ending	<u><u>\$ 16,327,653</u></u>

See Notes to Basic Financial Statements.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Aberdeen, Maryland (the City), located in Harford County, was incorporated in 1892 under the provisions of Maryland State Law. The City operates under a form of government which comprises an elected City Council (four members) and an elected Mayor and provides such services as authorized by its Charter.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP basis) as applicable to governments. The following is a summary of the significant accounting policies followed in the preparation of the basic financial statements:

A. Reporting Entity

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards (the Codification), the basic financial statements include all funds, organizations, agencies, boards, commissions and authorities for which the City is financially accountable. The City has also considered all other potential organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of the organization's governing body, and: (1) the ability of the City to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the City. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements: The government-wide financial statements report information on all of the non-fiduciary activities of the City. The effect of inter-fund financial transactions has been removed from these statements. However, interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of net position: This statement is designed to display the financial position of the City as of year-end. Governmental and business-type activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The City's net position is reported in three categories: (1) net investment in capital assets, (2) restricted – pension, and (3) unrestricted.

Statement of activities: This statement demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues. The City does not allocate indirect expenses.

Fund financial statements: Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

General fund budget-to-actual comparison statement: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the City has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The City revises their original budgets over the course of the year for a variety of reasons; as a result, both the original adopted budget and the final amended budget have been reflected in this statement.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balance/net position, revenues and expenditures or expenses, as appropriate. The City has the following funds:

Governmental fund types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; deferred inflows of resources are assigned to funds in which resources are to be earned, and the difference between governmental fund assets, liabilities, and deferred inflows of resources, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in current financial position, rather than upon net income determination.

The City has three major governmental funds: the General Fund, the Special Revenue Fund and the Capital Projects Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. It accounts for the normal recurring activities of the City such as public safety, public works, parks and recreation, and general government, etc. These activities are financed primarily by property taxes, other taxes, service charges and grants from other governmental units. The Special Revenue Fund accounts for various projects funding various block grants. On June 30, 2019, the City discontinued the use of the Special Revenue Fund in due to expectation of limited future activity. The fund's remaining resources were transferred to the General Fund as of June 30, 2019. The City utilizes a Capital Projects Fund to account for all financial resources used for acquisition or construction of major capital facilities not financed by proprietary funds.

While the Special Revenue Fund and the Capital Project Fund do not meet the criteria for a major fund set forth by the Codification, the City has elected to present these funds as a major fund due to public interest.

Proprietary fund types: Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows.

The City has three major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Sewer Fund operates the sewage treatment plant, pumping stations and collection system. The Stadium Fund accounts for the activities of Ripken Stadium.

Note 1. Summary of Significant Accounting Policies (Continued)

Fiduciary fund types: Fiduciary funds are used to report assets held in a trust or agency capacity for others and which therefore cannot be used to support the City's own programs. The City has two pension trusts: the City of Aberdeen Defined Benefit Pension Plan (DB Plan) and the City of Aberdeen Police Department Pension Plan (PD Pension Plan) (collectively, the Pension Trusts). Additionally, the City has an other post-employment benefits (OPEB) trust (OPEB Trust).

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements and the fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, i.e. as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers enterprise zone tax credit revenues and Aberdeen Proving Ground water and sewer system (APG) contract revenues to be available if they are collected within 90 days of the end of the current fiscal period, while all other revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

The City is responsible for billing and collecting property taxes in accordance with enabling state legislation. Property taxes become a lien on the first day of the levy year, which is July 1 to June 30. Tax payments are due in one installment by September 30, or two semiannual installments, by September 30 and December 31, at the taxpayer's option, after which interest is accrued. Unpaid taxes are collected through the annual tax sale held on the third Monday of June after taxes become delinquent.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Use of Estimates

The preparation of financial statements requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

F. Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor submits to the City Council a proposed operating budget at least 40 days before the beginning of the fiscal year. The operating budget includes proposed expenditures, the means of financing them, and the use of the federal and/or state grants.
2. Prior to June 30, the budget is passed by vote of the Mayor and City Council. Formal budgetary integration is employed as a management control device during the year for the General Fund. Budgets are adopted according to procedures set by the Mayor and City Council of Aberdeen.
3. Monthly statements are provided by the Director of Finance and budget review is executed by the Mayor and City Council periodically. The City Council legally adopts an annual budget for the General Fund and the Capital Projects Fund. The City has no legally adopted annual budget for the Special Revenue Fund and the Water, Sewer, and Stadium Enterprise Funds. However, a budget is used as a management tool for these funds.

Expenditures may not exceed appropriations at the general classification level without approval from the Council. The City Manager may approve transfers between departments throughout the year. As a practical matter, the City Manager notifies the City Council periodically of any such transfers. Unexpended and unencumbered appropriations lapse at year-end.

The policy established by the Mayor and City Council with respect to the City Budget (budgetary basis) does not conform to GAAP basis in certain respects. The primary differences between budgetary and GAAP basis are that under the budgetary basis encumbrances are recorded as the equivalent of expenditures and salary and fringe costs, and the associated revenue, reimbursed under the APG contract are not budgeted for by the City. Budgeted amounts are originally adopted, and as amended by the Mayor and the City Council. Unencumbered appropriations of the operating budget lapse at the end of each fiscal year. Appropriations in the capital budget continue as authority for subsequent period expenditures, and lapse in the year of completion of the capital project. Appropriations for General Fund expenditures were increased by a total of \$547,838 through various budget amendments during the year.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Adjustments necessary to convert the excess of revenues and other sources over expenditures and other uses from the budgetary basis to the modified accrual basis, are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Current Year Effect on Fund Balance
General Fund				
Budgetary basis	\$ 17,906,920	\$ 14,037,648	\$ (3,259,419)	\$ 609,853
Reimbursable salaries, including OPEB, under APG contract	1,594,679	1,594,679	-	-
Increase in encumbrances	-	(51,719)	-	51,719
Proceeds from sale of capital assets	-	-	523,573	523,573
Increase in allowance for uncollectible receivables	-	26,489	-	(26,489)
Increase in prepaid expenditures	-	(4,989)	-	4,989
Modified accrual basis	\$ 19,501,599	\$ 15,602,108	\$ (2,735,846)	\$ 1,163,645
Capital Projects Fund				
Budgetary basis	\$ 16,968	\$ 1,737,980	\$ 2,140,689	\$ 419,677
Decrease in encumbrances	-	80,002	-	(80,002)
Modified accrual basis	\$ 16,968	\$ 1,817,982	\$ 2,140,689	\$ 339,675

G. Cash, Cash Equivalents and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, Maryland Local Government Investment Pool (MLGIP) accounts and short-term investments with original maturities of three months or less. Short-term investments are stated at fair value, and consist of U.S. Treasury and U.S. Agency securities. Cash deposits of the City are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Investments valued using the net asset value (NAV) per share (or its equivalent) generally do not have readily determinable market values. The City values these investments based on audited financial statements. If June 30 statements are not available, those values used preferentially. However, if June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

Excess funds are also permitted to be invested in either bonds or other obligations for the payment of principal and interest of which the faith and credit of the United States of America are pledged, or in obligations of Federal government agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland. The Pension Trusts and OPEB Trust are also authorized to invest in corporate bonds and notes, preferred stocks, common stocks, real estate and call option contracts. Investments are reported at fair value, except for the unallocated investment contract, an investment of the DB Plan, which is recorded at contract value (a cost-based measure).

For purposes of the statement of cash flows, the City considers all highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash resources of each of the individual funds, except the pension and OPEB funds and cash held by fiscal agents or required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments is allocated to participating funds on the basis of their equity in pooled cash.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. As of June 30, 2019, management has provided an allowance for uncollectible delinquent personal property taxes in the amount of \$131,419. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is charged on receivables that are outstanding for more than 30 days and are recognized as charged.

I. Note Receivable

The note receivable recorded in the Stadium Fund represents a land contract. Since the City's receivables are subject to future subordination, the profit on Lot 3 is being recognized under the cost recovery method. Under the cost recovery method, no profit is recognized until cash payments by Ripken Baseball Academy, LLC (Ripken Baseball) and affiliated entities, including principal and interest, exceed the City's cost of the property. Gross profit not yet recognized is offset against the related receivable on the balance sheet. Considering cash payments have now exceeded the City's cost of the property, principal collections reduce the related receivable and result in a corresponding amount of profit recognition. The profit earned has been recorded as gain on sale of property in the statement of revenues, expenses and changes in fund net position – proprietary funds.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which services are consumed.

K. Inventory

Inventory is valued at cost, on the first-in, first-out basis. Inventory consists of chemicals and repair parts used in the operation of the municipal water system and sewer system. Inventory in the General Fund consists of parts for storm drain frames and grates and is recorded under the consumption method, an expenditure when used, and is equally offset by a fund balance reserve in the fund financial statements which indicates that inventory does not constitute "available spendable resources" even though it is a component of net current assets.

L. Capital Assets

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, storm drains, and pipe systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 for land, buildings, improvements and equipment, and \$5,000 for infrastructure and an initial useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery, equipment and vehicles	1-15
Recreational facilities	5-10
Improvements other than buildings	5-15
Infrastructure	20-50
Buildings	40-50
Water and sewer systems	40-50

In the governmental fund financial statements, capital outlays are accounted for as expenditures in the current period.

M. Deferred Outflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City's deferred outflows consist of net charge on refunding of debt, and changes to pension and OPEB expenses. Deferred outflows of resources relating to pensions and OPEB are described in Notes 9 and 11, respectively. Net charge on refunding is being amortized over the term of the respective bond using the straight-line method. Contributions to the City's pensions plans made subsequent to the measurement date will be recognized as a decrease of the net pension liability in the City's subsequent year. Other pension and OPEB related deferred outflows are amortized into pension and OPEB expense, respectively, over a period of approximately five years.

N. Unearned Revenue

Governmental funds, along with proprietary funds, also defer revenue recognition in connection with resources that have been received, but not yet earned.

O. Inter-Fund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1. Summary of Significant Accounting Policies (Continued)

Interfund balances result from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are non-interest-bearing and are normally settled in the subsequent period.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements as either transfers in or out.

P. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the term of the bonds using the bond-outstanding method which approximates the effective interest method. Bonds payable are reported net of the applicable unamortized bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid bond insurance costs are reported as prepaid items and amortized over the term of the related debt using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts, as well as all bond issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. Pensions

For purposes of measuring the net pension asset and liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Pension Plans. For this purpose, benefit payments (including refunds of plan member contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value and amortized cost.

R. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the single-employer defined benefit plan (OPEB plan) and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, the OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Compensated Absences

It is the City's policy to permit employees to be paid for accumulated earned but unused vacation leave up to 480 hours upon separation of service. Vacation leave is accrued when earned in the government-wide statements, as well as the proprietary fund statements.

For governmental fund types, the amount of accumulated unpaid vested leave, which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

Note 1. Summary of Significant Accounting Policies (Continued)

T. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One item which qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is only reported in the governmental funds balance sheet. The City reports unavailable revenues from property taxes, grants and other revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also reports deferred inflows for rebates from vendors when such rebates are not considered available. These rebates are recognized in the period that the amounts become available. Deferred inflows of resources also include items relating to pensions and OPEB, as described in Notes 9 and 11, respectively. Pension related deferred inflows are amortized into pension expense over a period of approximately five years, and OPEB related deferrals are amortized into OPEB expense over a period of 5 to 11 years.

U. Fund Balance

In the fund financial statements, governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. Restricted fund balance are amounts that are restricted to specific purposes when the constraints are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provision or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action such as City charter, ordinance, and resolution, of the City's highest level of decision-making authority, the Mayor and City Council, are to be reported as committed fund balance. The same type of action would be required to modify or rescind the commitments. Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, are to be reported as assigned fund balance. The authority for assigning fund balance rests with the City Manager or his or her designee as specified in the City's Fund Balance Policy. City policy requires a minimum unassigned fund balance in the general fund of 15% and a maximum of 50% of general fund revenue measured on a GAAP basis. At June 30, 2019, unassigned fund balance is 67% of general fund revenue. Unassigned fund balance is the residual classification for the General Fund.

The City first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. When unrestricted amounts are considered to have been spent, the City considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

V. Net Position

Net position equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, excluding unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City first applies restricted resources when an expense is incurred, for purposes for which both restricted and unrestricted net position is available.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 2. Cash, Cash Equivalents and Investments

The City may invest in U.S. Treasury Securities, U.S. Agency Securities, repurchase agreements secured by U.S. Treasury Securities or U.S. Agency Securities, the MLGIP, interest bearing accounts in any bank as provided by Article 95, Section 22 of the Annotated Code of Maryland or shares in an investment company or investment trust as provided by Article 95, Section 22N of the Annotated Code of Maryland.

The City invests primarily in the MLGIP. The MLGIP was established in 1982 under Article 95 Section 22G of the Code and is under the administrative control of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value (NAV) of the pool, marked to market, is calculated and maintained on a weekly basis to ensure an amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940. The City also holds investments in U.S. Treasury and U.S. Agency Securities, which mature between August 2019 and August 2023 with interest rates ranging from 0.875% to 5.250%. Additionally, the City holds money market mutual funds, which are valued at NAV. Similar to the MLGIP, the funds seek to maintain a constant unit value of \$1.00 per unit.

Investment types within the pension and OPEB trusts' investment portfolios are not limited by statute.

At June 30, 2019, the City had the following:

	Cash and Cash Equivalents	Investments
Cash	\$ 9,385,249	\$ -
Maryland Local Government Investment Pool	9,454,852	-
Money market mutual funds	-	490,403
U.S. Treasury and U.S. Agency Securities	-	1,560,658
Pension Trust – Pooled separate accounts	-	12,905,094
OPEB Trust – Pooled separate accounts	-	2,235,446
Pension Trust – Insurance contract, at cost	-	1,187,113
	<u>\$ 18,840,101</u>	<u>\$ 18,378,714</u>

Interest rate risk – In accordance with its investment policy for its operating funds, the City manages its exposure to declines in fair value due to rising interest rates by limiting the maturity of securities to no more than five years from the date of purchase, unless it is matched to a specific cash flow requirement. There is no limit on the maturity dates for the pension and OPEB trust funds. The City's investments in U.S. Treasury and U.S. Agency Securities are scheduled to mature as follows:

Investment Type	Investment Maturities as of June 30, 2019				
	Fair Value June 30, 2019	Less than 6 Months	7 Months - 1 Year	1 - 3 Years	More than 3 Years
United States Treasuries	\$ 992,636	\$ 98,678	\$ 94,642	\$ 570,127	\$ 229,189
United States Agencies	559,908	171,987	-	289,979	97,942
Total investments	1,552,544	<u>\$ 270,665</u>	<u>\$ 94,642</u>	<u>\$ 860,106</u>	<u>\$ 327,131</u>
Accrued interest	8,114				
Total	<u>\$ 1,560,658</u>				

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 2. Cash, Cash Equivalents and Investments (Continued)

Credit risk – Investments in the MLGIP are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the MLGIP. In addition, the State Treasurer has established an advisory board composed of MLGIP participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than fair value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated “AAAm” by Standard and Poor’s. The City’s investments in long-term U.S. Treasury Securities are rated AA+ by Standard and Poor’s and short-term U.S Treasury Securities are rated A-1+ by the same agency. All of the City’s holdings of U.S. Agency Securities are rated AA+ by Standard and Poor’s.

Concentration of credit risk – The City’s investment policy states that the City will diversify its investments by security type and institution. With the exception of the U.S. Treasury Securities and authorized pools, no more than 50% of the City’s total investments portfolio will be invested in a single security type or with a single financial institution.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy states that collateralization is required on two types of investments, certificates of deposit and repurchase agreements, with a collateralization level of 102%. At June 30, 2019, all of the City’s deposits were either covered by federal depository insurance or were covered by collateral held by the bank’s agent in the City’s name and the City was in compliance with the collateralization level required by its investment policy.

The Pension Trusts’ and the OPEB Trust’s investments include separate and guaranteed accounts held by Principal Financial Group and ICMA Retirement Corporation, agents of the plans. Plan investments include various types of pooled separate accounts and investment contracts which are not rated as to credit risks. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to change in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The investment’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical investments in active markets that the Trusts have the ability to access.

Level 2: Inputs to the valuation methodology include: (a) quoted prices for similar investments in active markets; (b) quoted prices for identical or similar investments in inactive markets; (c) inputs other than quoted prices that are observable for the investment; (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the investment has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the investment.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2019, the City had the following:

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury and Agency Securities	\$ 1,560,658	\$ 1,560,658	\$ -	\$ -
<u>Investments Measured at NAV</u>				
Money market mutual funds	490,403			
OPEB Trust – Pooled Separate Accounts	2,235,446			
Pension Trust – Pooled Separate Accounts	12,905,094			
<u>Investment Carried at Amortized Cost</u>				
Pension Trust – Insurance contract	1,187,113			
Total Investments	<u>\$ 18,378,714</u>			

The U.S. Treasury obligations and U.S. Government Agency Securities are valued at fair value based upon quoted prices in active markets and accordingly are classified within Level 1 of the valuation hierarchy.

The unallocated investment contract is recorded at contract value, a cost-based measure. The Trusts' investments in pooled separate accounts are stated at fair value based on quoted market prices of the investments held in each account as determined by Principal Life Insurance Company and ICMA Retirement Corporation. Pooled separate accounts are valued using the NAV of the fund. The NAV is based on the fair value of the underlying assets owned by the fund, minus the liabilities, and then divided by the number of shares or units outstanding. The valuation method for investments measured at the NAV per share, or equivalent, is presented below:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Money market mutual funds	\$ 490,403	\$ -	Daily	None
Fixed income – OPEB Trust	2,235,446	-	Daily	5 days
Domestic equity – Pension Trust	5,233,464	-	Daily	None
International equity – Pension Trust	2,368,805	-	Daily	None
Fixed income – Pension Trust	4,549,403	-	Daily	None
Real estate – Pension Trust	753,422	-	Daily	None
Total investments measured at NAV	<u>\$ 15,630,943</u>	<u>\$ -</u>		

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 3. Note Receivable

In September 2006, the City entered into a land contract with Ripken Baseball whereby the City will sell to Ripken Baseball Lot 3 within the stadium complex. This contract supersedes two ground leases previously entered into by the City and Ripken Baseball, but leaves the repayment terms of the original lease unchanged. Under the contract, Ripken Baseball received credit for all payments made under the respective ground leases and made the effective date of the contract that of which the ground leases were entered into. Ripken Baseball exercised an option to reduce payments on Lot 3 by real estate taxes paid on the property annually. The City estimates total future real estate taxes to reduce future principal payments by approximately \$79,000.

A summary of the note receivable and corresponding deferred profit at June 30, 2019, is as follows:

	Note Receivable	Less Deferred Profit and Unearned Interest	Note Receivable, Net
Lot 3; original receivable amount \$1,507,118 and an original deferred profit of \$(522,020) amortized over 20 years plus interest ranging from 4.77% to 6.81%; combined monthly installments of principal and interest of \$10,977; due May 2023.	\$ 456,766	\$ (456,766)	\$ -

Note receivable principal payments to be received in future years, are as follows:

Years ending June 30:

2020	\$ 106,252
2021	113,061
2022	120,314
2023	117,139
	<u>\$ 456,766</u>

Note 4. Receivables and Payables

Receivables by fund at June 30, 2019, consist of the following:

	General	Special Revenue	Capital Projects	Water Utility	Sewer Utility	Stadium	Total
Receivables							
Taxes	\$ 240,613	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 240,613
Intergovernmental	1,190,415	-	-	-	-	1,801	1,192,216
Charges for services	-	-	-	287,446	400,831	-	688,277
Assessments/improvements	-	-	-	-	174,181	-	174,181
Other	333,169	-	-	219,631	337,295	-	890,095
Gross receivables	1,764,197	-	-	507,077	912,307	1,801	3,185,382
Allowance for uncollectibles	(131,419)	-	-	-	-	-	(131,419)
	<u>\$1,632,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 507,077</u>	<u>\$ 912,307</u>	<u>\$ 1,801</u>	<u>\$3,053,963</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 4. Receivables and Payables (Continued)

Accrued and other liabilities by fund at June 30, 2019, consist of the following:

	General	Special Revenue	Capital Projects	Water Utility	Sewer Utility	Stadium	Total
Accrued liabilities:							
Interest	\$ -	\$ -	\$ -	\$ 26,415	\$ 39,392	\$ 4,962	\$ 70,769
Payroll	187,953	-	-	14,618	29,484	-	232,055
Intergovernmental	-	-	-	-	3,039	-	3,039
	<u>\$ 187,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,033</u>	<u>\$ 71,915</u>	<u>\$ 4,962</u>	<u>\$ 305,863</u>
Other liabilities:							
Performance bonds	\$ 433,808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 433,808
Seized property	32,205	-	-	-	-	-	32,205
Other	14,383	-	-	-	-	-	14,383
	<u>\$ 480,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 480,396</u>

Note 5. Interfund Receivables, Payables and Transfers

As of June 30, 2019, the only interfund receivable and payable balance was related to a \$160,000 balance due to the General Fund from the Sewer Fund. It is anticipated that this balance will be repaid from results of operations within the subsequent fiscal year.

Transfers from the General Fund to the Capital Projects Fund were made for capital projects and the Stadium Fund for debt service and stadium improvements. A transfer from the Special Revenue Fund to the General Fund was made when the Special Revenue Fund was discontinued. Interfund transfers for the year ended June 30, 2019, consisted of the following:

	Transfers In			
	Capital Projects Fund	Stadium Fund	General Fund	Total
Transfers out				
General fund	\$ 2,140,689	\$ 1,243,030	\$ -	\$ 3,383,719
Special Revenue fund	-	-	54,800	54,800
Total	<u>\$ 2,140,689</u>	<u>\$ 1,243,030</u>	<u>\$ 54,800</u>	<u>\$ 3,438,519</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2019, is as follows:

	Balance, July 1, 2018	Additions	Deletions	Transfers	Balance, June 30, 2019
Governmental activities:					
Capital assets not being depreciated					
Land	\$ 5,475,601	\$ -	\$ -	\$ -	\$ 5,475,601
Construction in process	58,971	149,847	-	(32,451)	176,367
	<u>5,534,572</u>	<u>149,847</u>	<u>-</u>	<u>(32,451)</u>	<u>5,651,968</u>
Capital assets being depreciated:					
Buildings	11,258,233	60,256	-	25,651	11,344,140
Improvements other than buildings	440,530	4,255	-	-	444,785
Machinery and equipment	5,470,210	792,896	(196,953)	-	6,066,153
Vehicles	3,283,040	47,987	(193,852)	-	3,137,175
Recreational facilities	746,815	110,026	-	6,800	863,641
Infrastructure	21,402,513	989,065	-	-	22,391,578
Capital lease assets	839,991	69,500	-	-	909,491
	<u>43,441,332</u>	<u>2,073,985</u>	<u>(390,805)</u>	<u>32,451</u>	<u>45,156,963</u>
Accumulated depreciation for:					
Buildings	(6,833,774)	(189,376)	-	-	(7,023,150)
Improvements other than buildings	(82,079)	(21,147)	-	-	(103,226)
Machinery and equipment	(4,511,146)	(283,942)	196,953	-	(4,598,135)
Vehicles	(1,833,013)	(391,359)	193,852	-	(2,030,520)
Recreational facilities	(489,642)	(60,375)	-	-	(550,017)
Infrastructure	(8,515,711)	(429,521)	-	-	(8,945,232)
Capital lease assets	(111,999)	(179,581)	-	-	(291,580)
	<u>(22,377,364)</u>	<u>(1,555,301)</u>	<u>390,805</u>	<u>-</u>	<u>(23,541,860)</u>
Total depreciable assets, net	<u>21,063,968</u>	<u>518,684</u>	<u>-</u>	<u>32,451</u>	<u>21,615,103</u>
Governmental activities capital assets, net	<u>\$ 26,598,540</u>	<u>\$ 668,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,267,071</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Balance, July 1, 2018	Additions	Deletions	Transfers	Balance, June 30, 2019
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 1,963,416	\$ -	\$ -	\$ -	\$ 1,963,416
Construction in process	339,178	114,219	-	(73,838)	379,559
	<u>2,302,594</u>	<u>114,219</u>	<u>-</u>	<u>(73,838)</u>	<u>2,342,975</u>
Capital assets being depreciated:					
Buildings	24,473,309	692,502	-	-	25,165,811
Improvements other than buildings	1,697,984	11,919	-	-	1,709,903
Machinery and equipment	12,641,094	329,643	(10,774)	-	12,959,963
Water systems	16,298,845	271,938	-	73,838	16,644,621
Sewer system	34,693,735	680,151	-	-	35,373,886
Capital lease assets	-	16,500	-	-	16,500
	<u>89,804,967</u>	<u>2,002,653</u>	<u>(10,774)</u>	<u>73,838</u>	<u>91,870,684</u>
Accumulated depreciation for:					
Buildings	(11,846,641)	(514,164)	-	-	(12,360,805)
Improvements other than buildings	(248,212)	(108,034)	-	-	(356,246)
Machinery and equipment	(10,467,095)	(413,641)	10,774	-	(10,869,962)
Water systems	(7,444,875)	(471,371)	-	-	(7,916,246)
Sewer system	(5,506,857)	(733,886)	-	-	(6,240,743)
Capital lease assets	-	(2,750)	-	-	(2,750)
	<u>(35,513,680)</u>	<u>(2,243,846)</u>	<u>10,774</u>	<u>-</u>	<u>(37,746,752)</u>
Total depreciable assets, net	<u>54,291,287</u>	<u>(241,193)</u>	<u>-</u>	<u>73,838</u>	<u>54,123,932</u>
Business-type activities capital assets, net	<u>\$56,593,881</u>	<u>\$ (126,974)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$56,466,907</u>

Depreciation expense was charged in the statement of activities for the year ended June 30, 2019, as follows:

Governmental activities	
General government	\$ 778,534
Public safety	338,187
Public works	369,535
Recreation	69,045
	<u>\$ 1,555,301</u>
Business-type activities	
Water utility	\$ 575,853
Sewer utility	1,244,229
Stadium	423,764
	<u>\$ 2,243,846</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 7. Tax Abatements

As of June 30, 2019, the City provides tax abatements through two programs: the Low and Moderate Income Housing Program and the Enterprise Zone Tax Credit Program.

The Low and Moderate Income Housing Program provides real property tax abatements to encourage low and moderate income housing, under Section 7-505 of the Maryland Tax-Property Code. Abatements are obtained through application by the property owners, including proof that the construction/rehabilitations have been made, and could be up to 100% of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's tax bill.

The Enterprise Zone Tax Credit Program provides tax incentives to businesses and property-owners located in some economically distressed communities under Section 9-103 of the Maryland Tax-Property Code. Abatements are obtained through application by the property owners, including proof that the improvements have been made and may claim a 10-year credit against local real property taxes. The credit is 80% of the assessment increase during the first 5 years. The credit then decreases 10% annually thereafter to 30% in the tenth year. The amount of the abatement is deducted from the recipient's tax bill. The State of Maryland reimburses the City for 50% of the tax credit.

Total tax abatements related to each program for the year ended June 30, 2019, are as follows:

Tax Abatement Program	Amount of Taxes Abated During the Fiscal Year	Percentage of Taxes Abated During the Fiscal Year
Low and Moderate Income Housing Program	\$ 44,119	57.77%
Enterprise Zone Tax Credit Program (City Share)	86,506	14.53%
Total	<u>\$ 130,625</u>	

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities

Long-term liabilities activity as of and for the year ended June 30, 2019, is as follows:

	Balance, July 1, 2018	Additions	Deductions	Balance, June 30, 2019	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 3,286,700	\$ -	\$ (379,100)	\$ 2,907,600	\$ 388,100
Capital leases	764,194	69,500	(160,601)	673,093	173,629
Other obligations					
Compensated absences	588,890	122,329	(87,097)	624,122	309,797
Net pension liabilities	1,487,226	53,991	-	1,541,217	-
Net OPEB liability	1,703,199	542,516	-	2,245,715	-
Add bond premiums	13,287	-	(2,230)	11,057	2,230
	<u>\$ 7,843,496</u>	<u>\$ 788,336</u>	<u>\$ (629,028)</u>	<u>\$ 8,002,804</u>	<u>\$ 873,756</u>
Business-type activities:					
General obligation bonds payable	\$ 7,105,900	\$ -	\$ (988,000)	\$ 6,117,900	\$ 1,009,800
Notes payable	8,527,198	-	(687,907)	7,839,291	697,563
Capital lease	-	16,500	(2,266)	14,234	2,934
Other obligations					
Compensated absences	145,605	33,340	(18,231)	160,714	81,208
Net OPEB liability	297,006	126,646	-	423,652	-
Add bond premiums	42,382	-	(9,900)	32,482	9,899
	<u>\$ 16,118,091</u>	<u>\$ 176,486</u>	<u>\$ (1,706,304)</u>	<u>\$ 14,588,273</u>	<u>\$ 1,801,404</u>

General obligation bonds payable relating to governmental activities at June 30, 2019, consist of the following:

Refunding Bonds of 2011; authorized amount \$4,515,000; interest at rates ranging from 2.0% to 3.25%; payable in annual payments of principal ranging from \$145,000 to \$355,000 and semiannual payments of interest through May 2030.	\$ 2,360,000
Series A Refunding Bonds of 2016; authorized amount \$350,100; interest at a rate of 1.84%; payable in annual payments of principal ranging from \$20,900 to \$51,600 and semiannual payments of interest through November 2023.	237,200
Series B Refunding Bonds of 2016; authorized amount \$459,700; interest at a rate of 2.57%; payable in annual payments of principal ranging from \$42,000 to \$53,900 and semiannual payments of interest through November 2024.	310,400
	<u>\$ 2,907,600</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities (Continued)

A schedule of maturities of the general obligation bonds payable relating to governmental activities as of June 30, 2019, is as follows:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 388,100	\$ 73,808	\$ 461,908
2021	396,800	65,470	462,270
2022	405,600	56,520	462,120
2023	259,100	47,061	306,161
2024	272,600	40,831	313,431
2025-2029	980,400	120,052	1,100,452
2030	205,000	6,662	211,662
	<u>\$ 2,907,600</u>	<u>\$ 410,404</u>	<u>\$ 3,318,004</u>

During the year ended June 30, 2019, the City entered into capital lease obligations for the acquisition of new copiers, with an interest rate of 7.36%. The obligations require monthly payments of principal and interest totaling \$1,388 to be paid over a period of 5 years. At June 30, 2019, borrowings outstanding under these obligations totaled \$59,612.

Additionally, the City has capital lease obligations outstanding for the acquisition of police vehicles, with interest rates ranging from 6.54% to 6.813%. The obligations require monthly payments of principal and interest totaling \$16,389. At June 30, 2019, borrowings outstanding under these obligations totaled \$613,481. The obligations provide for early termination fees totaling \$15,570.

A schedule of maturities of capital lease obligations relating to governmental activities as of June 30, 2019, is as follows:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 173,629	\$ 39,695	\$ 213,324
2021	185,514	27,800	213,314
2022	198,213	15,111	213,324
2023	115,239	2,888	118,127
2024	498	26	524
	<u>\$ 673,093</u>	<u>\$ 85,520</u>	<u>\$ 758,613</u>

The entire general obligation bonds payable, capital lease obligation, accumulated unused compensated absences liability, and the pension and OPEB obligations for governmental activities will be liquidated by the General Fund, as in prior years.

The amount of general obligation debt the City may issue is not limited by State statute or local ordinances. However, the City adheres to a fiscal policy adopted by its elected officials that prohibits general obligation debt from exceeding 15% of the assessed value of taxable property. The City was in compliance at June 30, 2019.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities (Continued)

General obligation bonds payable relating to business-type activities at June 30, 2019, consist of the following:

Series A Infrastructure Bond of 2010; authorized amount \$5,093,428; interest at rates ranging from 0.75% to 4.31%; payable in annual payments of principal ranging from \$198,000 to \$350,500 and semiannual payments of interest through May 2030. \$ 3,186,900

Refunding Bonds of 2011; authorized amount \$4,010,000; interest at rates ranging from 2.0% to 3.25%; payable in annual payments of principal ranging from \$365,000 to \$425,000 and semiannual payments of interest through June 2022. 915,000

Refunding Bonds of 2011; authorized amount \$1,415,000; interest at rates ranging from 2.0% to 3.25%; payable in annual payments of principal ranging from \$125,000 to \$155,000 and semiannual payments of interest through June 2021. 310,000

Series A Refunding Bonds of 2016; authorized amount \$1,968,200; interest at a rate of 1.84%; payable in annual payments of principal ranging from \$67,000 to \$228,200 and semiannual payments of interest through November 2026. 1,706,000
\$ 6,117,900

The City's Series A Infrastructure Bond of 2010 contains a provision that in an event of default, the lender may take any action at law or in equity to collect the payments and other amounts then due and thereafter to become due.

The Refunding Bonds of 2016 contain a provision stating that in the event of a decrease in the marginal corporate tax rate of 35%, the lender shall have the option to adjust the interest rates upwards in order to maintain the same after tax yield for the lender. The lender has not exercised this option.

A schedule of maturities of the general obligation bonds payable relating to the business-type activities as of June 30, 2019, is as follows:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 1,009,800	\$ 185,118	\$ 1,194,918
2021	1,031,000	159,167	1,190,167
2022	537,600	132,685	670,285
2023	477,900	117,589	595,489
2024	489,900	104,402	594,302
2025-2029	2,221,200	298,356	2,519,556
2030	350,500	15,107	365,607
	<u>\$ 6,117,900</u>	<u>\$ 1,012,424</u>	<u>\$ 7,130,324</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities (Continued)

Notes payable relating to business-type activities at June 30, 2019, consists of the following:

Loan payable, Maryland Water Quality Financing Administration, unsecured, accruing interest at a rate of 0.90%; payable in annual principal payments at varying amounts and semiannual payments of interest; due 2032.	\$ 5,268,702
Loan payable, Maryland Water Quality Financing Administration, non-interest bearing, unsecured, no payments due through 2020 at which time loan is subject to forgiveness.	1,500,000
Loan payable, Maryland Water Quality Financing Administration, unsecured, accruing interest at a rate of 1.00%; payable in annual principal payments at varying amounts and semiannual payments of interest; due dates through 2030.	284,801
Loan payable, Manufacturers and Traders Trust Company, unsecured, accruing interest at 2.12%; payable in quarterly payments of \$73,769 at varying amounts of principal and interest through March 2022.	<u>785,788</u>
	<u>\$ 7,839,291</u>

The City's notes to Maryland Water Quality Financing Administration each contain provisions that in an event of default, the lender has the right to declare outstanding amounts immediately due and payable.

A schedule of maturities of the notes payable relating to the business-type activities as of June 30, 2019, is as follows:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 697,563	\$ 64,910	\$ 762,473
2021	2,207,426	55,047	2,262,473
2022	644,687	45,017	689,704
2023	428,601	38,801	467,402
2024	432,488	34,909	467,397
2025-2029	2,158,743	115,189	2,273,932
2030-2032	1,269,783	22,944	1,292,727
	<u>\$ 7,839,291</u>	<u>\$ 376,817</u>	<u>\$ 8,216,108</u>

During the year ended June 30, 2019, the City entered into capital lease obligations for the acquisition of new copiers, with interest rates ranging from 4.95% to 23.29%. The obligations require monthly payments of principal and interest totaling \$349 to be paid over a period of 5 years. At June 30, 2019, borrowings outstanding under these obligations totaled \$14,234.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 8. Long-Term Liabilities (Continued)

A schedule of maturities of capital lease obligations relating to business-type activities as of June 30, 2019, is as follows:

	Principal	Interest	Total
Years ending June 30:			
2020	\$ 2,934	\$ 1,254	\$ 4,188
2021	3,204	985	4,189
2022	3,519	670	4,189
2023	3,889	300	4,189
2024	688	9	697
	<u>\$ 14,234</u>	<u>\$ 3,218</u>	<u>\$ 17,452</u>

Note 9. Pension Plans – City Reporting

Under authority granted by the charter of the City, the City provides pension and retirement benefits for substantially all full-time City employees through three single-employer plans: the Defined Benefit Plan (DB Plan), the Police Department Pension Plan (PD Plan) and the Defined Contribution Pension Plan. These plans are administered by the City.

Management of the Pension Plans is vested in the Trustees, which includes the City Manager, Director of Finance, Human Resource Manager. In addition, Trustees of the Police Department Pension Plan also include two sworn police officers.

Separate, audited GAAP basis pension trust reports are not available for the plans. Therefore, pension plan reporting in accordance with GASB 67, *Financial Reporting for Pension Plans*, has been included in Note 10. Condensed financials as of and for the year ended June 30, 2019, are as follows:

	Police Department Plan	Defined Benefit Plan
Assets		
Investments and contracts	<u>\$ 12,905,094</u>	<u>\$ 1,187,113</u>
Net Position		
Restricted for pension benefits	<u>\$ 12,905,094</u>	<u>\$ 1,187,113</u>
Additions		
Contributions	\$ 958,433	\$ 19,194
Net investment income	767,210	43,126
	<u>1,725,643</u>	<u>62,320</u>
Deductions		
Benefit payments	660,639	109,531
Administrative expenses and other	41,302	18,003
	<u>701,941</u>	<u>127,534</u>
Change in net position	<u>1,023,702</u>	<u>(65,214)</u>
Beginning net position	11,881,392	1,252,327
Ending net position	<u>\$ 12,905,094</u>	<u>\$ 1,187,113</u>

The net pension asset and liability for the City's year ended June 30, 2019, was measured as of June 30, 2018, using the total pension liabilities that were determined by actuarial valuation as of June 30, 2018.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Defined Benefit Pension Plan

Plan Description and Provisions:

The City's DB Plan is a single-employer, noncontributory defined benefit pension plan controlled by City ordinance. The DB Plan is governed by the City which is responsible for the management of plan assets. The City has delegated the authority to manage plan assets to Principal Financial Group. This plan was closed to new entrants after June 30, 1997.

The City's DB Plan provides retirement, termination and death benefits. Normal retirement benefits for all plan members are calculated as 1% of average compensation multiplied by accrual service (accrued benefit) and in the form of a monthly annuity payable for life. General plan members age 65 and older and public safety plan members age 60 and older are eligible for normal retirement. Early retirement benefits for all plan members are calculated as the accrued benefit, as defined above, reduced by 6⅔% for each year up to 5, 3⅓% for each of the next 5 years, and 2.5% for each additional year that the Early Retirement Date precedes Normal Retirement Date and in the form of a monthly annuity payable for life. General plan members age 55 and older and public safety plan members age 50 and older are eligible for early retirement. Termination benefits for all plan members are vested at 100% after eight years of vesting service. Death benefits for all plan members require that the participant completed 25 years of service payable in a monthly annuity to spouse. The amount of the benefit equates to the amount that would have been received had the participant elected a joint and 50% survivorship benefits option and early retired the day before death.

Benefit terms provide for annual cost-of-living adjustments to each retired plan members at the discretion of the plan sponsor.

The DB Plan's membership consisted of the following as of June 30, 2018, the measurement date:

Inactive plan members or beneficiaries currently receiving benefits	13
Inactive plan members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>14</u>

Contribution Information and Funding Policy:

The DB Plan covers all employees of the City with 1,000 hours of annual eligible service who are not participants in the Defined Contribution Pension Plan or the PD Pension Plan. Provisions of the DB Plan include retirement and death benefits to plan members and their beneficiaries. Benefits and refunds of the postemployment defined benefit plan are recognized when due and payable in accordance with the terms of the plan.

The contribution requirements of the City are established and may be amended by the City legislature. The City is required to contribute at an actuarially determined rate. The actuarially required contribution rate and the amount paid into the DB Plan during the year ended June 30, 2019, was \$19,194. The DB Plan does not provide for a maximum employer contribution. No contributions are required of employees. Administrative costs are financed through investment earnings.

Assumptions:

The total pension liability at June 30, 2019, measured June 30, 2018, was determined by an actuarial valuation using the following assumptions:

Inflation	2.00%
Salary increases	Ranging from 5.77% to 7.30% based on age, plus 2.2%
Investment rate of return	3.75%, net of investment expense and including inflation

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Mortality rates during the benefit payment period were based on Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, annuitant, for Males and Females. Mortality rates before the benefit payment period were based on Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, non-annuitant, for Males and Females. Disability rates were based on the 1987 Commissioner's Group Disability Table, six month elimination period, for Males and Females. A withdrawal assumption was not utilized due to the size of the plan and limited experience.

The total pension liability as of June 30, 2019, was calculated based on the Entry Age Normal actuarial cost method. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service costs. Projected benefits are based on project salary and projected service.

The long-term interest rate assumption was developed as a weighted average rate based on the target asset allocation of the plan and the long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earning yields' models, expected economic growth outlook and market yields analysis. Best estimates of real rates of return (geometric means) for each major asset class included in the pension plan's target asset allocation as of the measurement date, are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Fixed income	100%	3.60%

A formal actuarial experience study has not been performed for the plan.

The mortality table has changed from the 2017 IRS Prescribed Mortality – Optional Combined Table for Small Plans, for Males and Females to the table noted above in the actuarial valuation as of June 30, 2019. The long-term rate of return on plan assets and discount rate declined from 4.25% at the beginning of the period to 3.75% at the end of the period. There were no other significant changes to assumptions when compared to the prior actuarial valuation.

Based on those assumptions, the pension plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2018 to 2071. Benefit payments after 2071 are projected to be \$0. The long-term rate of return of 3.75% is used to calculate the actuarial present value of the projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.93% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the June 30, 2018, measurement date. The discount rate is a single rate that incorporates the long-term rate of return and the municipal bond rate as described. The discount rate used to determine the beginning of period total pension liability is 4.25%. The discount rate used to determine the end of period total pension liability is 3.75%.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Investments:

The DB Plan does not have a formal investment policy.

Investments are valued as of the measurement date. The plan's unallocated investment contract is valued at contract value (a cost-based measure). Contract value represents contributions made under the contract, plus interest and contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Financial Group. As of the measurement date, all of the plan's investments were held in one organization, Principal Financial Group.

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expense. The annual money-weighted rate of return on plan investments for the measurement period of July 1, 2017 to June 30, 2018, for the City's year ended June 30, 2019, was 3.31%.

Net Pension Asset of the City:

The components of the net pension asset of the City at June 30, 2019, using a measurement date of June 30, 2018, were as follows:

Total pension liability	\$	1,145,855
Plan fiduciary net position		1,252,327
City's net pension asset	\$	(106,472)
Plan fiduciary net position as a percentage of total pension liability		109.29%

Sensitivity of the net pension asset to changes in the discount rate:

The following presents the net pension asset of the City, calculated using the discount rate of 3.75%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
City's net pension asset	\$ (11,695)	\$ (106,472)	\$ (188,807)

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Changes in the net pension asset were as follows:

Total pension liability, July 1, 2018 (measured June 30, 2017)	\$ 1,425,169
Interest	57,524
Difference between expected and actual experience	(303,045)
Changes in assumptions	93,259
Benefit payments	(127,052)
Total pension liability, June 30, 2019 (measured June 30, 2018)	<u>\$ 1,145,855</u>
Plan fiduciary net position, beginning measurement period (June 30, 2017)	\$ 1,288,612
Contributions – employer	67,369
Net investment income	41,547
Benefit payments	(127,052)
Administrative expenses	(18,149)
Plan fiduciary net position, ending measurement period (June 30, 2018)	<u>\$ 1,252,327</u>
Net pension liability, July 1, 2018 (measured June 30, 2017)	<u>\$ 136,557</u>
Net pension asset, June 30, 2019 (measured June 30, 2018)	<u>\$ (106,472)</u>

The information presented in the required supplementary schedules immediately following the notes to the basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Police Department Pension Plan

Plan Description and Provision:

The PD Pension Plan is a single-employer, contributory defined benefit pension plan established by the City ordinance. The PD Pension Plan is governed by the City and the retirement plan committee, which is responsible for the management of plan assets. The retirement plan committee has delegated the authority to manage plan assets to Principal Financial Group.

The City's PD Pension Plan provides retirement, termination, disability, and death benefits. Normal retirement benefits for all plan members are calculated as 2% of average compensation times service (maximum 25 years), plus any additional years of service credited for unused sick leave and military service. General plan members age 62 with five years of eligibility service or the date on which the participant has completed 25 years of eligibility services. Termination benefits are equal to the sum of the amount of retirement annuity which could be provided on normal retirement date by the participant's contribution account and vesting percentage times the excess of the accrued benefit as of the termination date over the preceding amount. Termination benefits for all plan members are vested at 100% after five years of vesting service. Disability benefits for all plan members are payable as monthly income until normal retirement, death, or recovery and a deferred annuity payable at the normal retirement date. Ordinary disability (with five years of service) amounts to the accrued benefit on the date of disability. Line of duty disability (catastrophic disability) provides 66⅔% of compensation, but not less than the plan member contribution benefit or the ordinary disability benefit. Line of duty disability (non-catastrophic disability) provides 33⅓% of compensation, but not less than the plan member contribution benefit or the ordinary disability benefit. Lump-sum death benefits are calculated as the sum of the plan member contribution benefit and the annual compensation as of the date of death.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Benefit terms provide for annual cost-of-living adjustments to each retired plan member at the discretion of the plan sponsor.

The PD Pension Plan's membership consisted of the following as of June 30, 2018, the measurement date:

Active plan members	39
Inactive plan members entitled to but not yet receiving benefits	11
Disabled plan members entitled to and receiving benefits	1
Retired plan members or beneficiaries currently receiving benefits	<u>14</u>
Total	<u>65</u>

Contribution Information and Funding Policy:

The PD Pension Plan covers sworn police officers who are employed on a regular full-time basis who are not participants in either the defined contribution pension plan or the defined benefit plan. Provisions of the PD Pension Plan include retirement and death benefits to members and their beneficiaries. Cost of living adjustments are provided at the discretion of the City legislature. Benefits and refunds of the postemployment defined benefit plan are recognized when due and payable in accordance with the terms of the plan.

The contribution requirements of the City are established and may be amended by the City legislature. The City is required to contribute at an actuarially determined rate; the current rate is 36.0% of annual covered payroll. The PD Pension Plan does not provide for a maximum employer contribution. The actuarially required contribution rate and the amount paid into the PD Pension Plan for the year ended June 30, 2019, was \$795,497. Administrative costs are financed through investment earnings. The police officers contribute to the PD Pension Plan based on 7% of salaries. Participants' actual contributions were \$162,936 for the year ended June 30, 2019.

Assumptions:

The total pension liability at June 30, 2019, measured June 30, 2018, was determined by an actuarial valuation using the following assumptions:

Inflation	2.00%
Salary increases	Ranging from 4.38% to 6.68% based on age, plus 2.5%
Investment rate of return	6.25%, net of investment expense and including inflation

Mortality rates during the benefit payment period were based on Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, annuitant, for Males and Females. Mortality rates before the benefit payment period were based on Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, non-annuitant, for Males and Females. Disability rates were based on the 1987 Commissioner's Group Disability Table, six-month elimination period, for Males and Females. A withdrawal assumption was based on the 2003 Society of Actuaries Small Plan Age Table, based on age, multiplied by 0.35.

The total pension liability as of June 30, 2019, was calculated based on the Entry Age actuarial cost method. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service costs. Projected benefits are based on project salary and projected service.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

The long-term interest rate assumption was developed as a weighted average rate based on the target asset allocation of the plan and the long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earning yields' models, expected economic growth outlook and market yields analysis. Best estimates of real rates of return (geometric means) for each major asset class included in the pension plan's target asset allocation as of the measurement date, are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Domestic equity	37.06%	6.50%
International equity	17.05%	6.50%
Fixed income	39.43%	3.86%
Real estate	6.46%	5.54%
Total	100.00%	

A formal actuarial experience study has not been performed for the plan.

The mortality table has changed from the IRS Prescribed Mortality – Generational Annuitant, for Males and Females and the IRS Prescribed Mortality – Generational Non-annuitant, for Males and Females to the table noted above in the actuarial valuation as of June 30, 2018. The long-term rate of return on plan assets and discount rate declined from 6.50% at the beginning of the period to 6.25% at the end of the period. There were no other significant changes to assumptions when compared to the prior actuarial valuation.

Based on those assumptions, the pension plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2018 to 2114. Benefit payments after 2114 are projected to be \$0. The long-term rate of return of 6.25% is used to calculate the actuarial present value of the projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.93% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the June 30, 2018 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and the municipal bond rate as described. The discount rate used to determine the beginning of period total pension liability is 6.50%. The discount rate used to determine the end of period total pension liability is 6.25%.

Investments:

The PD Pension Plan's investment policy has been established by and may be amended by the plan committee, on behalf of the plan sponsor, the City of Aberdeen. The plan committee is required to utilize investment options offering the appropriate risk and return characteristics normally found in the portfolios of defined benefit plans. The options are intended to control the degree of risk to which the plan assets are subject and to create a portfolio which aggregate risk and return characteristics considered to be normally appropriate for a defined benefit plan and minimize overall risk through diversification. The policy does not define specific benchmarks to clearly identify when an over concentration may occur. There were no significant policy changes during the year ended June 30, 2019.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Investments are valued as of the measurement date at fair value. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability (UAAL) is amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at June 30, 2019, was two years, which is re-established each year. As of the measurement date, all of the plan's investments were held in one organization, Principal Financial Group.

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expense. The annual money-weighted rate of return on plan investments for the measurement period of July 1, 2017 to June 30, 2018, was 7.48%.

Net Pension Liability of the City:

The components of the net pension liability of the City at June 30, 2019, using a measurement date of June 30, 2018, were as follows:

Total pension liability	\$ 13,422,609
Plan fiduciary net position	11,881,392
City's net pension liability	<u>\$ 1,541,217</u>
Plan fiduciary net position as a percentage of total pension liability	88.52%

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 6.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's net pension liability	\$ 3,374,989	\$ 1,541,217	\$ 38,542

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

Changes in the net pension liability, were as follows:

Total pension liability, July 1, 2018 (measured June 30, 2017)	\$ 12,132,176
Service costs	397,134
Interest	796,486
Difference between expected and actual experience	157,723
Changes in assumptions	458,685
Benefit payments	(519,595)
Total pension liability, June 30, 2019 (measured June 30, 2018)	<u>\$ 13,422,609</u>
Plan fiduciary net position, beginning measurement period (June 30, 2017)	\$ 10,781,507
Contributions – employer	665,662
Contributions – plan members	165,710
Net investment income	826,478
Benefit payments	(519,595)
Administrative expenses	(38,370)
Plan fiduciary net position, ending measurement period (June 30, 2018)	<u>\$ 11,881,392</u>
Net pension liability, July 1, 2018 (measured June 30, 2017)	<u>\$ 1,350,669</u>
Net pension liability, June 30, 2019 (measured June 30, 2018)	<u>\$ 1,541,217</u>

The information presented in the required supplementary schedules immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions

The City recognized deferred outflows of resources, deferred inflows of resources, and expense related to pensions as of and for the year ended June 30, 2019, as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
Prior year plan contributions reversed out of deferred outflows	\$ -	\$ -	\$ 733,031
Current year plan contributions (fiscal year 2019)	814,691	-	-
Differences between expected and actual experience	151,839	129,657	(172,200)
Net difference between expected and net investment income	24,748	-	89,479
Assumption changes	895,751	276,314	(254,466)
Net decrease in net pension liability from prior year to current year	-	-	(52,481)
	<u>\$ 1,887,029</u>	<u>\$ 405,971</u>	<u>\$ 343,363</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 9. Pension Plans – City Reporting (Continued)

\$814,691 reported as deferred outflows of resources related to pensions resulting from City contributions to the pension plans subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Years ending June 30:

2020	\$	304,932
2021		227,135
2022		66,278
2023		6,563
2024		61,459
	\$	<u>666,367</u>

Defined Contribution Pension Plan

Plan Description:

The City's Defined Contribution Pension Plan was established by the City to provide benefits at retirement to employees of the City who are not participants in the DB Plan or the PD Pension Plan. The City has delegated the authority to manage plan assets to ICMA Retirement Corporation. At June 30, 2019, there were 115 plan members. Defined Contribution Pension Plan participants are required to contribute 2% of annual base pay. The City is required to contribute 7% of annual base pay. Defined Contribution Pension Plan provisions and contribution requirements are established and may be amended by the City Council. Participants' and the City's actual contributions were \$125,509 and \$439,239, respectively.

Note 10. Pension Plans – Plan Reporting

GASB Statement 67, *Financial Reporting for Pension Plans*, addresses reporting by pension plans. Since the City does not issue separate pension plan financial statements, all required disclosures for the Plans have been included within this report. However, plan information included in Note 9 is not repeated within this disclosure.

A measurement date of June 30, 2019, is being used for the pension plans' June 30, 2019, financial reporting (Plan Reporting) and will be used for the City's future June 30, 2020, financial reporting (City Reporting – Note 9).

Defined Benefit Pension Plan

Plan Description and Provision:

There were no changes in the DB Plan descriptions and provisions between the June 30, 2018 and 2019, measurement dates.

The DB Plan's membership consisted of the following as of June 30, 2019, the plan's measurement date:

Inactive plan members or beneficiaries currently receiving benefits	13
Inactive plan members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>14</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 10. Pension Plans – Plan Reporting (Continued)

Contribution Information and Funding Policy:

There were no changes in the plan contribution information and funding policy between the June 30, 2018 and 2019, measurement dates.

Assumptions:

The plan's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The following assumptions were used:

Inflation	2.25%
Salary increases	Ranging from 5.77% to 7.30% based on age, plus 2.2%
Investment rate of return	3.75%, net of investment expense and including inflation

Mortality rates during the benefit payment period were based on PubG-2010 General base rate mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the MP-2018 mortality improvement scale. Mortality rates before the benefit payment period were based on PubG-2010 Employee, for Males and Females. Mortality rates for retirees, contingent survivors and disabled retirees were based on PubG-2010 Healthy Retiree base table, for Male and Females. Disability rates were based on the 1987 Commissioner's Group Disability Table, six-month elimination period, for Males and Females. A withdrawal assumption was not utilized due to the size of the plan and limited experience.

The total pension liability, as measured at June 30, 2019, was calculated based on the Entry Age actuarial cost method. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service costs. Projected benefits are based on project salary and projected service.

The long-term interest rate assumption was developed as a weighted average rate based on the target asset allocation of the plan and the long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earning yields' models, expected economic growth outlook, and market yields analysis. Best estimates of real rates of return (geometric means) for each major asset class included in the pension plan's target asset allocation as of the measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	100.00%	3.90%

A formal actuarial experience study has not been performed for the plan.

The mortality table has changed from the Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, annuitant, for Males and Females to the table noted above in the actuarial valuation as of June 30, 2019. The mortality improvement scale was also updated to reflect historical U.S. mortality data to 2016. The inflation rate increased from 2.00% at the beginning of the period to 2.25% at the end of the period. There were no other significant changes to assumptions when compared to the prior actuarial valuation.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 10. Pension Plans – Plan Reporting (Continued)

Based on those assumptions, the pension plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2019 to 2070. Benefit payments after 2070 are projected to be \$0. The long-term rate of return of 3.75% is used to calculate the actuarial present value of the projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.66% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the June 30, 2019, measurement date. The discount rate is a single rate that incorporates the long-term rate of return and the municipal bond rate as described. The discount rate used to measure the total pension liability was 3.75%.

Investments:

There were no changes to the investment contract utilized between the June 30, 2018, and June 30, 2019, measurement dates. Additionally, all of the Plan's investments continue to be held in one organization, Principal Financial Group.

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period ended June 30, 2019, is 3.61%.

Net Pension Asset of the City:

The components of the net pension asset of the City, using a measurement date of June 30, 2019, were as follows:

Total pension liability	\$ 1,123,667
Plan fiduciary net position	1,187,113
City's net pension asset	<u>\$ (63,446)</u>
Plan fiduciary net position as a percentage of the total pension liability	105.65%

Sensitivity of the net pension asset to changes in the discount rate:

The following presents the net pension asset of the City, calculated using the discount rate of 3.75%, as well as what the City's net pension (asset) liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
City's net pension (asset) liability	\$ 28,278	\$ (63,446)	\$ (143,200)

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 10. Pension Plans – Plan Reporting (Continued)

Police Department Pension Plan

Plan Description and Provision:

There were no changes in the PD Pension Plan descriptions and provisions between the June 30, 2018, and 2019, measurement dates.

The PD Pension Plan's membership consisted of the following as of June 30, 2019, the plan's measurement date:

Active plan members	38
Inactive plan members entitled to but not yet receiving benefits	15
Disabled plan members entitled to and receiving benefits	1
Retired plan members or beneficiaries currently receiving benefits	14
Total	<u>68</u>

Contribution Information and Funding Policy:

There were no changes in the plan contribution information and funding policy between the June 30, 2018 and June 30, 2019, measurement dates.

Assumptions:

The plan's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The following assumptions were used:

Inflation	2.25%
Salary increases	Ranging from 4.38% to 6.68% based on age, plus 2.5%
Investment rate of return	6.25%, net of investment expense and including inflation

Mortality rates during the benefit payment period were based on PubS-2010 Safety base rate mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the MP-2018 mortality improvement scale. Mortality rates before the benefit payment period were based on PubS-2010 Employee, for Males and Females. Mortality rates for retirees, contingent survivors and disabled retirees were based on PubS-2010 Healthy Retiree base table, for Male and Females. Disability rates were based on the 1987 Commissioner's Group Disability Table, six-month elimination period, for Males and Females. A withdrawal assumption was based on the 2003 Society of Actuaries Small Plan Age Table, based on age, multiplied by 0.35.

The total pension liability, as measured at June 30, 2019, was calculated based on the Entry Age actuarial cost method. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service costs. Projected benefits are based on project salary and projected service.

Note 10. Pension Plans – Plan Reporting (Continued)

The long-term interest rate assumption was developed as a weighted average rate based on the target asset allocation of the plan and the long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earning yields' models, expected economic growth outlook, and market yields analysis. Best estimates of real rates of return (geometric means) for each major asset class included in the pension plan's target asset allocation as of the measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	37.04%	6.35%
International equity	17.62%	6.35%
Fixed income	38.74%	4.06%
Real estate	6.60%	5.29%
Total	100.00%	

A formal actuarial experience study has not been performed for the plan.

The mortality table has changed from the Adjusted RP-2014 total dataset mortality, considering MP-2017 mortality improvement with generational mortality improvement, annuitant, for Males and Females to the table noted above in the actuarial valuation as of June 30, 2019. The mortality improvement scale was also updated to reflect historical U.S. mortality data to 2016. The inflation rate increased from 2.00% at the beginning of the period to 2.25% at the end of the period. There were no other significant changes to assumptions when compared to the prior actuarial valuation.

Based on those assumptions, the pension plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2019 to 2115. Benefit payments after 2115 are projected to be \$0. The long-term rate of return of 6.25% is used to calculate the actuarial present value of the projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.66% is used. The municipal bond rate is from Bloomberg Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the June 30, 2019 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and the municipal bond rate as described. The discount rate used to determine the total pension liability is 6.25%.

Investments:

There were no changes in the investment policy between the June 30, 2018 and 2019, measurement dates. Additionally, all of the plan's investments continue to be held in one organization, Principal Financial Group.

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period ended June 30, 2019, is 6.24%.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 10. Pension Plans – Plan Reporting (Continued)

Net Pension Liability of the City:

The components of the net pension liability of the City, using a measurement date of June 30, 2019, were as follows:

Total pension liability	\$ 14,103,622
Plan fiduciary net position	12,905,094
City's net pension liability	<u>\$ 1,198,528</u>
Plan fiduciary net position as a percentage of the total pension liability	91.50%

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 6.25%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's net pension liability (asset)	\$ 3,104,100	\$ 1,198,528	\$ (365,600)

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting

General Information about the OPEB Plan

Plan Description:

The City's defined benefit OPEB plan provides OPEB for all full-time, active employees who retire or are disabled from the City directly (if they would otherwise meet retirement criteria) qualify as a retiree and meet specific service requirements.

The City employees are eligible to continue group insurance coverage after retirement provided that:

1. Retiring employees have coverage in effect when they stop working.
2. Retire with an immediate benefit and:
 - a. Defined contribution pension plan members must have at least 20 years of service and be at least age 50 for law enforcement or at least 55 for all others.
 - b. Defined benefit plan members (police plan) must have 25 years of service.
 - c. Defined benefit plan members (original plan) have a normal retirement age of 60 for police officers; age of 65 for all other members (healthcare benefits eligibility is limited to current recipients only).
3. An employee must have been a full-time active employee.

The OPEB plan is a single-employer defined benefit plan administered by the City. Management of the OPEB plan is vested in the Trustees, which includes the City Manager, Director of Finance, and Human Resource Manager. The City's charter grants the authority to establish and amend the benefit terms to the City legislature. Separate, audited GAAP basis OPEB plan reports are not available for the plan.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

Benefits provided:

The OPEB plan provides healthcare and prescription drug benefits to eligible retirees and their eligible dependents until Medicare eligibility. Under a legacy plan, healthcare and prescription drug insurance benefits do not terminate upon Medicare eligibility. The legacy plan is closed to new entrants. Effective July 1, 2011, the City reimburses retirees over age 65 in full for a Medicare Supplement plan that retirees obtain. Retirees over age 65 are no longer members of the City's vision and dental plans, with the exception of those included in the legacy plan. Only police retirees over age 65 can have a spouse's Medicare Supplement plan reimbursed by the City. Life insurance coverage is provided to all eligible retirees.

Benefits are provided through third-party insurers and the City pays 80% to 90% of the monthly premium, depending upon election, including spousal and dependent coverage for participants.

Pre-Medicare participating retirees are covered under an HMO plan. Individuals under the legacy plan may source their own coverage, which is 100% reimbursed by the City.

Pre-Medicare retirees may choose between Preferred, Traditional, or Dental HMO dental plans and vision coverage. The City will continue the same sharing amounts as for active employees, which is currently 10% for dental and 50% for vision. Once retirees are eligible for Medicare, dental and vision coverage is available only through COBRA.

Retirees are eligible for \$13,500 life insurance coverage at retirement. The same service requirements for health care coverage are applicable for life insurance coverage. The City pays the entire cost of the coverage.

Employees covered by benefit terms:

At June 30, 2017, the date of the most recent valuation, the following employees were covered by the benefit terms:

	Medical/Drug	Life
Active employees	122	173
Inactive employees entitled to but not yet receiving benefits	-	-
Inactive plan employees entitled to and receiving benefits	25	19
	<u>147</u>	<u>192</u>

Contributions:

The City's charter grants the authority to establish and amend the contribution requirements of the City and employees to the City legislature. The City legislature establishes rates based on an actuarially determined rate. For the year ended June 30, 2019, the City's average contribution rate was 6.3% of covered-employee payroll.

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

Investments

The OPEB Plan does not have a formal investment policy.

Investments are valued as of the measurement date at fair value. The actuarial value of assets was determined using techniques to control volatility in annual cash contributions. The UAAL is amortized over a closed period of 30 years. The remaining amortization period at June 30, 2019, was 25 years. As of the measurement date, all of the plan's investments were held in one organization, ICMA Retirement Corporation, and were invested in two funds: VantageTrust II Model Portfolio Moderate Fund (49.5% of the Plan's net position) of and VantageTrust II Model Portfolio Aggressive Fund (50.5% of the Plan's net position).

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.9%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. Update procedures were used to roll forward the total OPEB liability to the measurement date.

Actuarial Assumptions:

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	6.50%, net of investment expenses and including inflation, reduced from 7.00% as of the June 30, 2017 and 2018 measurement dates
Healthcare trend	6.25% initially, grading down to 4.00% ultimate, reduced from 4.25% ultimate as of the June 30, 2017 and 2018 measurement dates
Vision trend	3.50% for all years
Dental trend	4.50% for all years
Inflation	2.50%
Salary increase	6.5% per year for safety employees and 5.0% per year for general employees, increased from 3.00% per year as of the June 30, 2017 and 2018 measurement dates
Mortality	PUB 2010G Headcount generational improvement scale SSA for general employees and PUB 2010S Headcount generational improvement with scale SSA for safety employees, updated from RP-2000 Combined Mortality Table for males and females projected to 2027 (Scale BB) as of the June 30, 2017 and 2018 measurement dates

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

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

The entry age normal (level percentage of pay) actuarial method was utilized in this valuation.

The unfunded liability was amortized over a period of 30 years as a level percentage of pay, on a closed basis with 27 years remaining.

Normal cost is determined for each active employee as the Actuarial Present Value of benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each individual's service between date of hire and date of full benefit eligibility.

For current retirees and actives, actual family status and ages were used if available. Males are assumed to be three years older than females. All employees and retirees are assumed to keep their current coverage level into the future.

Expected annual claims have been developed using the premiums for each plan, as well as standard aging rates for healthcare costs. Claims also include payout of deductibles (90% of full amount assumed to be used).

Medical and prescription drug cost trend assumptions:

Years ending December 31:	Annual Rate of Increase
2017	6.25%
2018	6.00%
2019	5.50%
2020	5.00%
2021	4.75%
2022	4.50%
2023	4.25%
2024 and Later	4.25%

Retirement rate assumptions:

General:

	Age					
	45	50	55	60	65	70
First year eligibility:						
Male	.150	.150	.250	.250	.250	1.000
Female	.150	.150	.250	.300	.300	1.000
Subsequent years:						
Male	.050	.050	.070	.120	.250	1.000
Female	.050	.050	.070	.100	.250	1.000

Police: 25 years of service – 50%; 26 – 34 years of service – 25%; 35+ years of service – 100%.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

Termination rate assumptions:

General:

Years of Service	Rate of Termination
0	.200
1	.180
2	.162
3	.146
4	.131
5	.118
6	.106
7	.096
8	.086
9	.077
10	.070
11	.063
12	.056
13	.051
14	.046
15	.041
16	.037
17	.033
18	.030
19	.027
20	.000

Police:

Age	Rate of Termination
20	.0608
25	.0488
30	.0388
35	.0303
40	.0235
45	.0183
50	.0140
55	.0105

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

Disability:

Age	Police		General	
	Male	Female	Male	Female
25	.00085	.00109	.0015	.0011
30	.00099	.00140	.0015	.0011
35	.00124	.00201	.0025	.0018
40	.00176	.00276	.0046	.0031
45	.00294	.00400	.0056	.0045
50	.00540	.00622	.0065	.0062
55	.00977	.00932	.0086	.0085

A formal actuarial experience study has been performed covering 2011 through 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	65.00%	5.50%
US Fixed income - Investment	35.00%	1.75%
Total	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made equal to the actuarially determined contribution each year. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the expected rates of return on the OPEB plan's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/18	\$ 3,737,833	\$ 1,737,627	\$ 2,000,206
Changes for the year:			
Service cost	129,885	-	129,885
Interest	265,531	-	265,531
Difference between expected and actual experience	1,222,988	-	1,222,988
Changes in assumptions	(300,062)		(300,062)
Contributions – employer	-	536,362	(536,362)
Net investment income	-	114,331	(114,331)
Benefit payments	(151,362)	(151,362)	-
Administrative expenses	-	(1,512)	1,512
Net increase	1,166,980	497,819	669,161
Balances at 6/30/19	\$ 4,904,813	\$ 2,235,446	\$ 2,669,367

The OPEB Plan's fiduciary net position as a percentage of the total OPEB liability was 45.6% at June 30, 2019.

Significant changes to assumptions when compared to the prior actuarial measurement of the net OPEB liability are described above.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability	\$ 3,066,493	\$ 2,669,367	\$ 2,336,850

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate: The following presents the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (3.00%)	Current Trend Rate (4.00%)	1% Increase (5.00%)
Net OPEB liability	\$ 2,162,074	\$ 2,669,367	\$ 3,298,599

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

OPEB Plan Fiduciary Net Position

Separate, audited GAAP basis OPEB plan reports are not available for the plan. Condensed financials as of and for the year ended June 30, 2019, are as follows:

Assets

Investments	\$ 2,235,446
-------------	--------------

Net Position

Restricted for OPEB benefits	\$ 2,235,446
------------------------------	--------------

Additions

Contributions	\$ 536,362
Net investment income	114,331
	<u>650,693</u>

Deductions

Benefit payments	151,362
Administrative expenses and other	1,512
	<u>152,874</u>

Change in net position

Beginning net position	497,819
	<u>1,737,627</u>
Ending net position	<u>\$ 2,235,446</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The City recognized deferred outflows of resources , deferred inflows of resources and OPEB expense related to OPEB from the following sources as of and for the year ended June 30, 2019, as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
Net increase in net OPEB liability from prior year to current year	\$ -	\$ -	\$ 669,161
Current year plan contributions	-	-	536,362
Differences between expected and actual experience	1,111,808	-	(1,111,808)
Changes in actuarial assumptions	-	272,783	272,783
Net difference between projected and actual earnings on OPEB plan investments	19,755	-	(5,021)
Total	<u>\$ 1,131,563</u>	<u>\$ 272,783</u>	<u>\$ 361,477</u>

City of Aberdeen, Maryland

Notes to Basic Financial Statements

Note 11. Post-Employment Health Care Benefits – City and Plan Reporting (Continued)

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

Years ending June 30,	
2020	\$ 89,762
2021	89,762
2022	89,764
2023	86,080
2024	83,903
Thereafter	419,509
	<u>\$ 858,780</u>

Note 12. Other Information

Risk management: The City is exposed to various risks of loss related to torts; damages to, and destruction of assets; errors and omissions; employee's health and accident and natural disasters. The City purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Settled claims have not exceeded these coverage amounts during the year ended June 30, 2019.

In addition to those suits in which claims for liability are adequately covered by insurance, the City may be a defendant in various suits involving breach of contract and other suits arising in the normal course of business. Management, in consultation with the City's attorney, does not believe the resolution of these matters will have a material adverse effect on the City's financial statements.

Commitments and contingencies: Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the City under some of these grants and contracts are subject to audit. To date, the City has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

The City entered into a contract with the U.S. Government, Department of Army to provide administrative and operational services to support water and sewer services to Aberdeen Proving Ground. Under the contract, the City is reimbursed for salary and fringe costs and indirect overhead costs (referred to as a management fee). The contract can be terminated by either party with three years' written notice.

The City has been invoiced \$494,792 by the Maryland State Highway Administration (SHA) for certain infrastructure improvements completed by SHA for which they are representing are the responsibility of the City. The City is disputing the extent of its responsibility and is currently working to substantiate the legitimacy of SHA's claim. At June 30, 2019, the City has accrued an estimated liability of \$158,089.

Encumbrances recorded in the General Fund and Capital Projects Fund as of June 30, 2019, were \$90,386 and \$17,612, respectively.

Subsequent event: In October 2019, the City entered into an agreement to purchase real property in the amount of \$1,200,000. The purchase was funded with fund balance from the General Fund.

Note 13. New GASB Standards

The GASB has issued several pronouncements prior to the year ended June 30, 2019, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City:

GASB Statement No. 84, *Fiduciary Activities*, is effective for the City beginning with its year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on: (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, *Leases*, is effective for the City beginning with its year ending June 30, 2021. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for the City beginning with its year ending June 30, 2020. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

Required Supplementary
Information
(Unaudited)

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Schedule of Changes in the City's Net Pension (Asset) Liability and Related Ratios

Defined Benefit Pension Plan

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Total pension liability, beginning	\$ 1,425,169	\$ 1,537,783	\$ 1,586,831	\$ 1,573,653	\$ 1,661,697
Interest	57,524	61,849	67,615	78,181	82,568
Difference between expected and actual experience	(303,045)	(26,801)	9,873	5,043	(9,240)
Changes in assumptions	93,259	3,637	31,340	88,239	3,713
Benefit payments	(127,052)	(151,299)	(157,876)	(158,285)	(165,085)
Total pension liability, ending	<u>\$ 1,145,855</u>	<u>\$ 1,425,169</u>	<u>\$ 1,537,783</u>	<u>\$ 1,586,831</u>	<u>\$ 1,573,653</u>
Plan fiduciary net position, beginning	\$ 1,288,612	\$ 1,339,137	\$ 1,399,552	\$ 1,449,945	\$ 1,501,553
Contributions – employer	67,369	67,855	57,934	62,665	65,314
Net investment income	41,547	51,157	53,869	59,641	64,166
Benefit payments	(127,052)	(151,299)	(157,876)	(158,285)	(165,085)
Administrative expenses	(18,149)	(18,238)	(14,342)	(14,414)	(16,003)
Plan fiduciary net position, ending	<u>\$ 1,252,327</u>	<u>\$ 1,288,612</u>	<u>\$ 1,339,137</u>	<u>\$ 1,399,552</u>	<u>\$ 1,449,945</u>
Net pension liability, beginning	<u>\$ 136,557</u>	<u>\$ 198,646</u>	<u>\$ 187,279</u>	<u>\$ 123,708</u>	<u>\$ 160,144</u>
Net pension (asset) liability, ending	<u>\$ (106,472)</u>	<u>\$ 136,557</u>	<u>\$ 198,646</u>	<u>\$ 187,279</u>	<u>\$ 123,708</u>
Plan fiduciary net position as a percentage of total pension liability	109.3%	90.4%	87.1%	88.2%	92.1%
Covered payroll	-	-	-	-	-
City's net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A

The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

(Continued)

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Schedule of Changes in the City's Net Pension (Asset) Liability and Related Ratios (Continued)

Police Department Pension Plan

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Total pension liability, beginning	\$ 12,132,176	\$ 11,930,689	\$ 10,257,086	\$ 9,455,418	\$ 8,947,650
Service costs	397,134	383,990	306,236	323,625	298,295
Interest	796,486	760,928	720,047	697,737	656,293
Difference between expected and actual experience	157,723	(103,878)	42,306	(87,169)	(117,048)
Changes in assumptions	458,685	(399,120)	946,333	160,404	-
Changes in benefit terms	-	-	142,070	-	-
Benefit payments	(519,595)	(440,433)	(483,389)	(292,929)	(329,772)
Total pension liability, ending	<u>\$ 13,422,609</u>	<u>\$ 12,132,176</u>	<u>\$ 11,930,689</u>	<u>\$ 10,257,086</u>	<u>\$ 9,455,418</u>
Plan fiduciary net position, beginning	\$ 10,781,507	\$ 9,454,665	\$ 9,231,544	\$ 8,734,063	\$ 7,266,437
Contributions – employer	665,662	545,099	521,120	424,102	506,000
Contributions – plan members	165,710	171,518	213,041	161,734	162,876
Net investment income (loss)	826,478	1,079,768	(2,904)	234,745	1,162,779
Benefit payments	(519,595)	(440,433)	(483,389)	(292,929)	(329,772)
Administrative expenses	(38,370)	(29,110)	(24,747)	(30,171)	(34,257)
Plan fiduciary net position, ending	<u>\$ 11,881,392</u>	<u>\$ 10,781,507</u>	<u>\$ 9,454,665</u>	<u>\$ 9,231,544</u>	<u>\$ 8,734,063</u>
Net pension liability, beginning	<u>\$ 1,350,669</u>	<u>\$ 2,476,024</u>	<u>\$ 1,025,542</u>	<u>\$ 721,355</u>	<u>\$ 1,681,213</u>
Net pension liability, ending	<u>\$ 1,541,217</u>	<u>\$ 1,350,669</u>	<u>\$ 2,476,024</u>	<u>\$ 1,025,542</u>	<u>\$ 721,355</u>
Plan fiduciary net position as a percentage of total pension liability	88.5%	88.9%	79.2%	90.0%	92.4%
Covered payroll	\$ 2,350,824	\$ 2,331,171	\$ 2,303,500	\$ 2,175,531	\$ 2,269,920
City's net pension liability as a percentage of covered payroll	65.6%	57.9%	107.5%	47.1%	31.8%

The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Schedule of City Contributions – Pension

Last Ten Fiscal Years – City Reporting

Defined Benefit Pension Plan

Years Ended June 30,	Actuarially Determined Contribution	Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 19,194	\$ 19,194	\$ -	\$ -	100%
2018	67,369	67,369	-	-	100%
2017	67,855	67,855	-	-	100%
2016	57,934	57,934	-	-	100%
2015	62,665	62,665	-	-	100%
2014	65,314	65,314	-	-	100%
2013	70,452	70,452	-	-	100%
2012	40,133	40,133	-	-	100%
2011	64,215	64,215	-	-	100%
2010	114,001	114,001	-	-	100%

Police Department Pension Plan

Years Ended June 30,	Actuarially Determined Contribution	Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 795,497	\$ 795,497	\$ -	\$ 2,210,685	36.0%
2018	665,662	665,662	-	2,350,824	28.3%
2017	545,099	545,099	-	2,331,171	23.4%
2016	521,120	521,120	-	2,303,500	22.6%
2015	424,102	424,102	-	2,175,531	19.5%
2014	462,805	506,000	(43,195)	2,269,920	22.3%
2013	505,772	517,000	(11,228)	1,905,358	27.1%
2012	516,888	516,888	-	1,765,006	29.3%
2011	506,099	506,099	-	1,742,242	29.0%
2010	434,789	434,789	-	1,672,736	26.0%

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Other Post-Employment Benefits (OPEB)

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB liability, beginning	\$ 3,737,833	\$ 3,514,785	\$ 3,295,297
Service cost	129,885	126,102	122,429
Interest	265,531	249,609	230,644
Difference between expected and actual experience ¹	1,222,988	-	-
Changes in assumptions	(300,062)	-	-
Benefit payments	(151,362)	(152,663)	(133,585)
Total OPEB liability, ending	<u>\$ 4,904,813</u>	<u>\$ 3,737,833</u>	<u>\$ 3,514,785</u>
Plan fiduciary net position, beginning	\$ 1,737,627	\$ 1,267,652	\$ 764,790
Contributions – employer	536,362	540,663	518,585
Net investment income	114,331	81,975	117,928
Benefit payments ²	(151,362)	(152,663)	(133,585)
Administrative expenses	(1,512)	-	(66)
Plan fiduciary net position, ending	<u>\$ 2,235,446</u>	<u>\$ 1,737,627</u>	<u>\$ 1,267,652</u>
Net OPEB liability, beginning	<u>\$ 2,000,206</u>	<u>\$ 2,247,133</u>	<u>\$ 2,530,507</u>
Net OPEB liability, ending	<u>\$ 2,669,367</u>	<u>\$ 2,000,206</u>	<u>\$ 2,247,133</u>
Plan fiduciary net position as a percentage of total OPEB liability	45.6%	46.5%	36.1%
Covered-employee payroll	\$ 8,529,840	\$ 8,670,057	\$ 8,417,532
City's net OPEB liability as a percentage of covered-employee payroll	31.3%	23.1%	26.7%

¹At the June 30, 2019 measurement date, medical cost annual rate of increases were updated to reflect increased premium costs.

²Benefit payments are currently not being made from the OPEB Trust Fund. The reporting above shows the payments made by the City outside the trust as both employer contributions and benefit payments.

The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Schedule of City Contributions – OPEB

Years Ended June 30,	Actuarially Determined Contribution	Contributions in relation to the actuarially determined contribution	Contribution Deficiency / (Excess)	Covered- Employee Payroll	Contribution as a Percentage of Covered- Employee Payroll
2019	\$ 248,910	\$ 536,362	\$ (287,452)	\$ 8,529,840	6.3%
2018	310,133	540,663	(230,530)	8,670,057	6.2%
2017	306,203	518,585	(212,382)	8,417,532	6.2%
2016	404,108	564,588	(160,480)	7,679,576	7.4%
2015	412,327	517,002	(104,675)	7,903,392	6.5%
2014	284,836	107,595	177,241	7,451,184	1.4%
2013	351,581	135,840	215,741	Unavailable	
2012	527,550	84,624	442,926	6,467,790	1.3%
2011	904,253	140,801	763,452	Unavailable	
2010	925,000	80,702	844,298	7,630,981	1.1%

City amounts above include implicit subsidies.

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Pension and OPEB

	Year Ended					
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Defined Benefit Pension Plan						
Annual money weighted rate of return, net of investment expense	3.61%	3.31%	4.01%	4.05%	4.26%	4.44%
Police Department Pension Plan						
Annual money weighted rate of return, net of investment expense	6.24%	7.48%	11.32%	-0.03%	2.63%	15.73%
OPEB Plan						
Annual money weighted rate of return, net of investment expense	5.90%	5.70%	13.04%	0.36%	-1.79	N/A

The City established the OPEB Trust in fiscal year 2015 therefore, investment return information for 2014 is not applicable.

The schedule above is intended to show information for ten years. Additional information will be displayed as it becomes available.

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Notes to Required Supplementary Information

Pension Trend Information

The Schedule of City Contributions – Pension provides historical context for the amounts of contributions in the current period. The actuarially determined contributions are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Significant methods and assumptions used to determine the contributions for Pension plans include:

Defined Benefit Plan

Valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Straight line
Amortization period	5 years
Asset valuation method	Market value of assets held in separate accounts and contract value of assets held
Investment rate of return	3.75%, net of investment expense and including inflation
Inflation	2.25%
Salary increase	5.77% to 7.3% based on age, plus 2.2%
Mortality	PubG-2010 General base rate mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the MP-2018 mortality improvement scale. Mortality rates before the benefit payment period were based on PubG-2010 Employee, for Males and Females. Mortality rates for retirees, contingent survivors and disabled retirees were based on PubG-2010 Healthy Retiree base table, for Male and Females.
Disability	1987 Commissioner's Group Disability Table, six-month elimination period, for Males and Females

Police Department Pension Plan

Valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Straight line
Amortization period	Initial funded actuarial accrued liability 5 years; experience gains/losses, amendments, assumption changes 10 years
Asset valuation method	Market value of assets
Investment rate of return	6.25%, net of investment expense and including inflation
Inflation	2.25%
Salary increase	4.38% to 6.68% based on age, plus 2.5%
Mortality	PubS-2010 Safety base rate mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the MP-2018 mortality improvement scale. Mortality rates before the benefit payment period were based on PubS-2010 Employee, for Males and Females. Mortality rates for retirees, contingent survivors and disabled retirees were based on PubS-2010 Healthy Retiree base table, for Male and Females.
Disability	1987 Commissioner's Group Disability Table, six-month elimination period, for Males and Females.

City of Aberdeen, Maryland

Required Supplementary Information (Unaudited)

Notes to Required Supplementary Information (Continued)

OPEB Trend Information

The Schedule of City Contributions – OPEB provides historical context for the amount of contributions in the current period. The actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Significant methods and assumptions used to determine the contributions for OPEB plan include:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, on a closed basis with 27 years remaining
Amortization period	30 years
Asset valuation method	Smoothed value of assets
Investment rate of return	6.50%, net of investment expenses and including inflation
Inflation	2.50%
Salary increase	6.5% per year for safety employees and 5.0% per year for general employees
Mortality	PUB 2010G Headcount generational improvement scale SSA for general employees and PUB 2010S Headcount generational improvement with scale SSA for safety employees