THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Prepared by the Department of Finance

Gerald D. Kolbfleisch
Director of Finance

Member of Government Finance Officers Association
of the United States and Canada

THE CITY OF FREDERICK, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012

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Randy McClement
Mayor

Aldermen

Karen Lewis Young
President Pro Tem

Michael C. O'Connor
Shelley M. Aloi
Carol L. Krimm
Kelly M. Russell

October 29, 2012

Honorable Mayor
Members of the Board of Aldermen
Citizens and Friends of The City of Frederick, Maryland

Ladies and Gentlemen:

In compliance with Section 105 of the Charter, submitted herewith is the Comprehensive Annual Financial Report of The City of Frederick, Maryland as of and for the fiscal year ended June 30, 2012. The form and contents of this report have been prepared by the City's Department of Finance in conformance with the standards set forth by the Charter of The City of Frederick, reporting principles promulgated by the Governmental Accounting Standards Board, and the Government Finance Officers Association of the United States and Canada.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Frederick's financial statements have been audited by McGladrey LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that The City of Frederick's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements required the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Single Audit section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Finance Department • 101 North Court Street • Frederick, MD 21701-5415 • 301-600-1399 • Fax 301-600-3869
www.cityoffrederick.com

Profile of the City

Founded in 1745, The City of Frederick is one of the most historic and economically vibrant cities in the state of Maryland. Incorporated in 1817, Frederick is the cultural, business and financial center of Frederick County. Its proximity to Washington, D.C. and Baltimore, located near Interstates 70 and 270, make it a logical location for growth and progress. The City currently occupies a land area of approximately 21.12 square miles and serves an estimated population of 65,833. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Mayor and Board of Aldermen.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five aldermen. The governing body is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. The mayor is responsible for carrying out the policies and ordinances of the governing body, and for overseeing the day-to-day operations of the City. The board is elected at large and each member serves four-year terms.

The City provides a full range of services, including police protection, planning and engineering, code enforcement, maintenance of streets and other infrastructure, waste collection and disposal, traffic control, and recreation and parks. Water and sewer, parking, airport, storm water, golf and rental operation facilities are provided by the City under the enterprise fund concept. Provisions are made for public capital improvements through the City's capital improvement program.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the Mayor. The mayor uses these requests as the starting point for developing a proposed budget. The mayor presents the proposed budget prior to May 30th. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29th. The budget is prepared by fund, function and department. The Mayor may make transfers or appropriations within a department. Transfers between departments require the special approval of the board. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 27 and 28 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 67.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy

The City of Frederick attracts some 1,000 new residents each year. The City's estimated population of 65,833, coupled with an additional 50,000 residents who live in surrounding neighborhoods, represents approximately fifty percent of Frederick County's total population. Closely equal in gender, more than 62% of Frederick's population falls between the ages of 20 and 64, with the estimated median age of Frederick residents coming in at 34.6. 52% of Frederick's total number of jobs is in professional and managerial levels. The average household income holds at $72,842. Some of the larger employers in the City are Fort Detrick Campus, Frederick Memorial Hospital, Wells Fargo Home Mortgage and Frederick Community College.

Abundant, diverse housing is a primary attraction among new residents moving to Frederick. The City includes 25,352 households, a third of all those located in Frederick County. In 2011, the median home value in Frederick City was $242,736, boasting housing costs that are lower than other Washington, D.C. suburban counties.

The City of Frederick is also a major transportation nucleus. National and state highways leading from Washington, D.C., Baltimore, and Pittsburgh connect to Frederick's larger streets, ultimately funneling into the City's original historic downtown thoroughfares. Passenger rail service to Washington D.C.'s Union Station and points in between is also available to City residents. The City and surrounding area is also serviced by Frederick Municipal Airport, a general aviation reliever airport for Reagan National, Baltimore-Washington International and Washington Dulles

International airports. Its close proximity to urban areas along with the available transportation systems make the City a logical location for growth and progress.

Long-term financial planning

The City of Frederick is making comprehensive revisions to the development of its 5-year Capital Improvement Plan that incorporates elements of the City's Comprehensive Plan, the Engineering and Public Works Strategic Plan, the Airport Master Plan, and the Water/Sewer Master Plan. The Capital Improvement Plan not only tabulates the actual development cost of each project, but also identifies creative new funding sources such as tax increment financing, impact fees, special assessments and grants in addition to traditional bond funding and operating transfers. The Capital Improvement Plan also identifies future operating costs for each project.

One of the major projects in the Capital Improvement Plan is the Monocacy Boulevard project, a four lane highway connecting Route 70 to Route 26 that will open the way for new mixed use industrial, commercial and residential development. The total cost of over $46,200,000 will be financed by a combination of tax increment financing, special assessments and general obligation bonds. The center section of Monocacy Boulevard is slated for substantial completion by January 2013.

The Carroll Creek Linear Park project will provide landscape and creek-side improvements along the recently completed park and flood control project. These improvements will provide development opportunities, create jobs and services and enhance the tax base of the City.

The purchase of the Hargett Farm by the City allows the City to accomplish a number of public improvements, including but not limited to the development of a much needed Regional Park, re-alignment of Butterfly Lane to relieve congestion along the MD 180/MD 351 corridor, a Department of Public Works western satellite facility and a new public school site.

The City is also encouraging private investment through property and income tax credits for the Historic District, Arts District and the Golden Mile Commercial District. A new Jobs Tax Credit Program has also been established which will award a credit based on the expansion of a facility and the number of new, permanent, full time positions created over a two year period. These short-term tax credits provide needed incentives for private sector capital reinvestment and revitalization in the properties of the area.

In January 2012, the Mayor and Board of Aldermen began the process of creating a strategic plan for the City. The objectives of the plan are to create strategies, goals and performance based measurements to drive the budget in the short term and transcend multiple administrations in the long term. The main themes of the strategic plan are long term stability, economic development, public safety, infrastructure, environmental sustainability, quality of life, innovative government, planning and development.

Relevant Financial Policies

The City of Frederick has established a "Rainy Day" reserve of unassigned general fund balance that is equal to 12% of total general fund expenditures (including transfers out) to provide for adequate working capital and to provide funds to meet unforeseen emergencies. In fiscal year 2012, the City was able to maintain its Rainy Day reserve in compliance with adopted policies.

Additionally, in the current fiscal year the City authorized the establishment of a "Budget Stabilization Reserve" in any fund to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The board of Aldermen will determine the balance, if any, of the budget stabilization reserve for a given fiscal year as part of the adoption of the City's annual budget.

Major Initiatives

The City is involved with a number of exciting new initiatives that indicate the vitality and excitement in this growing and expanding community.

The Federal Aviation Administration awarded the City over $4M dollars for the purpose of constructing an Air Traffic Control Tower at the Frederick Municipal Airport. The tower was completed during the current fiscal year and employs FAA-certified and funded air traffic controllers. The tower will allow for safer ground and air operations at one of the busiest general aviation airports in Maryland. Along with the safety improvements, local corporate partners who are currently basing private aircraft at other regional airports will be able to bring those jets back to Frederick.

The City worked with SAIC, Inc. and the Frederick National Laboratory, formerly the National Cancer Institute, to open the Advanced Research Facility in the Riverside Corporate Park in the northeast quadrant of the City. The facility opened in June of the current fiscal year. The FNL/ARF is a state-of-the-art scientific campus that brings together bio-technology, higher education and business development into a powerful force for tech sector job creation.

The City has created a team to study the feasibility of a downtown hotel/conference center project. The City partnered with the Maryland Stadium Authority to complete a feasibility study for the project. The City also issued a Request for Interest (RFI) for site selection for this project and received several responses. The City is also in the process of preparing a Request for Proposal (RFP) for a development team for the project.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the twenty ninth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance and the various directors and employees from each department who assisted and contributed to its preparation. My sincere appreciation is given not only for the physical preparation of this report, but also for the efforts expended throughout the year to ensure proper treatment and recordation of the various transactions the City enters into.

My appreciation is extended to the Mayor and Board of Aldermen for their interest and support in the planning and conduction of the financial operations of the City in a responsible manner. I also express my appreciation to our independent accounting firm, McGladrey LLP, as well as our financial software consultants, Harris Systems U.S.A. Inc., for their cooperation in our efforts to effect a better accounting and reporting responsibility.

Respectfully submitted,

Gerald D. Kolbfleisch

Gerald D. Kolbfleisch
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The City of Frederick Maryland

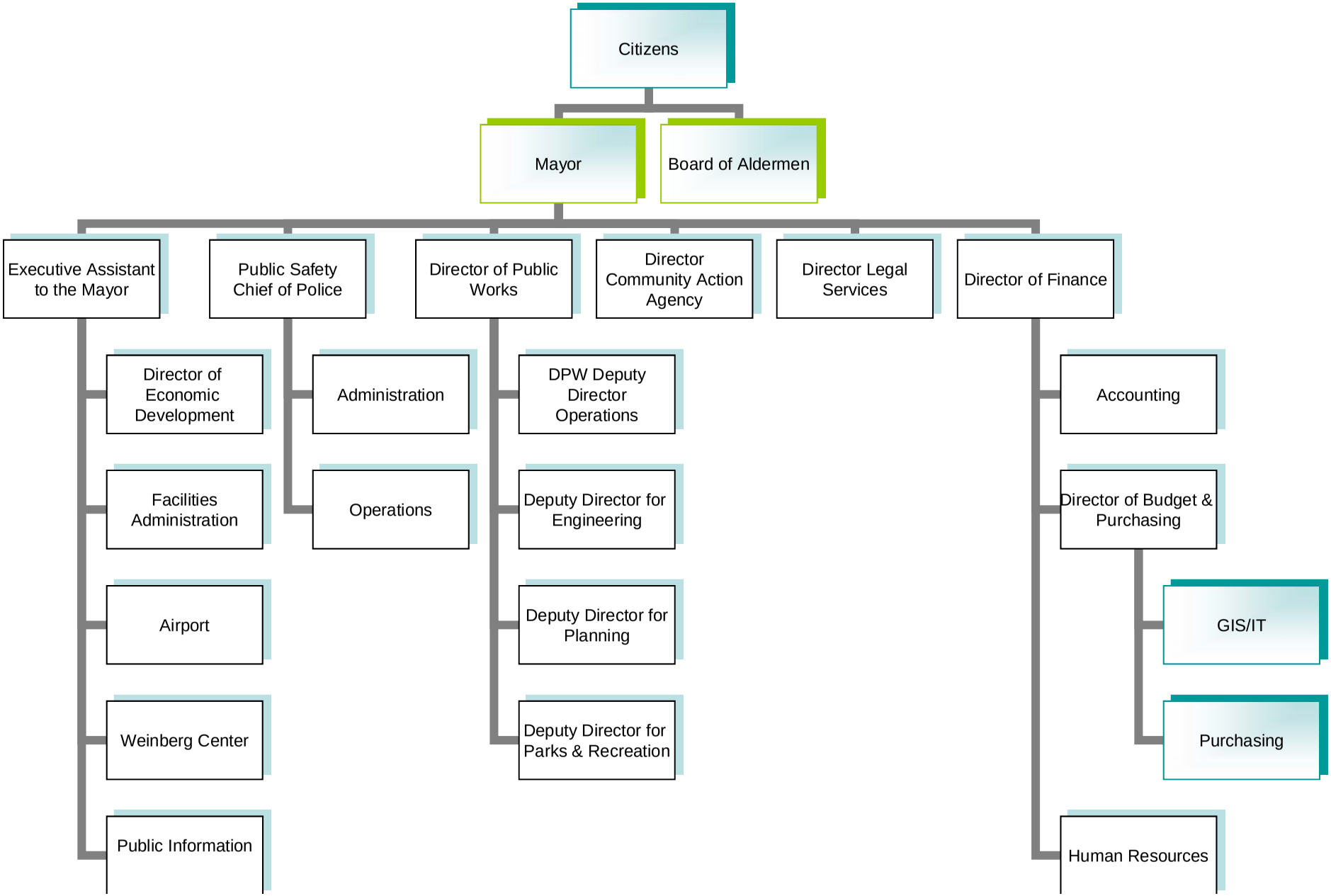
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

The City of Frederick
Organizational Chart



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2012

MAYOR

Randy McClement

BOARD OF ALDERMEN

Karen Lewis Young
President Pro Tem

Michael C. O'Connor
Shelley M. Aloi
Carol L. Krimm
Kelly Russell

APPOINTED OFFICIALS

Chief of Police	Colonel Kim C. Dine
City Attorney	Saundra A. Nickols
Deputy Director for Engineering	Zachary J. Kershner
Deputy Director for Parks and Recreation	Roelkey I. Myers
Deputy Director for Planning	Joseph A. Adkins
Acting Deputy Director for Operations	Marc P. Stachowski
Director of Budget and Purchasing	M. Katherine Barkdoll
Director of Community Action	Michael R. Spurrier
Director of Economic Development	Richard G. Griffin
Director of Finance	Gerald D. Kolbfleisch
Executive Assistant	Joshua L. Russin

FINANCIAL SECTION

McGladrey

Independent Auditor's Report

To the Honorable Mayor and Board of Aldermen
The City of Frederick, Maryland

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 Frederick, Maryland as of and for the year ended June 30, 2012, which collectively comprise The City of Frederick, Maryland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City of Frederick, Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The City of Frederick, Maryland as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2012 on our consideration of The City of Frederick, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 22, the Schedule of Funding Progress – Pension Plans on page 65, the Schedule of Employer Contributions – Pension Plans on page 66, the Schedule of Funding Progress – Other Post Employment Benefit Plans and the Schedule of Employer Contributions – Other Post Employment Benefit Plans on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Member of the RSM International network of independent accounting, tax and consulting firms.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Frederick, Maryland's basic financial statements. The other schedules, listed in the table of contents as other supplementary information and single audit section, are presented for purposes of additional analysis and are not a required part of the financial statements of The City of Frederick, Maryland. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules, listed in the table of contents as other supplementary information and single audit section are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise The City of Frederick, Maryland's basic financial statements. The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide assurance on it.

McGladrey LLP

Frederick, Maryland
October 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of The City of Frederick, Maryland, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of The City of Frederick for the fiscal year ended June 30, 2012. The Management's Discussion and Analysis (MD&A) is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its' ability to address the next and subsequent years challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 4 –7 of this report, and the City's financial statements.

Financial Highlights

The assets of The City of Frederick exceeded its liabilities at the close of the most recent fiscal year by $270,085,208 (net assets). Of this amount, $49,381,529 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by $1,585,116, or .59%. The governmental net assets decreased by $1,261,773 and the business-type net assets increased by $2,846,889.

As of the close of the current fiscal year, the City's governmental funds (reflected on a current financial resource basis) reported combined ending fund balances of $39,737,769, an increase of $1,382,024 in comparison to the prior year. A decrease of $218,870 in the fund balance was attributable to non-major governmental funds, a decrease of $251,766 was attributable to the capital improvement program and the remaining change in fund balance was due to an increase of $1,852,660 in the general fund.

At June 30, 2012, the total general fund unassigned fund balance was $15,252,943, or 23.82% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to The City of Frederick'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 supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. There are two basic statements in the government-wide financial statements: the statement of net assets and the statement of activities. These statements are designed to provide readers with a broad overview of The City of Frederick's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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, recreation and parks, community development and economic opportunity. The business-type activities of the City include water and sewer, golf course, airport, parking, storm water management and rental operations.

The government-wide financial statements can be found on pages 23 and 24 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 governmental 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 City's near-term financing decisions. Both the governmental fund balance sheet and the 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 five individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the general fund and general capital improvements program fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25 - 29 of this report.

Proprietary funds. The City maintains six enterprise funds that are used to report the same functions presented as business-type activities in the government-wide financial statements; specifically, water and sewer, airport, parking, storm water management, golf course and rental operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water and sewer, airport, parking and storm water management, all of which are considered to be major funds of the City. The golf course and rental operations funds are considered to be non-major funds and are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30 – 33 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 34 - 35 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 - 64 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 benefits to its employees. Required supplementary information can be found on pages 65 - 67 of this report.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplementary information on pensions and other post-employment benefits. Combining and individual fund statements and schedules can be found on pages 68 - 76 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $270,085,208 at the close of the most recent fiscal year.

The City of Frederick's Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 48,242,220	$ 46,799,327	$ 55,058,399	$ 55,240,215	$ 103,300,619	$102,039,542
Capital assets	125,336,875	127,391,057	302,941,887	301,658,529	428,278,762	429,049,586
Total assets	173,579,095	174,190,384	358,000,286	356,898,744	531,579,381	531,089,128
Long-term liabilities outstanding	86,163,627	85,233,058	163,307,468	160,854,552	249,471,095	246,087,610
Other liabilities	6,300,598	6,580,683	5,722,480	9,920,743	12,023,078	16,501,426
Total liabilities	92,464,225	91,813,741	169,029,948	170,775,295	261,494,173	262,589,036
Net assets:						
Invested in capital assets, net of related debt	58,971,758	58,911,146	156,954,179	162,204,773	215,925,937	221,115,919
Restricted	1,741,456	1,818,497	3,036,286	1,849,613	4,777,742	3,668,110
Unrestricted	20,401,656	21,647,000	28,979,873	22,069,063	49,381,529	43,716,063
Total net assets	$ 81,114,870	$ 82,376,643	$ 188,970,338	$186,123,449	$ 270,085,208	$268,500,092

By far the largest portion of the City's net assets (79.9 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of net assets ($4,777,742) represents resources that are restricted on how they may be used. The remaining balance of net assets ($49,381,529) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. The golf course business-type activity had negative unrestricted net assets in the amount of $4,896,131.

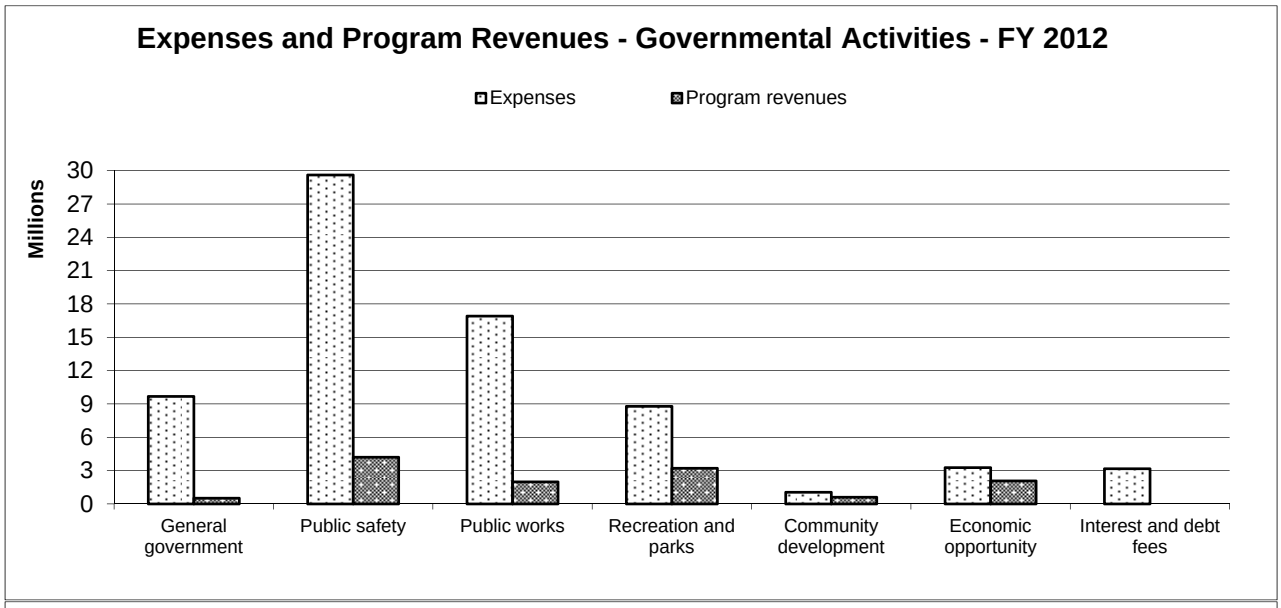
The City's net assets increased by $1,585,116 during the current fiscal year.

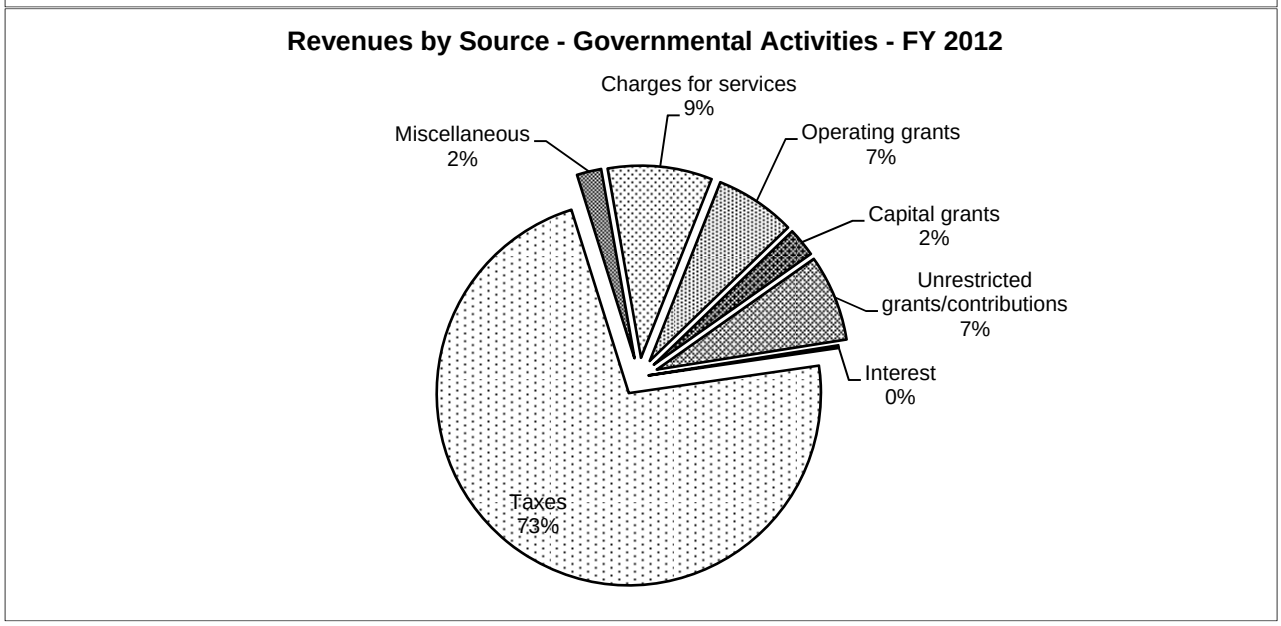
Governmental activities. Governmental activities decreased the City's net assets by $1,261,773 in the current fiscal year with total revenues from governmental activities decreasing by $136,726 and total governmental activities expenses increasing by $1,032,356.

Taxes decreased by $2,170,859 with the primary decrease in property taxes resulting from reduced real property assessments of $603,536,548 within the City. Business personal property assessments increased by $64,302,354. The City's share of income tax revenue increased by approximately $500,000. Licenses and permits increased by $543,075. Intergovernmental revenues increased by approximately $593,000. Operating grants and contributions increased by approximately $570,000 while grants and contributions to assist with capital project outlays decreased by approximately $106,000. State shared highway user revenue increased by $146,601. Fines and forfeitures increased by $1,172,713 which was a result of the new speed camera program. Developer donated capital assets decreased by $1,183,004 in the current fiscal year.

Total expenses increased by $1,032,356 in fiscal year 2012. The significant changes were in salaries with a $742,368 (2.9%) decrease, personnel benefits with an increase of $642,440 (2.8%), and other services and charges with a $1,665,002 increase (21.25%). The decrease in salaries was primarily due to a continued hiring freeze. The personnel benefits increase was due primarily to increased allocation of OPEB costs and increased contributions to the pension plans in conjunction with the decreased salary costs as mentioned previously. Additionally, the increase in other services and charges were attributable to fees of approximately $645,000 for the speed camera program, $200,000 for police technology service and an increase in street repairs of approximately $875,000. The Mayor's directive to department heads to be as frugal as possible given the economic climate continued in current fiscal year.

The net transfer from business-type activities to the governmental activities totaled $1,098,243. Transfer to the business-type activities, in the amount of $774,257, was for equipment repairs at the golf course in the amount of $40,000 and $734,257 for airport debt service and operations assistance. $25,000 of the transfer from the business-type activities was a contribution toward capital improvements and $1,847,500 was to reimburse the governmental funds for administrative services they provide to the business-type funds that benefit the City





The City of Frederick's Changes in Net Assets

	Governmental activities		Business-type activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 6,149,611	$5,155,825	$ 30,158,796	$ 27,868,799	$ 36,308,407	$33,024,624
Operating grants/contributions	4,766,506	4,195,169	632,020	141,820	5,398,526	4,336,989
Capital grants/contributions	1,706,795	1,813,587	7,320,724	10,429,437	9,027,519	12,243,024
General revenues:						
Taxes	50,805,689	52,976,548	-	-	50,805,689	52,976,548
Non-restricted grants/contributions	5,094,664	5,848,174	-	-	5,094,664	5,848,174
Other	1,597,407	268,095	138,264	196,979	1,735,671	465,074
Total revenues	70,120,672	70,257,398	38,249,804	38,637,035	108,370,476	108,894,433
Expenses:						
General government	9,674,531	9,605,846	-	-	9,674,531	9,605,846
Public safety	29,619,355	28,689,755	-	-	29,619,355	28,689,755
Public works	16,913,468	16,782,556	-	-	16,913,468	16,782,556
Recreation and parks	8,787,099	8,904,412	-	-	8,787,099	8,904,412
Community development	1,055,298	1,074,238	-	-	1,055,298	1,074,238
Economic opportunity	3,265,475	3,160,817	-	-	3,265,475	3,160,817
Interest and long-term debt	3,165,462	3,230,708	-	-	3,165,462	3,230,708
Rental operations	-	-	50,991	57,746	50,991	57,746
Water and sewer	-	-	22,986,792	18,387,834	22,986,792	18,387,834
Golf course	-	-	1,781,409	1,829,914	1,781,409	1,829,914
Airport	-	-	2,492,055	2,028,957	2,492,055	2,028,957
Parking	-	-	4,468,651	4,760,912	4,468,651	4,760,912
Storm water	-	-	2,524,774	2,512,994	2,524,774	2,512,994
Total expenses	72,480,688	71,448,332	34,304,672	29,578,357	106,785,360	101,026,689
Increase/(decrease) in net assets before transfers	(2,360,016)	(1,190,934)	3,945,132	9,058,678	1,585,116	7,867,744
Transfers	1,098,243	1,448,229	(1,098,243	(1,448,229)	-	-
Increase/(decrease) in net assets	(1,261,773)	257,295	2,846,889	7,610,449	1,585,116	7,867,744
Nets assets July 1	82,376,643	82,016,959	186,123,449	178,513,000	268,500,092	260,529,959
Adjustment to beginning net assets	-	102,389	-	-	-	102,389
Net assets, June 30	$ 81,114,870	$ 82,376,643	$ 188,970,338	$ 186,123,449	$ 270,085,208	$ 268,500,092

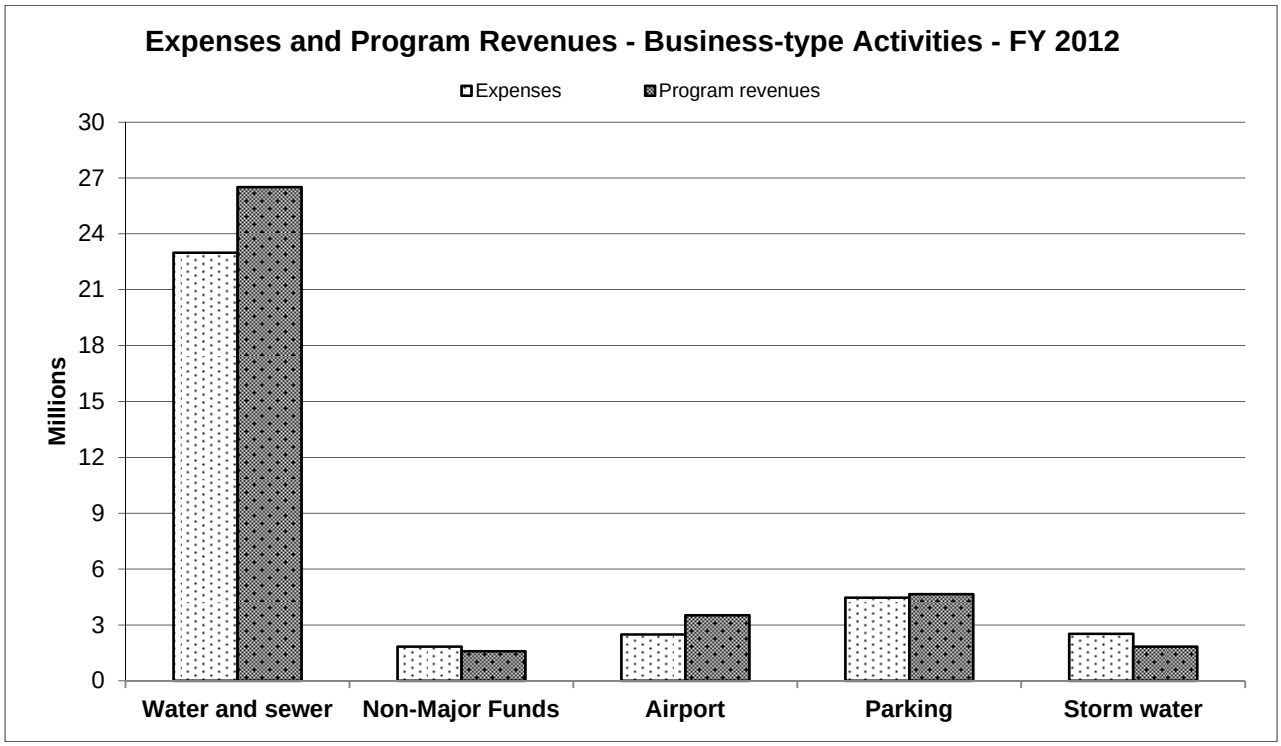
Business-type activities. Business-type activities increased the City's net assets by $2,846,889 in the current fiscal year. Total revenues decreased by $387,231 while expenses increased by $4,726,315.

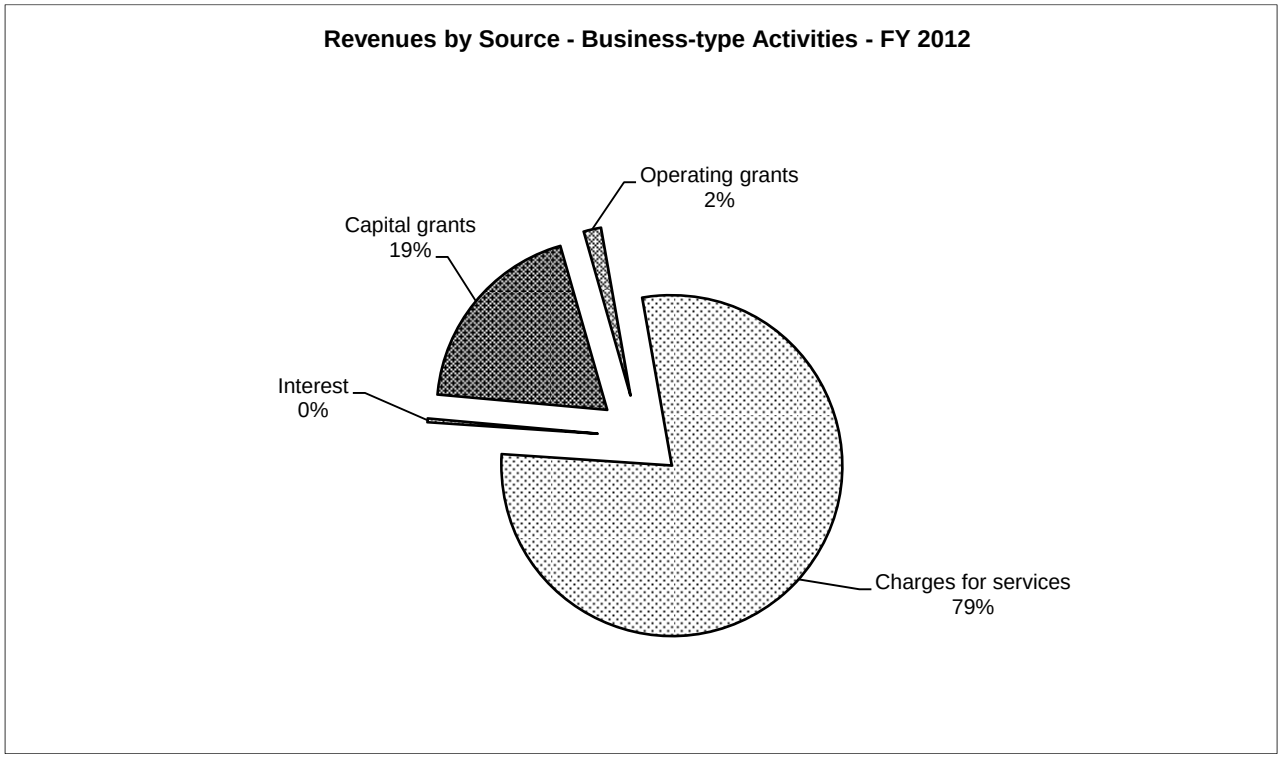
Charges for services increased by $2,289,997, which included a ten percent (10%) increase in water and sewer rates.

There was a $3,108,713 decrease in capital grants and contributions. Impact fees from developers increased by $1,168,246. The value of donated assets decreased in fiscal year 2012 by approximately $592,000. Additionally, the City received a $2,500,000 contribution from Fort Detrick to assist in capital improvements in the prior fiscal year. The City recognized $ 1,923,695 as revenue from the Federal Aviation Administration as part of the construction of the airport traffic control tower at Frederick Municipal Airport in the current year, a reduction of $56,000 from the previous year..

Total expenses increased by $4,726,315 in fiscal year 2012. Most expense categories remained stable in fiscal year 2012. Two categories account for the majority of this change, depreciation and interest expense, with changes of $2,040,727 and $1,992,545 respectively. Approximately $65,872,000 of depreciable capital assets were added to capital assets in the proprietary funds in fiscal 2012. Additionally, interest expense increased due to a significant reduction in the amount of capitalized interest in the current year. As in the governmental activities, department heads within the business-type activities were asked to be as frugal as possible in managing their departments. This resulted in additional savings spread throughout all categories and services.

Business-type activities transferred $1,872,500 into governmental activities in FY 2012 and received transfers of $774,257 from governmental activities for a net amount of $1,098,243. The transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The transfers received from the general fund are amounts that the general fund contributed for airport assistance and equipment repairs in the golf course fund.





Financial Analysis of the Government's Funds

As noted earlier, the City of Frederick 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 resources available for spending at the end of the fiscal year.

As of June 30, 2012, the City's governmental funds reported combined ending fund balances of $39,737,769, an increase of $1,382,024 over the prior fiscal year.

Revenues increased by approximately $331,000 in the current year. Taxes decreased by $2,481,780. A $3,926,848 decrease was the result of reduced real estate assessments. The City is reassessed every three years and fiscal year 2012 was the first year of the latest reassessment cycle. Business personal property taxes increased by $1,041,686 in the current fiscal year. This increase was due primarily to a large personal property investment by a firm within the City. The City's share of income tax revenue increased by approximately $500,000. Licenses and permits increased by $535,87. A significant portion, $393,931 of this increase, was due to the cable franchise fee. Intergovernmental revenues increased by $470,764. Intergovernmental contributions to capital improvement projects was $462,340 in the current fiscal year compared to $305,046 in fiscal year 2011. Intergovernmental operating grants increased by approximately $313,000. An increase of approximately $467,000 was due to state shared highway user funds. For the year, the City received revenue from the stimulus package in the amount of $529,453 to assist in weatherization assistance. Fines and forfeitures increased by approximately $1,172,000 and was the result of the City instituting a speed camera program. Developer contributions to capital improvement projects increased by approximately $483,000 and interest earnings decreased by approximately $33,000 reflecting lower investment yields.

Expenditures increased by $1,805,752, or 2.65% over the preceding year. Spending for capital projects increased by $187,871 in the current fiscal year, while other operating costs increased by $1,617,781. Expenditures for capital improvement projects totaled $3,816,969 and were for on-going projects. New project requests were deferred until sufficient funding sources are identified and in place. The other operating costs increase was due primarily to the institution of the speed camera program ($645,000), police technology fees ($200,000) and increased expenditures for street repairs ($875,000).

Of the ending fund balance, $24,484,826 is classified as either non-spendable (inventory, prepaid items or loans – items that are not in a spendable form), restricted (external restrictions as to usage), committed (usage restricted by action of the Mayor and Board of Aldermen) or assigned (usage is constrained by the city's intent to be used for specific purposes) to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was $15,252,943, while total fund balance was $27,689,584. $5,269,844 of the fund balance is non-spendable, $197,674 has external restrictions as to usage, $522,177 has restrictions placed upon it by the Mayor and Board of Aldermen and $6,446,946 is classified as assigned. The City has a policy of maintaining an unassigned general fund balance equal to 12% of total general fund expenditures, including transfers out, as a "rainy day" reserve to provide for adequate working capital and to provide funds to meet unforeseen emergencies. The rainy day fund as of June 30, 2012 is $7,999,381 and is included in the unassigned fund balance classification.

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 23.82 percent of total general fund expenditures, while total fund balance represents 43.25 percent of that same amount.

The fund balance of the City's general fund increased by $1,852,660 during the current fiscal year. Revenues decreased by 0.37 percent and expenditures increased by 2.14 percent. Unanticipated increases in personal property and income taxes were primarily responsible for this increase.

The general capital improvements project fund has a total fund balance of $9,263,676, all of which will be used for general capital improvements within the City. This is a decrease over the prior year fund balance of $251,766 and reflects the City spending some of the previous year's project budget allocations.

Non-major governmental funds have a $2,869,783 fund balance at the end of the fiscal year, a decrease over the previous year of $218,870. The decrease reflects the usage of fund balance to make repairs to the Weinberg Center for the Arts.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of $10,971,047 and is summarized as follows:

Increase in general government activities	$ 97,720
Increase in public safety	738,972
Increase in public works	1,165,076
Increase in recreation	69,532
Increase in community development	248,900
Increase in debt service	144,186
Increase in transfers out	1,072,362
Increase in payment to refunded bond escrow agent	7,723,685
Decrease in contingency fund	(172,310)
Decrease in ending fund balance	(117,076)
Total change in budget	$ 10,971,047

Of this increase, $404,593 was increased intergovernmental revenues. Additional revenue in the amount of $600,000 was added to fines and forfeitures and $60,000 was added to miscellaneous revenue in the street department. Additional revenue of $23,651 was added for insurance reimbursements. Due to the City refunding some outstanding bonds, the budget was amended to include bonds issuance of $7,752,000 and a premium on the bonds of $113,871.

During the year actual revenues exceeded the amended budget by $2,964,611. Taxes were $2,574,127 greater than estimated with property taxes being $1,385,085 higher than expected and income taxes being $1,037,811 more than budgeted. Intergovernmental revenues were $358,166 less than budgeted. Fines and forfeitures were $114,852 greater than anticipated.

Expenditures were less than the final budgetary estimates by $3,117,935 or 4.6%. Of this amount, $1,099,115 was encumbered at year end. Approximately $1,307,000 of this variance is due to salary and benefit savings resulting from a combination of delays in filling positions and/or not filling some open positions. Departments were aware of the economic trials facing the City during the fiscal year and were strongly encouraged to avoid unnecessary expenditures. We believe these efforts enabled the City to avoid or delay additional expenditures in the current year.

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, 2012, amounts to $428,278,762 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, equipment and construction in progress. The total decrease in the City's net investment in capital assets for the current fiscal year was 0.18 percent. Capital assets for governmental activities decreased by 1.61 percent and increased by 0.43 percent for business type activities.

Major capital asset events during the current fiscal year include:

1) Developer provided improvements of streets, curbs, sidewalks, street lights, water lines, sewer lines and storm drains totaled approximately $667,557.
2) Expenditures for the water and sewer projects for FY 2012 totaled $7,620,836.
3) Airport improvement expenditures totaled $2,698,134.
4) Storm water facilities, $43,029.
5) Vehicle and equipment acquisitions, $632,148.

The City of Frederick's Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	$ 49,044,196	$ 40,503,582	$ 89,547,778
Buildings	10,789,897	51,455,878	62,245,775
Other improvements	19,632,990	174,158,502	193,791,492
Infrastructure	31,930,113	-	31,930,113
Machinery and equipment	4,041,070	2,769,533	6,810,603
Construction in progress	9,898,609	34,054,392	43,953,001
Total	$ 125,336,875	$ 302,941,887	$ 428,278,762

Additional information on the City's capital assets can be found in note 4 on pages 46 - 47 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $226,507,820. Of this amount, $224,747,389 carried the full faith, credit and taxing power of the City. The remaining $1,760,431 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties will be assessed as an additional fee to cover any shortfall.

The City of Frederick's Outstanding Long-term Obligations

	Governmental Activities	Business-type Activities	Total
General obligation debt	$ 66,067,404	$ 156,488,038	$ 222,555,442
Tax increment financing debt	1,666,899	-	1,666,899
Premiums/discounts	755,164	2,890,771	3,645,935
Deferred refunding	-	(193,111)	(193,111)
Net OPEB obligation	15,290,962	3,714,294	19,005,256
Compensated absences	2,383,197	407,477	2,790,674
Total	$ 86,163,626	$ 163,307,469	$ 249,471,095

The City maintains a "Aa2" rating from Moody's, a "AA" rating from Standard & Poor's and a "AA+" rating from Fitch.

The City Charter limits the amount of debt to eight percent of the total assessed value of all taxable property in the City. Debt issued for water and sewer purposes are exempt from this limitation. The current debt limit for the City is $510,472,889 and the legal debt margin of the City is $400,894,586.

Additional information on the City's long-term debt can be found in notes 5 and 6 on pages 49 - 51 of this report.

Economic Factors and Next Year's Budgets and Rates

When preparing the City's budget for the 2013 fiscal year, there were many economic factors and trends taken into consideration. Those considerations included: inflationary trends in the City and surrounding areas, and the unemployment rate for the City and surrounding areas and changes in the assessable tax base. The estimated unemployment rate for the City for June 2012 was 6.5 percent, which is a 0.5 percent decrease from June 2011. The estimated rate for June 2012 for the county was 6.1 percent, the state was 7.2 percent and the nation was 8.4 percent.

The fiscal year 2013 budget calls for maintaining the same level of key services. Beginning with fiscal year 2013, Frederick County will levy real estate taxes on property located within the City boundaries at a rate different from properties located within the County. This rate is known as a tax differential. Previously, the County billed City properties at the same rate and made a lump sum payment to the City to reimburse the City for duplicated services. The County will now use a rate that is $0.123 lower than other County properties. To offset the loss of the payment from the County, the City raised its tax rate to $0.732 per $100 of assess value, an increase of $0.082. The net result is a reduction in combined County and City tax rates for City real property owners of $0.041. Water and sewer rates were increased by 10 percent for fiscal year 2013.

Property taxes are based on assessments that are supplied by the State Department of Assessments and Taxation and are updated every three years. The City was reassessed for fiscal year 2012. Based on figures supplied by the state, it is estimated that the City will receive approximately $5,100,000 more in real estate taxes in fiscal year 2013 compared to fiscal year 2012 actuals.

The general fund unassigned fund balance at June 30, 2012 was $15,252,943.

The City has estimated that $14,589,770 would be available for the FY 2013 budget, with $8,787,956 of that amount being used for a budgeted fund balance.

Requests for information

This financial report is designed to provide a general overview of The City of Frederick's finances for all those with an interest in the City's finances. Questions concerning any of the information should be addressed to The City of Frederick, Finance Department, 101 North Court Street, Frederick, Maryland 21701.

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 13,046	$ 43,860	$ 56,906
Investments	329,868	5,105	334,973
Equity in pooled cash/investments	33,842,243	39,455,341	73,297,584
Receivables (net of allowance of uncollectibles)	3,899,056	4,843,869	8,742,925
Inventories	480,455	471,799	952,254
Prepaids	48,889	95,677	144,566
Deferred charges	604,269	1,013,962	1,618,231
Internal balances	4,552,976	(4,552,976)	-
Temporarily restricted assets:			
Cash and cash equivalents	2,388,284	13,197,989	15,586,273
Net pension asset	2,083,134	483,773	2,566,907
Capital assets (net of accumulated depreciation):			
Land	49,044,196	40,503,582	89,547,778
Buildings and systems	10,789,897	51,455,878	62,245,775
Improvements other than buildings	19,632,990	174,158,502	193,791,492
Infrastructure	31,930,113	-	31,930,113
Machinery and equipment	4,041,070	2,769,533	6,810,603
Construction in progress	9,898,609	34,054,392	43,953,001
Total assets	173,579,095	358,000,286	531,579,381
LIABILITIES			
Accounts payable and other current liabilities	1,425,000	2,375,328	3,800,328
Accrued liabilities	2,575,080	2,557,065	5,132,145
Deposits	1,218,570	81,470	1,300,040
Unearned revenue	1,081,948	708,617	1,790,565
Noncurrent liabilities:			
Due within one year	6,483,115	19,963,517	26,446,632
Due in more than one year	79,680,512	143,343,951	223,024,463
Total liabilities	92,464,225	169,029,948	261,494,173
NET ASSETS			
Invested in capital assets, net of related debt	58,971,758	156,954,179	215,925,937
Restricted for:			
Water/sewer improvements	-	2,845,685	2,845,685
Airport improvements	-	190,601	190,601
Parks improvements	1,470,483	-	1,470,483
Weinberg Center	81,690	-	81,690
Debt service	189,283	-	189,283
Unrestricted	20,401,656	28,979,873	49,381,529
Total net assets	$ 81,114,870	$ 188,970,338	$ 270,085,208

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Activities
For the Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	$ 9,674,531	$ 509,128	$ 6,676	$ -	$ (9,158,727)	$ -	$ (9,158,727)
Public safety	29,619,355	3,017,097	1,195,580	-	(25,406,678)	-	(25,406,678)
Public works	16,913,468	355,110	672,221	966,733	(14,919,404)	-	(14,919,404)
Recreation and parks	8,787,099	2,264,643	213,936	740,062	(5,568,458)	-	(5,568,458)
Community development	1,055,298	985	605,408	-	(448,905)	-	(448,905)
Economic opportunity	3,265,475	2,648	2,072,685	-	(1,190,142)	-	(1,190,142)
Interest and long-term debt	3,165,462	-	-	-	(3,165,462)	-	(3,165,462)
Total governmental activities	72,480,688	6,149,611	4,766,506	1,706,795	(59,857,776)	-	(59,857,776)
Business-type activities:							
Rental operations	50,991	7,649	25,280	-	-	(18,062)	(18,062)
Water and sewer	22,986,792	21,495,925	-	5,017,903	-	3,527,036	3,527,036
Golf course	1,781,409	1,556,753	-	-	-	(224,656)	(224,656)
Airport	2,492,055	818,464	503,141	2,200,301	-	1,029,851	1,029,851
Parking	4,468,651	4,541,440	109,599	-	-	182,388	182,388
Storm water	2,524,774	1,738,565	-	96,520	-	(689,689)	(689,689)
Total business-type activities	34,304,672	30,158,796	638,020	7,314,724	-	3,806,868	3,806,868
Total primary government	$ 106,785,360	$ 36,308,407	$ 5,404,526	$ 9,021,519	(59,857,776)	3,806,868	(56,050,908)
General revenues:							
Property taxes					43,816,598	-	43,816,598
Income taxes					6,587,811	-	6,587,811
Other taxes					401,280	-	401,280
Grants/contributions not restricted to specific programs					5,094,664	-	5,094,664
Interest earnings					157,056	138,264	295,320
Gain on sale of capital assets					258,914	-	258,914
Miscellaneous revenues					1,181,437	-	1,181,437
Transfers					1,098,243	(1,098,243)	-
Total general revenues and transfers					58,596,003	(959,979)	57,636,024
Change in net assets					(1,261,773)	2,846,889	1,585,116
Net assets - beginning					82,376,643	186,123,449	268,500,092
Net assets - ending					$ 81,114,870	$ 188,970,338	$ 270,085,208

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Balance Sheet
Governmental Funds
June 30, 2012

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,630	$ -	$ 11,416	$ 13,046
Investments	9,593	-	320,275	329,868
Equity in pooled cash/investments	25,888,670	7,625,491	328,082	33,842,243
Receivables (net of allowance for uncollectibles)	1,110,871	-	2,179,942	3,290,813
Inventories	480,455	-	-	480,455
Prepaid items	47,639	-	1,250	48,889
Advances to other funds	4,552,976	-	-	4,552,976
Cash - restricted	272,325	2,115,959	-	2,388,284
Intergovernmental receivable	549,426	30,000	28,817	608,243
Total assets	$ 32,913,585	$ 9,771,450	$ 2,869,782	$ 45,554,817
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 922,942	$ 476,673	$ 25,385	$ 1,425,000
Accrued liabilities	1,728,927	880	14,432	1,744,239
Deposits	1,172,893	221	45,456	1,218,570
Earned but not available revenue	317,291	30,000	-	347,291
Deferred revenue	1,081,948	-	-	1,081,948
Total liabilities	5,224,001	507,774	85,273	5,817,048
Fund balances:				
Nonspendable	5,269,844	-	2,169,708	7,439,552
Restricted	197,674	3,586,442	81,690	3,865,806
Committed	522,177	2,186,365	-	2,708,542
Assigned	6,446,946	3,490,869	533,111	10,470,926
Unassigned	15,252,943	-	-	15,252,943
Total fund balances	27,689,584	9,263,676	2,784,509	39,737,769
Total liabilities and fund balances	$ 32,913,585	$ 9,771,450	$ 2,869,782	

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	125,336,875
Deferred bond issuance costs are not available to pay current period expenditures and therefore, are not reported in the funds.	604,269
Earned but unavailable revenue is not recorded in the funds.	347,291
Accrued interest payable is not recorded in the funds.	(830,841)
Net pension asset is not included in the governmental funds.	2,083,134
Long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(86,163,627)
Net assets of governmental activities	$ 81,114,870

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 43,394,441	$ -	$ -	$ 43,394,441
Payment in lieu of taxes	1,295	-	-	1,295
Income taxes	6,587,811	-	-	6,587,811
Business taxes	379,123	-	-	379,123
Gross receipts taxes	22,157	-	-	22,157
Discount allowance	(270,949)	-	-	(270,949)
Penalties/interest on delinquent taxes	370,880	-	-	370,880
Licenses and permits	2,230,532	-	-	2,230,532
Intergovernmental	8,896,591	462,339	417,481	9,776,411
Charges for services	1,577,652	-	877,800	2,455,452
Fines and forfeitures	1,658,852	-	46,259	1,705,111
Miscellaneous	1,371,710	870,113	288,951	2,530,774
Total revenues	66,220,095	1,332,452	1,630,491	69,183,038
EXPENDITURES				
Current:				
General government	8,549,607	-	-	8,549,607
Public safety	27,426,116	-	63,340	27,489,456
Public works	12,616,116	-	-	12,616,116
Recreation and parks	4,521,631	-	1,669,581	6,191,212
Community development	655,923	-	368,848	1,024,771
Economic opportunity	2,924,599	-	-	2,924,599
Debt service:				
Principal	4,346,545	-	-	4,346,545
Interest	2,821,654	-	-	2,821,654
Other fees	159,596	-	-	159,596
Capital projects	-	3,816,969	-	3,816,969
Total expenditures	64,021,787	3,816,969	2,101,769	69,940,525
Excess (deficiency) of revenues over (under) expenditures	2,198,308	(2,484,517)	(471,278)	(757,487)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,877,800	1,607,751	282,708	3,768,259
Transfers out	(2,639,716)	-	(30,300)	(2,670,016)
Bonds issued	7,752,000	615,000	-	8,367,000
Premium on bonds issued	117,312	10,000	-	127,312
Payment to refunded bond escrow agent	(7,723,685)	-	-	(7,723,685)
Insurance reimbursements	24,527	-	-	24,527
Capital asset disposition	246,114	-	-	246,114
Total other financing sources (uses)	(345,648)	2,232,751	252,408	2,139,511
Net change in fund balances	1,852,660	(251,766)	(218,870)	1,382,024
Fund balances - beginning	25,836,924	9,515,442	3,003,379	38,355,745
Fund balances - ending	$ 27,689,584	$ 9,263,676	$ 2,784,509	$ 39,737,769

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of Governmental Funds To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	$ 1,382,024
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(2,411,589)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets.	357,407
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,411,592
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,239,445)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	238,238
Change in net assets of governmental activities	$ (1,261,773)

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes:				
Property	$ 42,009,356	$ 42,009,356	$ 43,394,441	$ 1,385,085
Payment in lieu of taxes	1,275	1,275	1,295	20
Income taxes	5,550,000	5,550,000	6,587,811	1,037,811
Business taxes	300,000	300,000	379,123	79,123
Gross receipts taxes	-	-	22,157	22,157
Discount allowance	(300,000)	(300,000)	(270,949)	29,051
Penalties/interest on delinquent taxes	350,000	350,000	370,880	20,880
Licenses and permits	1,933,734	1,936,934	2,230,532	293,598
Intergovernmental	8,850,164	9,254,757	8,896,591	(358,166)
Charges for services	1,438,768	1,435,568	1,577,652	142,084
Fines and forfeitures	944,000	1,544,000	1,658,852	114,852
Miscellaneous	1,113,594	1,173,594	1,371,710	198,116
Total revenues	62,190,891	63,255,484	66,220,095	2,964,611
EXPENDITURES				
Current:				
General government:				
Executive and legislative	957,133	964,223	961,959	2,264
Legal services	748,394	748,394	644,960	103,434
Registration and election	3,508	3,508	222	3,286
Finance and accounting	1,148,270	1,208,270	1,113,097	95,173
Purchasing	629,897	629,897	611,967	17,930
Information technology	784,072	784,072	718,347	65,725
Geographic information system	318,023	318,023	283,774	34,249
Audio visual	124,040	124,040	114,294	9,746
Human resources	618,907	628,907	557,728	71,179
Safety	202,605	202,605	198,297	4,308
Planning and zoning	1,078,747	1,078,747	1,024,061	54,686
Code enforcement	525,160	525,160	514,963	10,197
Facilities maintenance	857,207	857,207	818,878	38,329
Asset management	523,986	543,716	472,166	71,550
Municipal Annex	396,188	396,188	364,150	32,038
Community promotion	59,227	60,127	59,465	662
Special events	282,868	282,868	240,807	42,061
Total general government	9,258,232	9,355,952	8,699,135	656,817
Public safety:				
Police department	26,064,954	26,803,926	25,902,766	901,160
Fire and rescue services	337,503	337,503	329,301	8,202
Building inspection	967,115	967,115	933,322	33,793
Electrical inspection	300,177	300,177	295,278	4,899
Construction inspection	439,866	439,866	410,909	28,957
Total public safety	28,109,615	28,848,587	27,871,576	977,011
Public works:				
General administration	1,185,570	1,185,570	1,164,064	21,506
Machinery & equipment maintenance	1,018,112	1,018,112	950,454	67,658
Engineering	1,351,950	1,351,950	1,302,729	49,221
Waste collection and disposal	3,763,683	3,763,683	3,692,973	70,710
Streets, roadways and alleys	2,086,587	3,251,587	2,758,313	493,274
Snow removal	249,382	249,382	134,622	114,760
Street lighting	2,221,741	2,221,741	2,106,039	115,702
Traffic lines	674,290	674,366	626,721	47,645
Bus service	29,447	29,447	29,425	22
Total public works	12,580,762	13,745,838	12,765,340	980,498

(continued)

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual (continued)
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Recreation and parks:				
Municipal parks	3,017,874	3,087,406	2,835,716	251,690
Harry Grove stadium	136,971	136,971	130,781	6,190
Recreation centers	1,285,674	1,285,674	1,242,237	43,437
Burck Street Center	14,925	14,925	12,325	2,600
Recreation commission	116,066	116,066	112,825	3,241
Swimming pools	274,116	274,116	275,692	(1,576)
Total recreation and parks	4,845,626	4,915,158	4,609,576	305,582
Community development:				
Community development	63,038	68,038	67,744	294
Economic development	391,834	635,734	596,723	39,011
Total community development	454,872	703,772	664,467	39,305
Economic opportunity:				
Community Action Agency	2,965,398	2,965,398	2,977,196	(11,798)
Total economic opportunity	2,965,398	2,965,398	2,977,196	(11,798)
Miscellaneous	227,949	55,639	-	55,639
Debt service:				
Principal	4,346,547	4,346,547	4,346,545	2
Interest	2,930,687	2,930,687	2,821,654	109,033
Other fees	21,256	165,442	159,596	5,846
Total debt service	7,298,490	7,442,676	7,327,795	114,881
Total expenditures	65,740,944	68,033,020	64,915,085	3,117,935
Excess (deficiency) of revenues over (under) expenditures	(3,550,053)	(4,777,536)	1,305,010	6,082,546
OTHER FINANCING SOURCES (USES)				
Transfers in	1,847,500	1,847,500	1,877,800	30,300
Transfers out	(1,543,870)	(2,616,232)	(2,639,716)	(23,484)
Bonds issued	-	7,752,000	7,752,000	-
Premium on bonds issued	-	113,871	117,312	3,441
Payment to refunded bond escrow agent	-	(7,723,685)	(7,723,685)	-
Insurance reimbursements	5,000	28,651	24,527	(4,124)
Capital asset disposition	2,500	2,500	246,114	243,614
Total other financing sources (uses)	311,130	(595,395)	(345,648)	249,747
Net change in fund balances	(3,238,923)	(5,372,931)	959,362	6,332,293
Fund balance - beginning	11,168,158	13,185,090	26,730,222	13,545,132
Fund balance - ending	$ 7,929,235	$ 7,812,159	$ 27,689,584	$ 19,877,425

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 42,860	$ -	$ 1,000	$ 43,860
Investments	-	-	-	-	5,105	5,105
Equity in pooled cash/investments	30,226,635	2,284,509	4,074,843	2,810,601	58,753	39,455,341
Receivables (net of allowance of uncollectibles)	4,197,314	53,205	40,234	292,824	1,478	4,585,055
Inventories	382,980	-	-	-	88,819	471,799
Prepaids	92,677	-	-	-	3,000	95,677
Deferred charges	46,910	5,145	14,509	559	448	67,571
Total current assets	34,946,516	2,342,859	4,172,446	3,103,984	158,603	44,724,408
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	11,910,312	964,667	218,979	85,819	18,212	13,197,989
Long term receivables	258,814	-	-	-	-	258,814
Deferred charges	713,958	41,157	176,169	8,384	6,723	946,391
Net pension asset	395,925	2,112	45,353	8,507	31,876	483,773
Capital assets:						
Land	3,503,338	33,515,605	3,443,239	10,750	30,650	40,503,582
Buildings and systems	30,308,274	8,511,087	43,288,043	-	180,795	82,288,199
Improvements other than buildings	153,837,116	6,793,856	242,107	60,535,683	5,565,390	226,974,152
Machinery and equipment	6,396,236	687,865	1,980,568	925,682	787,205	10,777,556
Construction in progress	26,845,224	6,324,038	882,942	2,188	-	34,054,392
Less accumulated depreciation	(52,157,711)	(7,126,485)	(14,290,393)	(15,169,475)	(2,911,930)	(91,655,994)
Total noncurrent assets	182,011,486	49,713,902	35,987,007	46,407,538	3,708,921	317,828,854
Total assets	216,958,002	52,056,761	40,159,453	49,511,522	3,867,524	362,553,262
LIABILITIES						
Current liabilities:						
Accounts payable	2,262,298	14,652	40,434	4,884	53,060	2,375,328
Accrued liabilities	1,798,693	219,343	459,619	34,548	44,862	2,557,065
Deposits	1,023	80,037	-	-	410	81,470
Unearned revenue	48,569	551,548	63,950	-	44,550	708,617
Advances from other funds	-	-	-	-	4,552,976	4,552,976
Compensated absences	301,355	17,175	25,402	13,868	11,941	369,741
Bonds, notes, and loans payable	4,369,659	13,887,952	1,243,538	51,420	41,207	19,593,776
Total current liabilities	8,781,597	14,770,707	1,832,943	104,720	4,749,006	30,238,973
Noncurrent liabilities:						
OPEB liabilities	2,866,155	100,338	194,262	265,967	287,572	3,714,294
Compensated absences	545	-	1,536	-	35,655	37,736
Bonds, notes, and loans payable	112,619,369	2,303,619	22,664,528	1,111,299	893,106	139,591,921
Total noncurrent liabilities	115,486,069	2,403,957	22,860,326	1,377,266	1,216,333	143,343,951
Total liabilities	124,267,666	17,174,664	24,693,269	1,481,986	5,965,339	173,582,924
NET ASSETS						
Invested in capital assets, net of related debt	63,653,761	33,479,062	11,857,419	45,227,928	2,736,009	156,954,179
Restricted for:						
Other improvements	2,845,685	190,601	-	-	-	3,036,286
Unrestricted	26,190,890	1,212,434	3,608,765	2,801,608	(4,833,824)	28,979,873
Total net assets	$ 92,690,336	$ 34,882,097	$ 15,466,184	$ 48,029,536	$(2,097,815)	$ 188,970,338

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Operating revenues:						
Charges for services:						
Water and sewer charges	$ 20,916,439	$ -	$ -	$ -	$ -	$ 20,916,439
Golf course fees		-	-	-	1,549,495	1,549,495
Airport fees		807,466	-	-	-	807,466
Parking fees		-	3,330,910	-	-	3,330,910
Stormwater management fees		-	-	1,726,196	-	1,726,196
Licenses and permits	207,314	-	140,302	-	-	347,616
Fines and forfeitures	20,480	-	671,130	-	-	691,610
Miscellaneous	78,510	8,617	365,596	1,413	13,700	467,836
Total operating revenues	21,222,743	816,083	4,507,938	1,727,609	1,563,195	29,837,568
Operating expenses:						
Finance	308,534	-	-	-	-	308,534
Plumbing inpsection	333,784	-	-	-	-	333,784
Water service	2,180,424	-	-	-	-	2,180,424
Water chemicals	371,677	-	-	-	-	371,677
Water treatment	4,505,596	-	-	-	-	4,505,596
Sewage collection/disposal	3,660,579	-	-	-	-	3,660,579
Sewage maintenance/house connections	757,380	-	-	-	-	757,380
Inflow and infiltration	362,759	-	-	-	-	362,759
Plant maintenance	1,075,841	-	-	-	-	1,075,841
Public housing		-	-	-	35,782	35,782
Golf course maintenance		-	-	-	624,606	624,606
Golf course clubhouse		-	-	-	661,871	661,871
Golf course restaurant		-	-	-	259,899	259,899
Airport		1,092,465	-	-	-	1,092,465
Parking facilities		-	1,571,656	-	-	1,571,656
Stormwater management activities		-	-	867,093	-	867,093
Depreciation	5,123,719	638,750	1,607,073	1,605,894	208,684	9,184,120
Total operating expenses	18,680,293	1,731,215	3,178,729	2,472,987	1,790,842	27,854,066
Operating income/(loss)	2,542,450	(915,132)	1,329,209	(745,378)	(227,647)	1,983,502
Nonoperating revenues/(expenses)						
Intergovernmental	-	503,141	109,599	-	25,280	638,020
Interest income	105,845	9,780	12,765	9,615	259	138,264
Gain on disposal of capital assets	-	-	-	9,536	-	9,536
Insurance reimbursements	161	-	6,951	-	-	7,112
Other nonoperating revenues	99,092	-	-	-	-	99,092
Debt premium amortization	173,929	2,381	26,551	1,420	1,207	205,488
Interest expense	(4,198,318)	(717,792)	(1,268,604)	(51,219)	(41,102)	(6,277,035)
Loss on disposal of capital assets	(2,372)	-	-	-	-	(2,372)
Other nonoperating expenses	(105,809)	(43,048)	(21,318)	(568)	(456)	(171,199)
Total nonoperating revenue/(expenses)	(3,927,472)	(245,538)	(1,134,056)	(31,216)	(14,812)	(5,353,094)
Income/(loss) before contributions and transfers	(1,385,022)	(1,160,670)	195,153	(776,594)	(242,459)	(3,369,592)
Capital contributions	5,017,903	2,200,301	-	96,520	-	7,314,724
Transfers in	4,395	734,257	-	-	40,000	778,652
Transfers out	(1,650,000)	(25,000)	(150,000)	(51,895)	-	(1,876,895)
Change in net assets	1,987,276	1,748,888	45,153	(731,969)	(202,459)	2,846,889
Total net assets - beginning	90,703,060	33,133,209	15,421,031	48,761,505	(1,895,356)	186,123,449
Total net assets - ending	$ 92,690,336	$ 34,882,097	$ 15,466,184	$ 48,029,536	$(2,097,815)	$ 188,970,338

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Cash flows from operating activities:						
Receipts from customers and users	$ 20,611,730	$ 811,564	$ 4,471,241	$ 1,711,293	$ 1,567,330	$ 29,173,158
Receipts from other sources	99,092	503,141	109,599	-	-	711,832
Payments to vendors	(8,926,010)	(876,228)	(981,040)	(429,443)	(909,411)	(12,122,132)
Payments to employees	(3,787,842)	(179,992)	(530,790)	(343,753)	(581,469)	(5,423,846)
Net cash provided by operating activities	7,996,970	258,485	3,069,010	938,097	76,450	12,339,012
Cash flows from noncapital financing activities:						
Transfers out	(1,650,000)	(25,000)	(150,000)	(47,500)	-	(1,872,500)
Transfers in	-	710,774	-	-	40,000	750,774
Operating subsidy	-	-	-	-	25,280	25,280
Due to other funds	-	-	-	-	(67,376)	(67,376)
Net cash provided (used) by noncapital financing activities	(1,650,000)	685,774	(150,000)	(47,500)	(2,096)	(1,163,822)
Cash flows from capital and related financing activities:						
Capital contributions	4,759,089	336,397	-	96,520	-	5,192,006
Capital asset acquisitions	(8,825,258)	(3,659,662)	(45,621)	(107,851)	-	(12,638,392)
Transfer in/(out) for capital asset acquisition and financing	4,395	23,483	-	(4,395)	-	23,483
Principal payments	(15,209,965)	(2,675,000)	(3,243,000)	(45,000)	(35,000)	(21,207,965)
Interest payments	(4,377,104)	(733,062)	(1,291,328)	(51,819)	(41,569)	(6,494,882)
Proceeds from insurance reimbursements	161	-	6,951	9,536	-	16,648
Proceeds from debt issue	19,014,085	1,930,366	2,027,057	-	-	22,971,508
Debt issuance costs	(227,522)	(51,446)	(36,745)	-	-	(315,713)
Other debt related costs	(17,908)	(1,525)	(1,031)	(9)	(7)	(20,480)
Net cash provided (used) by capital and related financing activities	(4,880,027)	(4,830,449)	(2,583,717)	(103,018)	(76,576)	(12,473,787)
Cash flows from investings activities:						
Interest earned	105,605	10,056	12,759	9,612	258	138,290
Net cash provided by investing activities	105,605	10,056	12,759	9,612	258	138,290
Net increase (decrease) in cash equivalents	1,572,548	(3,876,134)	348,052	797,191	(1,964)	(1,160,307)
Cash equivalents - beginning	40,564,398	7,125,310	3,988,630	2,099,230	85,032	53,862,600
Cash equivalents - ending	$ 42,136,946	$ 3,249,176	$ 4,336,682	$ 2,896,421	$ 83,068	$ 52,702,293

(continued)

The City of Frederick, Maryland
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Reconciliation of operating income to net cash provided by operating activities:						
Operating income/(loss)	$ 2,542,450	$ (915,132)	$ 1,329,209	$ (745,378)	$ (227,647)	$ 1,983,502
Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities.	99,092	503,141	109,599	-	-	711,832
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	5,123,719	638,750	1,607,073	1,605,894	208,684	9,184,120
(Increase)/decrease in accounts receivable	(608,492)	(4,480)	(20,203)	(16,317)	(659)	(650,151)
(Increase)/decrease in inventory	(41,381)	-	-	-	15,897	(25,484)
(Increase)/decrease in prepaids	2,022	1,012	-	-	-	3,034
Decrease in net pension asset	2,169	8	331	152	272	2,932
(Decrease)/increase in accounts payable	179,740	(8,742)	4,743	1,575	(8,836)	168,480
(Decrease)/increase in unearned revenue	(13,645)	(2,559)	(16,493)	-	4,794	(27,903)
(Decrease)/increase in deposits	11,124	2,520	-	-	-	13,644
(Decrease)/increase in OPEB liability	676,380	35,089	49,565	84,152	107,843	953,029
(Decrease)/increase in wages payable	3,884	2,660	3,721	5,893	2,335	18,493
(Decrease)/increase in compensated absences	19,908	6,218	1,465	2,126	(26,233)	3,484
Total adjustments	5,355,428	670,476	1,630,202	1,683,475	304,097	9,643,678
Net cash provided by operating activities	$ 7,996,970	$ 258,485	$ 3,069,010	$ 938,097	$ 76,450	$ 12,339,012

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Pension Trust Fund	OPEB Trust Fund
ASSETS:		
Cash and short-term investments	$ 1,373,788	$ 281,503
Receivables		
Accounts receivable - employee	177,037	570
Total receivables	177,037	570
Investments, at fair value:		
Equities	55,660,982	6,697,750
Fixed income	30,725,556	3,766,206
Total investments	86,386,538	10,463,956
Total assets	87,937,363	10,746,029
LIABILITIES:		
Benefits payable	11,091	288,462
Total liabilities	11,091	288,462
NET ASSETS		
Held in trust for pension benefits	$ 87,926,272	$ 10,457,567

The notes to the basic financial statements are an integral part of this statement.

The City of Frederick, Maryland
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Pension Trust Fund	OPEB Trust Fund
ADDITIONS:		
Contributions - employer	$ 11,122,942	$ 4,955,612
Contributions - employees	1,801,186	46,290
Interest	1,684,193	189,767
Net appreciation/(depreciation)	51,499	(29,579)
Total Additions	14,659,820	5,162,090
DEDUCTIONS:		
Pension/OPEB benefits	8,847,429	2,573,937
Service charges	518,118	378,400
Total Deductions	9,365,547	2,952,337
Change in net assets	5,294,273	2,209,753
Net assets - beginning	82,631,999	8,247,814
Net assets - ending	$ 87,926,272	$ 10,457,567

The notes to the basic financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

The City of Frederick, Maryland (the "City") was incorporated on January 14, 1817 by Chapter 74 of the Acts of the General Assembly of Maryland of 1816. The City operates under a Mayor/Council form of government and provides the following services as authorized by its charter: public safety, public works, recreation and community development. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. A primary government is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or specific financial burdens on, the primary government. Blended component units are, in substance, a part of the primary government's operations and so data from these units are combined with data of the primary government.

Based upon the above criteria, the following is a brief overview of the component unit addressed in defining the City's reporting entity.

Blended Component Unit:

Weinberg Center for the Arts - This organization gives the Frederick community an opportunity to experience the visual and performing arts. A board of directors that is appointed by the Mayor and approved by the Board of Aldermen gives guidance to the City on Center operations. The Mayor and Board of Aldermen have final approval on Weinberg Center activities and function as the Weinberg Center's governing board.

Separate financial statements for the Weinberg Center of the Arts component unit are not available.

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.

Fiduciary Funds:

The City of Frederick Pension System - This plan is for the benefit of the employees of The City of Frederick. Aetna Life Insurance Company serves as manager for this plan with the City's Human Resource Manager serving as plan administrator and the Mayor and Board of Aldermen serving as the governing board. The City and the plan's participants are obligated to fully fund all plan costs based upon actuarial valuations.

The City of Frederick Twenty-Five Year Pension System - This plan is also for the benefit of the employees of The City of Frederick. The plan is managed by Aetna Life Insurance Company. The City's Human Resource Manager is the plan administrator and the Mayor and Board of Aldermen serve as the governing board. The City and the plan's participants are obligated to fully fund all plan costs based upon actuarial valuations.

The City of Frederick Twenty-Two Year Pension System - This plan is for the benefit of sworn-in police officers of The City of Frederick. The plan is managed by Aetna Life Insurance Company. The City's Human Resource Manager is the plan administrator and the Mayor and Board of Aldermen serve as the governing board. The City and the plan's participants are obligated to fully fund all plan costs based upon actuarial valuations.

Retiree Benefit Trust of The City of Frederick – This plan is for the benefit of current retirees and current active employees that are or may receive other post employee benefits from the City of Frederick under the Retiree Health and Welfare Benefit Plan. The Director of Finance serves as the trustee for the trust.

Separate financial statements for the fiduciary funds are not available.

1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. *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. Likewise, the *primary government* is reported separately from certain legally separate *fiduciary funds* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund 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 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 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 government considers revenue 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Material revenues from property taxes, intergovernmental revenues and grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *general capital improvements fund* is used to account for activities relating to capital improvements that relate to general governmental activities.

The City reports the following major proprietary funds:

The *water and sewer fund* is used to account for all activities relating to water and sewer service within the City. The fund operates water collection, treatment and distribution facilities as well as the sewage collection and treatment system.

The *airport fund* accounts for the operation and maintenance of the City's airport.

The *parking facilities fund* is used to account for parking facilities and activities which include parking lots, decks and metered parking.

The *storm water management fund* is used to account for storm water related facilities and activities.

1. Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund types:

The *pension trust funds* account for activities of the City's three retirement plans, which accumulate resources for pension benefit payments to qualified employees.

The *OPEB trust fund* accounts for activities of the City's retiree health and welfare benefit plan for qualified employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include the City's water and sewer fund charges to other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various other functions.

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 assessment and impact fees. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, liabilities, and net assets or equity

Cash and Investments

Cash balances from all funds are combined and invested to the extent possible in certificates of deposit and other authorized investments, and are reflected in the combined balance sheet as Equity in pooled cash/investments. Earnings from these investments are allocated among the various funds based on the average monthly inter-fund balances. Investments are stated at cost plus accrued interest, which approximates fair value, except for investments in the pension and OPEB trust funds, which are reported at fair value.

For purposes of reporting the statement of cash flows, the City includes the following as cash and cash equivalents:

1. Demand deposit accounts which are not subject to withdrawal restriction or penalties.
2. Individual fund amounts due from the City's pooled cash/investment account, which is recorded as Equity in pooled cash/investments in the various individual funds only.
3. Restricted cash and cash equivalents.
4. Investments

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported 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."

Advances between funds, as reported in the fund financial statements, are classified as nonspendable fund balance in the applicable governmental fund to indicate that they are not available for appropriation and are not expendable available financial resources.

1. Summary of Significant Accounting Policies (continued)

All trade and property tax receivables are shown net of an allowance for un-collectibles.

The City's property tax is levied and the related revenue is recognized each July 1 on the assessed value listed as of the prior January 1 for all real property located within City boundaries which receive substantially all City services, except principal residences which are due and payable in semiannual installments at July 1 and December 31. Property tax revenues are recognized when they become available. Available means when due, or past due and receivable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value. A re-evaluation of all property is required to be completed every third year. Any increase in assessed value is phased in over a three-year period.

The billing and collection of real estate taxes is handled by the county government.

Taxes that are due on July 1 become delinquent October 1. Semi-annual installments due on December 31 become delinquent January 1. Maryland state law establishes a lien on the property on the date of the levy. Property on which taxes are not paid by the following March 1 may be sold at tax sale.

The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year.

Inventories and prepaid items

Inventories are valued at cost, determined by the moving average method, in the governmental fund and at the lower of cost or market in the proprietary funds. Inventory consists of expendable supplies held for consumption or items for resale. Inventory in the general fund is recorded under the consumption method, as an expenditure when used, and is equally offset within the nonspendable classification of fund balance 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.

Payments made to vendors for services that benefit periods beyond June 30, 2012, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded under the consumption method and are also offset within the non-spendable classification of fund balance in the fund financial statements.

Earned but not available revenue

Governmental funds report *earned but not available revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The City considers receivables not collected within sixty days after year-end as earned but not available revenue. $347,291 of unavailable revenue was recognized in the Statement of Activities at year end.

Deferred revenue

Governmental funds, along with proprietary funds, also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the governmental funds reported $1,081,948 in deferred revenue.

Restricted assets

Unspent bond proceeds and grant funds received in advance are restricted for use to certain capital improvement projects, and as a result are classified as restricted assets on the balance sheet. Additionally, the City's 1999 Tax Increment Financing agreement requires that certain funds be deposited with the trustee throughout the life of the bond issue. These funds are also recorded as restricted assets on the balance sheet.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items); are defined by the City as assets with an initial, individual cost of $5,000 or greater and an estimated useful life in excess of three years. Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. Summary of Significant Accounting Policies (continued)

When material in amount, interest related to construction projects is capitalized as a cost of the project.

Property and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40-95 years
Equipment	3-25 years
Other improvements	10-50 years
Infrastructure	20-40 years

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation and compensatory pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 provisions or enabling legislation.

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority, the Mayor and Board of Aldermen, are to be reported as ***committed*** fund balance. The action to establish, modify or rescind commitments would be a majority vote of the Aldermen taken at a public meeting.

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 Mayor and Board of Aldermen, through the capital budget process, or the Purchasing Supervisor, or her/his designee, through the requisition process may assign fund balance for the City. The requisition process was approved by the Mayor and Board of Aldermen as part of the City's Purchasing Policies and Procedures.

Unassigned fund balance is the residual classification for the general fund.

For fund balance classification purposes, when restricted and unrestricted amounts are available for expenditure use, the City would use the restricted amounts first. For expenditures where committed, assigned and unassigned amounts are available for use, the City would first use committed, then assigned and then unassigned fund balance amounts.

1. Summary of Significant Accounting Policies (continued)

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are 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 assets are available.

2. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, not reported in the fund." The details of this $125,336,875 difference are as follows:

Capital assets	$ 207,041,237
Less: Accumulated depreciation	(81,704,362)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 125,336,875

Another element of that reconciliation states that "long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds." The details of this $86,163,627 difference are as follows:

Bonds payable	$ 67,734,303
Add: Issuance premium (to be amortized over life of debt)	755,164
Add: Other post-employment benefits	15,290,963
Add: Compensated absences	2,383,197
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 86,163,627

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $2,411,589 difference are as follows:

Capital outlay	$ 4,109,214
Depreciation expense	(6,520,803)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (2,411,589)

2. Reconciliation of government-wide and fund financial statements (continued)

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets." The details of this $ 357,407 difference are as follows:

In the statement of activities, only the *gain/loss* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the remaining book value of the capital assets sold.	$ (22,906)
Donation and/or transfer of capital assets increase net assets in the statement of activities, But do not appear in the governmental funds because they are not capitalized.	380,313
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 357,407

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $ 3,411,592 difference are as follows:

Principal repayments	$ 4,346,545
Issuance of debt	(8,367,000)
Debt premium	(257,501)
Defeasance of debt	7,555,000
Amortization of bond premiums	60,167
Debt issuance costs	148,236
Amortization of issuance costs	(73,855)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 3,411,592

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds." The details of this $ 4,239,445 difference are as follows:

Compensated absences	$ 74,665
Pension expense resulting in a net pension asset reduction	11,948
Other post-employment benefits	4,193,114
Accrued interest	(40,282)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 4,239,445

3. Stewardship, compliance and accountability

Budgetary information

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

1. Prior to March 15th, the Mayor requests all departments to submit their proposed operating budgets for the fiscal year commencing the following July 1.

2. All budget requests are compiled by the Finance Department and presented to the Mayor and Board of Aldermen for review together with comparative and supporting data.

3. Public hearings are properly advertised and conducted at City Hall for taxpayer comments.

4. Prior to May 30th, the Mayor formally presents the balanced budget and budget message to the Board of Aldermen at a public meeting. The budget message includes a statement of pending capital project programs for the next five fiscal years. Additional taxpayer comments are requested.

3. Stewardship, compliance and accountability (continued)

5. Prior to June 29th, the budget is legally enacted through the passage of an ordinance.

6. Budgetary control is maintained at the departmental sub-function level. The Mayor may approve the transfer of funds within a department; however, any transfers required between departments must be approved by the Board of Aldermen. Any change in the total budget amount requires the approval of the Board of Aldermen. The final budget amounts are reported based on the original budget adjusted for authorized transfers and amendments.

7. Over-expenditures at the departmental level are prohibited by Charter.

The City utilizes the modified accrual basis of accounting in preparing its operating budgets. Annual operating budgets are adopted for the general and special revenue funds. Appropriations which have not been expended or lawfully encumbered lapse at the end of the budget year. Any lawfully encumbered appropriations at year end are carried forward to the following year and increase the following year's budget appropriation by the amount of the encumbrance(s).

Budgetary control is achieved through a capital improvements program for all capital projects funds.

Any excess of total expenditures and encumbrances over total budgeted appropriations by individual departments is in violation of certain legal provisions. During fiscal year 2012, the swimming pools exceeded its budget by $1,576. This over-expenditure was covered with unused budgeted funds in other recreation departments. The community action agency also exceeded its budget by $11,798. This overage was covered with higher departmental revenue than anticipated. Transfers out within the general fund shows an over-expenditure of $23,484. This was created by the reallocation of debt proceeds during the fiscal year.

The Weinberg Center exceeded their budget allotment. The primary reason for the over-expenditure was the rehabilitation of the interior of the center. The over-expenditure was fully funded by revenue generated in the prior period and carried as part of restricted fund balance.

Budget amendments were made during fiscal year 2012 which resulted in a net increase in the amount of $10,971,047 in the General Fund to account for a bond refunding and unanticipated revenue receipts.

Encumbrances related to grant-funded contracts may cause a deficit undesignated fund balance in some funds. This results from a timing difference between the recording of the original encumbrance of the contract and the recognition of the grant revenue when it is measurable and available.

4. Detailed notes on all funds

Deposits and investments

The City maintains a cash and investment pool that is available for use by all funds. Deposits and certificates of deposit are carried at cost plus accrued interest. The City is restricted by state law as to the kinds of investments that can be made. Authorized investments include, (1) deposits in banks, savings and loan, etc., which have the lawfully required escrow deposits, or which have authorized collateral, (2) in any obligation for which the United States has pledged its faith and credit of the payment of the principal and interest, (3) in any obligation that a federal agency issues in accordance with an act of Congress, (4) in a repurchase agreement that any of these obligations secures, or (5) with respect to bond sale proceeds only, in bonds, notes or other obligations of investment grade quality (as established by a nationally recognized rating agency) issued by or on behalf of the State of Maryland or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this section. The pension trust fund's and OPEB trust fund's investment portfolio included investments in fixed income securities, equities, and money market funds.

The City of Frederick may invest in U.S. Treasury obligations, U.S. Government Agency Securities, repurchase agreements secured by U.S. Treasury obligations or U.S Government agency securities, the Maryland Local Government Investment Pool, 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.

4. Detailed notes on all funds (continued)

As of June 30, 2012, the City had the following investments:

Investment Type	Fair Value
Repurchase agreements	$ 2,022,722
U. S. Treasuries	263,934
Maryland Local Government Investment Pool	29,104,100
	$ 31,390,756
OPEB Fund investments	10,745,459
Pension Fund investments	87,760,326
Total fair value of investments	$ 129,896,541

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity date of securities to no more than two (2) years from the date of purchase, unless it is matched to a specific cash flow requirement.

Credit risk. The City of Frederick's investment does not specifically address credit risk. As of June 30, 2012, the Maryland Local Government Investment Pool was rated AAAm by Standard & Poor's. Regulatory oversight for the local government investment pool rests with the Maryland State Treasurer's Office and the fair value of the pool is the same as the value of the pool shares.

Concentration of credit risk. The City's policy states that "investments will be diversified to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities". However, the policy does not define specific benchmarks to clearly identify when an over concentration may occur.

Custodial credit risk – deposits. 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. At year end, the carrying amount of the City's deposits was $58,109,017, and the bank balance was $59,439,487. As of June 30, 2012, all of the City's deposits were either covered by federal depository insurance or were covered by collateral held by the City's agent in the City's name.

	Pension Fund investments	OPEB Trust investments
Equities		
Growth equities	$ 20,393,702	$ 1,726,909
Small cap equities	2,429,996	643,709
Mid cap equities	5,451,875	1,141,363
Large cap equities	22,371,409	1,608,357
International equities	5,014,000	1,577,412
Total equities	$ 55,660,982	$ 6,697,750
Core Fixed income	$ 19,400,902	$ -
Fixed income	2,936,220	3,766,206
Research Advantage Collective Trust	8,388,434	-
Total fixed income	$ 30,725,556	$ 3,766,206
Cash and short-term investments		
Cash management fund	$ 30,779	$ 281,503
Disbursement payment account	1,343,009	-
Total cash and short-term investments	$ 1,373,788	$ 281,503
Total	$ 87,760,326	$ 10,745,459

The average quality of the core fixed income investments in the pension fund is AA2, with yield to maturity of 2.04% and an effective duration of 4.54 years. 65.3% of the portfolio is rated AAA, 4.1% AA, 13.1% A, and 17.5% BBB.

Petty cash amounts at June 30, 2012 totaled $46,390.

4. Detailed notes on all funds (continued)

Receivables

Receivables as of year end for the City's individual major and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	CIP	Water & Sewer	Airport	Parking	Storm Water Management	Non-major Funds	Total
Taxes	$ 683,069	$ -	$ -	$ -	$ -	$ -	$ -	$ 683,069
Loans/notes	91,350	-	258,814	-	-	-	2,168,458	2,518,622
Intergovernmental	549,426	30,000	15,266	19,972	32,029	-	28,817	675,510
Interest	259	-	1,440	147	40	10	2	1,898
Other	451,578	-	4,269,047	37,168	8,165	292,814	20,870	5,079,642
Gross receivables	1,775,682	30,000	4,544,567	57,287	40,234	292,824	2,218,147	8,958,741
Less: allowance for un-collectibles	(115,385)	-	(88,439)	(4,082)	-	-	(7,910)	(215,816)
Net receivables	$ 1,660,297	$ 30,000	$4,456,128	$ 53,205	$ 40,234	$ 292,824	$2,210,237	$ 8,742,925

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 49,044,196	$ -	$ -	$ -	$ 49,044,196
Construction in progress	6,456,077	3,521,778	4,510	(74,736)	9,898,609
Total capital assets, not being depreciated	55,500,273	3,521,778	4,510	(74,736)	58,942,805
Capital assets, being depreciated:					
Buildings	29,050,307	-	9,465	(13,350)	29,027,492
Other improvements	31,354,794	43,299	49,169	9,281	31,358,205
Infrastructure	65,218,266	380,313	-	-	65,598,579
Machinery and equipment	21,839,399	548,647	339,345	65,455	22,114,156
Total capital assets, being depreciated	147,462,766	972,259	397,979	61,386	148,098,432
Less accumulated depreciation for:					
Buildings	17,300,767	956,776	6,599	(13,350)	18,237,594
Other improvements	10,352,076	1,422,309	49,169	-	11,725,216
Infrastructure	31,053,598	2,614,868	-	-	33,668,466
Machinery and equipment	16,865,541	1,526,850	319,305	-	18,073,086
Total accumulated depreciation	75,571,982	6,520,803	375,073	(13,350)	81,704,362
Total capital assets, being depreciated, net	71,890,784	(5,548,544)	22,906	74,736	66,394,070
Governmental activities capital assets, net	$ 127,391,057	$ (2,026,766)	$ 27,416	$ -	$ 125,336,875

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 38,759,781	$ 460,269	$ -	$ 1,283,532	$ 40,503,582
Construction in progress	91,200,644	9,525,461	59,791	(66,611,923)	34,054,391
Total capital assets, not being depreciated	129,960,425	9,985,730	59,791	(65,328,391)	74,557,973
Capital assets, being depreciated:					
Buildings	82,274,849	-	-	13,350	82,288,199
Other improvements	161,343,782	301,979	-	65,328,391	226,974,152
Machinery and equipment	10,548,000	241,932	12,375	-	10,777,557
Total capital assets, being depreciated	254,166,631	543,911	12,375	65,341,741	320,039,908
Less accumulated depreciation for:					
Buildings	28,492,940	2,326,031	-	13,350	30,832,321
Other improvements	46,731,761	6,083,889	-	-	52,815,650
Machinery and equipment	7,243,826	774,200	10,003	-	8,008,023
Total accumulated depreciation	82,468,527	9,184,120	10,003	13,350	91,655,994
Total capital assets, being depreciated, net	171,698,104	(8,640,209)	2,372	65,328,391	228,383,914
Business-type activities capital assets, net	$ 301,658,529	$ 1,345,521	$ 62,163	$ -	$ 302,941,887

4. Detailed notes on all funds (continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	$ 294,586
Public safety	374,539
Public works	3,523,006
Recreation and parks	2,257,656
Economic opportunity	71,016
Total depreciation expense – governmental activities	$ 6,520,803
Business-type activities:	
Rental operations	$ 15,209
Water and sewer	5,123,719
Golf course	193,475
Airport	638,750
Parking	1,607,073
Storm water	1,605,894
Total depreciation expense – business-type activities	$ 9,184,120

Construction commitments

The City has active construction projects as of June 30, 2012. At year end the City's commitments with contractors for major projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Monocacy Boulevard Central Section	$ 20,008,964	$ 2,425,313
Rocky Springs Road/Bowers Road Water Main	4,341,375	152,761
Wastewater Treatment Plant Improvements	9,689,380	65,749
Ballenger-McKinney Wastewater Treatment Plant	8,722,595	7,158,451
Wastewater Treatment Plant Solids Process Rehab	-	5,430,952
Airport Traffic Control Tower	4,286,981	21,426

The Monocacy Boulevard Central Section, New Design Water Plant Expansion, Rocky Springs Road/Bowers Road Water Main, Wastewater Treatment Plant Improvements, Ballenger-McKinney Wastewater Treatment Plant and the Wastewater Treatment Plant Solids Process Rehab are primarily debt funded. The Airport Traffic Control Tower is funded through an agreement with the Federal Aviation Administration with American Recovery and Reinvestment Act monies.

Inter-fund receivables, payables and transfers

The composition of inter-fund balances as of June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Golf Course	$ 4,552,976

The $4,552,976 balance due to the general fund from the golf course resulted from accumulated net losses within the golf course operation. It is not anticipated that this balance will be repaid within the subsequent fiscal year.

Inter-fund transfers:

	Transfers In:						
Transfer out:	General Fund	CIP Fund	Non-major Governmental	Airport Fund	Water/Sewer Fund	Non-major Proprietary	Total
General fund	$ -	$1,582,751	$ 282,708	$ 734,257	-	$ 40,000	$ 2,639,716
Non-major governmental fund	30,300	-	-	-	-	-	30,300
Water and sewer fund	1,650,000	-	-	-	-	-	1,650,000
Airport fund	-	25,000	-	-	-	-	25,000
Parking fund	150,000	-	-	-	-	-	150,000
Storm water management fund	47,500	-	-	-	4,395	-	51,895
Total transfers out	$1,877,800	$1,607,751	$ 282,708	$ 734,257	$ 4,395	$ 40,000	$ 4,546,911

Transfers into the CIP fund are allocations to support capital improvement projects.

4. Detailed notes on all funds (continued)

Transfers into the general fund from water and sewer, parking and the storm water management funds are allocations made by those funds to the general administration functions that are recorded in the general fund, but also relate to their operations.

The $282,708 transfer by the general fund into the non-major governmental fund represents the annual contribution to subsidize operations of the Weinberg Center for the Arts of $147,745 and creation of the CDS Program Fund, a special revenue fund, with a transfer of $134,963.

$734,257 was transferred from the general fund to the airport fund to assist in debt service and operations.

5. Fund balances:

The classification of governmental funds balances as of June 30, 2012 is as follows.

	General	General CIP	Nonmajor Governmental	Total
Nonspendable:				
Inventory	$ 480,455	$ -	$ -	$ 480,455
Prepaid items	47,639	-	1,250	48,889
Loans	91,350	-	2,168,458	2,259,808
Advances to other funds	4,650,400	-	-	4,650,400
Restricted for:				
Parks/recreation	-	1,403,692	-	1,403,692
Harry Grove Stadium	-	357,872	-	357,872
Parks impact fees	-	1,470,483	-	1,470,483
Weinberg Center	-	354,395	81,690	436,085
Debt service reserve	189,283	-	-	189,283
Other purposes	8,391	-	-	8,391
Committed to:				
General government	49,000	896,837	-	945,837
Streets/roadways	433,299	1,269,528	-	1,702,827
Pathways	-	20,000	-	20,000
Parks/recreation	39,878	-	-	39,878
Assigned:				
General government	202,097	-	-	202,097
Municipal facilities	-	98,628	-	98,628
Public safety	164,939	-	61,323	226,262
Public works	119,913	-	-	119,913
Streets/roadways	-	984,664	-	984,664
Street lights/signals/sidewalks	-	626,372	-	626,372
Pathways	-	6,848	-	6,848
Parks/recreations	95,760	1,131,137	-	1,226,897
Harry Grove Stadium	-	86,969	-	86,969
Weinberg Center	-	-	244,981	244,981
Community development	-	-	169,534	169,534
Economic development	1,242	-	-	1,242
Community action	61,181	-	-	61,181
Subsequent years budget	5,801,814	-	57,273	5,859,087
Other purposes	-	556,251	-	556,251
Unassigned:	15,252,943	-	-	15,252,943
Total fund balances	$ 27,689,584	$ 9,263,676	$ 2,784,509	$ 39,737,769

6. Long term obligations

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities; and are direct obligations and pledge the full faith and credit of the City. The bonds are generally issued as 20-year serial bonds with varying amounts of principal maturing each year. The long-term obligations of the City currently outstanding are as follows:

	Date of Issue	Date of Maturity	Range of Interest Rates	Outstanding 7/1/2011	Transfers/ Additions FY '12	Reductions FY '12	Outstanding 6/30/2012	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	08/07/01	12/01/21	3.25-4.75%	$ 9,512,000	$ -	$ (9,512,000)	$ -	$ -
General Purpose	09/19/02	09/01/22	2.50-5.0%	16,996,000	-	(1,097,000)	15,899,000	1,144,000
Refunding Bonds	11/18/08	08/01/11	3.29%	150,000	-	(150,000)	-	-
General Purpose	03/26/09	03/01/29	3.0 - 5.0%	42,690,000	615,000	(1,025,000)	42,280,000	1,835,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	-	7,752,000	-	7,752,000	1,361,000
MILA Loan - Trading Lane	06/95	06/22	5.93%	109,163	-	(7,267)	101,896	7,708
CELP Loan	12/21/05	06/01/14	2.0%	51,254	-	(16,746)	34,508	17,082
Tax Increment Financing	12/99	06/24	5.95%	1,760,431	-	(93,532)	1,666,899	99,098
Subtotal				71,268,848	8,367,000	(11,901,545)	67,734,303	4,463,888
Add remaining premium				557,830	257,501	(60,167)	755,164	58,411
Total bonds and notes payable				71,826,678	8,624,501	(11,961,712)	68,489,467	4,522,299
Other Obligations:								
Compensated Absences				2,308,532	2,167,156	(2,092,490)	2,383,198	1,960,816
OPEB Liabilities				11,097,848	8,164,933	(3,971,819)	15,290,962	-
Total Governmental Activity Long-term Obligations				$ 85,233,058	$ 18,956,590	$ (18,026,021)	$ 86,163,627	$ 6,483,115
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/07/01	12/01/21	3.25-4.75%	$ 4,135,000	$ -	$ (4,135,000)	$ -	$ -
Water and Sewer	09/19/02	09/01/22	2.50-5.0%	1,279,000	-	(83,000)	1,196,000	86,000
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	44,627,000	-	(2,288,000)	42,339,000	2,362,000
Water and Sewer	11/18/08	08/01/11	3.29%	87,000	-	(87,000)	-	-
Water and Sewer	11/18/08	08/01/28	4.39%	8,132,200	-	(8,132,200)	-	-
Water and Sewer	03/26/09	03/01/34	3.0 - 5.0%	49,855,000	-	(225,000)	49,630,000	620,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	-	3,485,000	-	3,485,000	350,000
Refunding Bonds Series B	12/28/11	12/01/28	2.0 - 4.0%	-	7,675,000	-	7,675,000	525,000
Total General Obligation Bonds				108,115,200	11,160,000	(14,950,200)	104,325,000	3,943,000
State Loan Fund - BNR	08/23/01	02/01/22	2.30%	3,209,772	-	(259,765)	2,950,007	265,740
State Loan Fund - ENR	03/23/12	02/01/33	0.80%	-	7,369,031	-	7,369,031	-
Total Water & Sewer Debt				111,324,972	18,529,031	(15,209,965)	114,644,038	4,208,740
Golf Course Facilities Bonds	03/26/09	03/01/29	3.0 - 5.0%	950,000	-	(35,000)	915,000	40,000
Total Golf Course Obligations				950,000	-	(35,000)	915,000	40,000
Airport Improvement Bonds	08/07/01	12/01/21	3.25-4.75	2,675,000	-	(2,675,000)	-	-
Airport Improvement Bonds	03/26/09	03/01/29	3.0 - 5.0%	615,000	(615,000)	-	-	-
Airport Impvt. BANs - Taxable	03/26/09	03/01/13	4.52%	13,655,000	-	-	13,655,000	13,655,000
Refunding Bonds 2011	12/28/11	12/01/21	2.0 - 2.5%	-	2,555,000	-	2,555,000	235,000
Total Airport Debt				16,945,000	1,940,000	(2,675,000)	16,210,000	13,890,000
Parking Facilities	08/07/01	12/01/21	3.25-4.75	2,198,000	-	(2,198,000)	-	-
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	11,343,000	-	(602,000)	10,741,000	618,000
Parking Facilities	11/18/08	08/01/11	3.29%	63,000	-	(63,000)	-	-
Parking Facilities - Taxable	03/26/09	03/01/29	3.264-6.933%	11,230,000	-	(380,000)	10,850,000	395,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	-	1,988,000	-	1,988,000	204,000
Total Parking Facilities				24,834,000	1,988,000	(3,243,000)	23,579,000	1,217,000
Stormwater Facilities	03/26/09	03/01/29	3.0 - 5.0%	1,185,000	-	(45,000)	1,140,000	50,000
Total Stormwater Facilities				1,185,000	-	(45,000)	1,140,000	50,000
Total business-type activities debt				155,238,972	22,457,031	(21,207,965)	156,488,038	19,405,740
Other Obligations:								
Add remaining premium				2,485,222	643,480	(237,931)	2,890,771	203,435
Less remaining discounts				(10,408)	-	10,408	-	-
Less deferred refunding				(24,493)	(208,510)	39,892	(193,111)	(15,398)
Compensated Absences				403,994	411,970	(408,488)	407,476	369,740
OPEB liabilities				2,761,265	1,936,672	(983,643)	3,714,294	-
Total business-type activities obligations				$ 160,854,552	$ 25,240,643	$ (22,787,727)	$ 163,307,468	$ 19,963,517

Ninety-nine percent of the compensated absences and OPEB liabilities in the governmental activities will be paid out of the general fund. The remaining one percent will be paid out of nonmajor governmental funds.

6. Long term obligations (continued)

Current Refunding

During fiscal year 2012, the City refunded $2,485,000 Airport Improvement Bonds, Series 2001; $12,950,000 General Improvements and Refunding Bonds, Series 2001 and $7,829,100 General Improvement Bonds, Series 2008 by issuing $2,555,000 Airport Refunding Bonds, Series 2011; $13,225,000 Taxable General Improvements Refunding Bonds, Series 2011A and $7,675,000 General Improvements Refunding Bonds, Series 2011B. this refunding was undertaken to reduce total debt service payments and resulted in a reduced cash flow of $2,890,010 and an economic gain of $2,585,942.

The annual requirements to amortize all general long term debt, as of June 30, 2012, are as follows:

Fiscal	Governmental Activities		Business-type Activities		Total		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	$ 4,364,790	$ 2,578,106	$ 19,405,740	$ 6,551,565	$ 23,770,530	$ 9,129,671	$ 32,900,201
2014	4,525,601	2,438,450	6,313,082	5,761,345	10,838,683	8,199,795	19,038,478
2015	4,670,671	2,307,663	6,550,064	5,513,563	11,220,735	7,821,226	19,041,961
2016	3,937,196	2,161,825	6,763,212	5,253,723	10,700,548	7,415,548	18,115,956
2017	3,955,754	2,032,069	7,029,529	4,983,005	10,985,283	7,015,074	18,000,357
2018 - 2022	21,994,393	7,828,225	39,652,579	20,539,624	61,646,972	28,367,849	90,014,821
2023 - 2027	15,968,999	3,713,774	45,203,561	11,827,778	61,172,560	15,541,552	76,714,112
2028 - 2032	6,650,000	486,125	18,953,264	3,938,268	25,603,264	4,424,393	30,027,657
2033 - 2034	-	-	6,617,007	473,426	6,617,007	473,426	7,090,433
Totals	$ 66,067,404	$ 23,546,237	$ 156,488,038	$ 64,842,297	$222,555,442	$88,388,534	$ 310,943,976

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2012 is as follows:

Fiscal	Tax Incremental Financing Bonds		
Year	Principal	Interest	Total
2013	$ 99,098	$ 38,122	$ 137,220
2014	104,994	35,856	140,850
2015	111,241	33,454	144,695
2016	117,860	30,910	148,770
2017	124,873	28,215	153,088
2018 - 2022	745,057	94,682	839,739
2023 - 2024	363,776	12,600	376,376
Totals	$1,666,899	$ 273,839	$1,940,738

Computation of Legal Debt Margin:

Assessed value		$6,380,911,110
Debt limit (8% of assessed value per City Charter)		$ 510,472,889
Amount of debt applicable to debt limit:		
Total bonded debt	$213,766,899	
Other debt	10,455,442	
	$224,222,341	
Less: Water and sewer debt	114,644,038	
Total amount of debt applicable to debt limit		109,578,303
Legal debt margin		$ 400,894,586

Schedule of Intended Source of Funds for Debt Retirement:

	Debt Amount
General revenue	$ 66,067,404
Water and sewer charges	114,644,038
Airport charges	16,210,000
Parking charges and fines	23,579,000
Storm water charges	1,140,000
Cash flow from golf course operations	915,000
Incremental tax revenue	1,666,899
	$ 224,222,341

Although a large portion of City debt is to be paid from revenue sources other than taxes, virtually all of the City's debt is backed by the full faith, credit and taxing power of the City. The following computation of direct and overlapping debt is based upon total City debt outstanding, reflecting the backing of the City.

6. Long term obligations (continued)

Computation of Direct and Overlapping Debt:

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City	Amount Applicable to City
The City of Frederick	$ 224,222,341	100.00%	$ 224,222,341
Frederick County	497,034,926	25.41%	126,296,575
Total	$ 721,257,267		$ 350,518,916

7. Pension Plans

Under authority granted by section 137 of the charter of The City of Frederick, the City provides pension and retirement benefits for substantially all full-time City employees through a group pension immediate participation guarantee contract with an insurance company. Three pension plans currently exist.

In the current year, adjustments were made to the Thirty-Year and Twenty-Five Year plans regarding salary basis, benefit formula, normal retirement age, early retirement, employee contributions, COLA cap and vesting that are effective for employees hired after June 30, 2012. The specific changes are noted in appropriate plan descriptions below.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Administrative costs are financed by the pension plans.

Separate, audited GAAP-basis pension plan reports are not available for the defined benefit pension plans.

Investments of the pension plans are reported at fair value.

The City of Frederick Pension System (Thirty-Year Plan)

Plan description and provisions:

Full-time employees of The City of Frederick are eligible to participate in this single-employer, defined benefit pension plan. Current membership in the plan is comprised of the following:

Retired and disabled participants, beneficiary annuitants, and spouses as of July 1, 2012	87
Vested terminated employees	93
Active employees - vested 100%	117
Active employees – non-vested	65

Eligibility – Prior to March 17, 2011, work at least twenty hours a week, attain the age of 18 with one year of service, and agree to make required contributions. Subsequent to March 17, 2011, attain the age of 18 and agree to make required contributions.

Employee contributions - 5% of earnings above Social Security Taxable Wage Base for employees hired prior to July 1, 21012 and 1% of earnings if hired after June 30, 2012..

Retirement - Normal - Age 62 with five years of service, age 63 with four years of service, age 64 with three years of service, age 65 or older with two years of service or 30 years of service regardless of age, if hired prior to July 1, 2012

If hired after June 30, 2012, the "Rule of 90", the age of the employee and years of service must total ninety (90).

Annual benefit is 1.2% of Final Average Earnings multiplied by years and months of service (plus unused sick leave) if hired prior to July 1, 2012 and 1.0% if hired after June 30, 2012. Final Average Earnings is the average yearly earnings during the three consecutive plan years out of the last 10 plan years which produces the highest average if hired prior to July 1, 2012 and the five consecutive plan years out of the last 10 plan years if hired after June 30, 2012.

Early - Age 55 with at least 15 years of service if hired prior to July 1, 2012 and age 60 and fifteen years of service if hired after June 30, 2012.

7. Pension plans (continued)

Annual benefit calculated as at normal but reduced 1/2% for each month preceding age 62.

Vesting - A participant is 100% vested after 5 years of service if hired prior to July 1, 2012 and after 10 years if hired after June 30, 2012.

Benefit commences at age 62 or early retirement date, if eligible. Benefit is calculated as the amount accrued to date of termination.

Disability eligibility is 5 years of service. Benefit is same as Service Retirement Formula to age 62.

Death benefit eligibility is one year of service. Benefit is 100% of Annual Salary (payable as a lump sum).

Spouse's Benefit - Primary beneficiary available if deceased member was at least age 55 with 20 years of service.

Cost of Living - based on the Consumer Price Index but limited to an annual increase of 3% of the member's benefit the previous year if hired before July 1, 2012 and 2.5% if hired after June 30, 2012.

Administrative costs are financed by the plan.

The City of Frederick is required to contribute all amounts in excess of employee contributions necessary to fund this pension plan, using the entry age-normal actuarial method.

Significant actuarial assumptions used in determining the actuarial accrued liability include:

Mortality – RP2000 Combined Mortality Tables for males and females.

Interest rates – 7.5% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

Retirement - Assumed retirement at the earlier of 30 years of service,
age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service, or
age 65 with 2 years of service.

Turnover - All employees who do not meet membership requirements under the plan are excluded from funding. In addition, terminations from service prior to retirement are discounted in advance, in accordance with the following scale based on attained ages:

Age	Annual Termination Rate
25	7.72%
35	6.86%
45	5.16%
55	1.37%

Disability - Disability among active lives is discounted in advance according to a scale based on attained ages. Disablement is assumed to be ordinary. The scale for the annual disablement rate is as follows:

Age	Annual Disablement Rate
25	.006%
35	.089%
45	.306%
55	.804%

Salary scale - Salaries are assumed to increase 4.5% per. When available, actual salaries are used retrospectively.

Cost-of-living increases - a compound increase rate of 2.5% per annum is assumed in projecting the liability for cost-of-living benefits.

Future service credits - A full credit for each future year.

7. Pension plans (continued)

Spouses benefits - 95% of all participants are assumed to be married. Wives are assumed to be one year younger than their husbands.

The City's funding policy is to provide periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. The required contributions are determined using an entry age actuarial funding method.

The annual pension costs and net pension assets for the current year were as follows:

Annual required contribution	$ 1,686,613
Interest on net pension assets	(19,087)
Adjustment to annual required contribution	20,462
Annual pension cost	1,687,988
Contributions made	(1,686,613)
Decrease in net pension assets	1,375
Net pension assets beginning of year	(238,589)
Net pension assets end of year	$ (237,214)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Asset
2010	1,342,852	99.98%	(239,971)
2011	1,519,820	99.91%	(238,589)
2012	1,687,988	99.92%	(237,214)

The City of Frederick Twenty-Five Year Pension System

Plan description and provisions:

Full-time employees of The City of Frederick are eligible to participate in this single-employer, defined benefit pension plan. Current membership in the plan is comprised of the following:

Retired and disabled participants, beneficiary annuitants, and spouses as of July 1, 2012	176
Vested terminated employees	66
Active employees - vested 100%	143
Active employees – non-vested	86

Eligibility - Prior to March 17, 2011, work at least twenty hours a week, attain the age of 18 with one year of service, and agree to make required contributions. Subsequent to March 17, 2011, attain the age of 18 and agree to make required contributions.

Retirement - Normal - Age 62 with five years of service, age 63 with four years of service, age 64 with three years of service, age 65 or older with two years of service or 25 years of service regardless of age if hired prior to July 1, 2012.

If hired after June 30, 2012, the "Rule of 90", the age of the employee and years of service must total ninety (90).

Annual benefit is 2% of Final Average Earnings multiplied by years and months of service (plus unused sick leave) if hired prior to July 1, 2012 and 1.5% if hired after June 30, 2012. Final Average Earnings is the average yearly earnings during the three consecutive plan years out of the last 10 plan years which produces the highest average if hired prior to July 1, 2012 and the five consecutive plan years out of the last 10 plan years if hired after June 30, 2012.

Early - Age 55 with at least 15 years of service if hired prior to July 1, 2012 and age 60 with at least 15 years of service if hired after June 30, 2012.

Annual benefit calculated as at normal but reduced 1/2% for each month preceding age 62.

7. Pension plans (continued)

Vesting - A participant is 100% vested after 5 years of service if hired prior to July 1, 2012 and after 10 years of service if hired after June 30, 2012.

Benefit commences at age 62 or early retirement date, if eligible. Benefit is calculated as the amount accrued to date of termination.

Disability eligibility is 5 years of service. Benefit is same as Service Retirement Formula to age 62.

Death benefit eligibility is one year of service. Benefit is 100% of Annual Salary (payable as a lump sum).

Spouse's Benefit - Primary beneficiary available if deceased member was at least age 55 with 15 years of service.

Contributions - Effective July 1, 1989, employees hired on or before February 17, 1987, contribute 5% of earnings, employees hired after February 17, 1987, contribute 7% of earnings and employees hired after July 1, 2012 contribute 7.5% if earnings.

Cost-of-Living - based on the Consumer Price Index but limited to an annual increase of 3% of the member's benefit the previous year if hired prior to July 1, 2012 and 2.5% if hired after June 30, 2012.

Administrative costs are financed by the plan.

The City of Frederick is required to contribute the remaining amounts necessary to fund this pension plan, using the entry age-normal actuarial cost method.

Significant actuarial assumptions used in determining the actuarial accrued liability include:

Mortality – RP2000 Combined Mortality Tables for males and females.

Interest rates – 7.5% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

Retirement - Assumed retirement at the earlier of 25 years of service,

age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service, or
age 65 with 2 years of service.

Turnover - All employees who do not meet membership requirements under the plan are excluded from funding. In addition, terminations from service prior to retirement are discounted in advance, in accordance with the following scale based on attained ages:

Age	Annual Termination Rate
25	7.72%
35	6.86%
45	5.16%
55	1.37%

Disability - Disability among active lives is discounted in advance according to a scale based on attained ages. Disablement is assumed to be ordinary. The scale for the annual disablement rate is as follows:

Age	Annual Disablement Rate
25	.006%
35	.089%
45	.306%
55	.804%

Salary scale - Salaries are assumed to increase 4.5% per year. When available, actual salaries are used retrospectively.

7. Pension plans (continued)

Cost-of-living increases - a compound increase rate of 2.5% per annum is assumed in projecting the liability for cost-of-living benefits.
Future service credits - A full credit for each future year.

Spouse's benefits - 95% of all participants are assumed to be married. Wives are assumed to be one year younger than their husbands.

The City's funding policy is to provide periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. The required contributions are determined using an entry age actuarial funding method.

The annual pension costs and net pension assets for the current year were as follows:

Annual required contribution	$ 4,219,798
Interest on net pension assets	(121,638)
Adjustment to annual required contribution	130,401
Annual pension cost	4,228,561
Contributions made	(4,219,798)
Decrease in net pension assets	8,763
Net pension assets beginning of year	(1,520,470)
Net pension assets end of year	$(1,511,707)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Asset
2010	3,480,851	99.97%	(1,529,284)
2011	3,863,587	99.77%	(1,520,470)
2012	4,228,561	99.79%	(1,511,707)

The City of Frederick Twenty-Two Year Pension System

Plan description and provisions:

Effective January 1, 1995, all sworn police officers were given the option to join this plan or to remain in their existing plan. Eighty-two of the existing eighty-six officers joined this plan. All newly hired full time sworn police officers up to the rank of Captain are required to participate in this single-employer, defined benefit pension plan. Current membership in the plan is comprised of the following:

Retired and disabled participants, beneficiary annuitants, and spouses as of July 1, 2012	65
Vested terminated employees	17
Active employees - vested 100%	97
Active employees – non-vested	37

Eligibility - All police officers become an active member on their date of hire with the agreement to make member contributions.

Retirement - Normal - Age 62 with five years of service, age 63 with four years of service, age 64 with three years of service, age 65 or older with two years of service or 22 years of service regardless of age if hired prior to July 1, 2012.

Annual benefit is 60% of Final Average Earnings with twenty-two year of service plus 1.5% of Final Average Earnings multiplied by years and months of service in excess of twenty-two. Final Average Earnings is the average yearly earnings of the three consecutive plan years out of the last 10 plan years which produces the highest average.

Early - Age 55 with at least 15 years of service.

Annual benefit calculated as at normal but reduced 1/2% for each month preceding age 62.

7. Pension plans (continued)

Vesting - A participant is 100% vested after 5 years of service.
Benefit commences at age 62 or early retirement date, if eligible. Benefit is calculated as the amount accrued to date of termination.

Disability eligibility is 5 years of service. Benefit is same as Service Retirement Formula to age 62.

Death benefit eligibility is one year of service. Benefit is 100% of Annual Salary (payable as a lump sum).

Spouse's Benefit - Primary beneficiary available if deceased member was at least age 55 with 12 years of service.

Contributions - Effective July 1, 1995, employees contribute 8% of earnings.

Cost of living - based on the Consumer Price Index but limited to an annual increase of 3% of the prior year's retirement benefit (called 3% compound interest).

Administrative costs are financed by the plan.

The City of Frederick is required to contribute the remaining amounts necessary to fund this pension plan, using the entry age-normal actuarial cost method.

Significant actuarial assumptions used in determining the actuarial accrued liability include:

Mortality –RP2000 Blue Collar Mortality Tables for Males and Females.

Interest rates – 7.5% per annum, compounded annually.

Expenses – none assumed to be paid from plan assets.

Retirement - Assumed retirement at the earlier of 22 years of service,

age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service, or
age 65 with 2 years of service.

Turnover - All employees who do not meet membership requirements under the plan are excluded from funding. In addition, terminations from service prior to retirement are discounted in advance, in accordance with the following scale based on attained ages:

Age	Annual Termination Rate
25	5.29%
35	4.70%
45	3.54%
55	0.94%

The rates are adjusted for service according to the following table:

Years of Service	Percentage of Annual Termination Rate
Less than 5	150%
5 – 9	100%
10 – 14	40%
15 – 19	15%
20 or more (not retirement eligible)	10%

Disability - Disability among active lives is discounted in advance according to a scale based on attained ages. Disablement is assumed to be ordinary. The scale for the annual disablement rate is as follows:

Age	Annual Disablement Rate
25	.09%
35	.13%
45	.46%
55	1.21%

7. Pension plans (continued)

Salary scale - Salaries are assumed to increase prospectively and decrease retrospectively at the rate of 4.5% per annum. When available, actual salaries are used retrospectively.

Cost-of-living increases - a compound increase rate of 2.5% per annum is assumed in projecting the liability for cost-of-living benefits.

Future service credits - A full credit for each future year.

Spouse's benefits - 95% of all participants are assumed to be married. Wives are assumed to be one year younger than their husbands.

The City's funding policy is to provide periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. The required contributions are determined using an entry age actuarial funding method.

The annual pension costs and net pension assets for the current year were as follows:

Annual required contribution	$ 5,216,531
Interest on net pension assets	(65,818)
Adjustment to annual required contribution	70,560
Annual pension cost	5,221,273
Contributions made	(5,216,531)
Decrease in net pension assets	4,742
Net pension assets beginning of year	(822,728)
Net pension assets end of year	$ (817,986)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Asset
2010	4,130,887	99.98%	(827,497)
2011	4,957,227	99.90%	(822,728)
2012	5,221,273	99.91%	(817,986)

Additional information for each of the plans as of the latest actuarial valuation follows.

	30-Year Plan	25-Year Plan	22-Year Plan
Valuation date	7/1/12	7/1/12	7/1/12
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 yrs. from valuation date - open	30 yrs. from valuation date - open	30 yrs. from valuation date – open
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	4.5%	4.5%	4.5%
Cost of living rate	2.5%	2.5%	2.5%
Actuarial value of assets -	11,625,228	33,849,115	45,249,399
Actuarial accrued liability -	24,874,324	80,380,389	85,542,315

7. Pension plans (continued)

Total unfunded actuarial accrued liability -	13,249,096	46,531,274	40,292,916
Actuarial value of assets as a percentage of actuarial accrued liability (funded ratio) -	46.74%	42.11%	52.90%
Annual covered payroll -	8,724,909	11,012,096	9,968,446
Ratio of the unfunded actuarial liability to annual covered payroll -	151.85%	422.55%	404.20%

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

Statement of Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2012 Total
ASSETS:				
Cash and short-term investments	$ 177,141	$ 507,838	$ 688,809	$ 1,373,788
Receivables				
Accounts receivable – employee	-	86,382	90,655	177,037
Total receivables	-	86,382	90,655	177,037
Investments, at fair value:				
Equities	7,177,117	20,575,773	27,908,092	55,660,982
Fixed income	3,961,858	11,358,083	15,405,615	30,725,556
Total investments	11,138,975	31,933,856	43,313,707	86,386,538
Total assets	11,316,116	32,528,076	44,093,171	87,937,363
LIABILITIES:				
Benefits payable	-	2,674	8,417	11,091
NETS ASSETS:				
Held in trust for pension benefits	$ 11,316,116	$ 32,525,402	$ 44,084,754	$ 87,926,272

Statement of Changes in Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2012 Total
ADDITIONS:				
Contributions – employer	$ 1,686,613	$ 4,219,798	$ 5,216,531	$ 11,122,942
Contributions – employee	1,452	777,995	1,021,739	1,801,186
Interest	217,166	622,582	844,445	1,684,193
Net appreciation/(depreciation)	6,641	19,037	25,821	51,499
Total additions	1,911,872	5,639,412	7,108,536	14,659,820
DEDUCTIONS:				
Pension benefits	703,879	4,221,303	3,922,247	8,847,429
Service charges	66,808	191,529	259,781	518,118
Total deductions	770,687	4,412,832	4,182,028	9,365,547
Change in net assets	1,141,185	1,226,580	2,926,508	5,294,273
Net assets – beginning	10,174,931	31,298,822	41,158,246	82,631,999
Net assets – ending	$ 11,316,116	$ 32,525,402	$ 44,084,754	$ 87,926,272

8. Post-Employment Health Care Benefits

Pursuant to Sections 35-B and 137 of the City Charter, the City provides Other Post-Employment Benefits (OPEB) to all employees who qualify as a retiree and meet specific service requirements. Approximately 715 retirees and dependents could be eligible for health benefits and 255 retirees are also eligible for life insurance coverage. Four hundred and forty-seven (447) retirees and dependents are currently enrolled in the City's Group Health Insurance and the Medicare Advantage Plans. The City provides open access Group Health Insurance coverage for pre-Medicare retirees and their dependents. Retirees that are Medicare eligible are enrolled in a plan that coordinates benefits with Medicare. The cost of retiree health care and life insurance benefits is recognized as an expenditure when claims are accrued. For fiscal year 2012, those costs totaled approximately $ 2,756,810.

The financial statements of the City's OPEB plan are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions are recognized when due and the City has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Separate, audited GAAP-basis OPEB plan reports are not available for the other post-employment benefit plan.

Investments of the OPEB plan are reported at fair value.

General Provisions—Other Post-Employment Benefits (OPEB):

Group Health Insurance (Pre-Medicare Eligibility)

For eligible employees hired before July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for retiree health insurance. Health insurance premiums for these employees and their dependents shall be paid in full by the City.

For eligible employees hired on or after July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these employees and their dependents will be the same cost share rate as those paid by active employees.

For eligible employees hired on or after July 1, 2005 – These employees must meet eligibility requirements under the retirement plan and have 15 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these retirees and their dependents will be the same cost share rate as those paid by active employees.

Pre-Medicare retirees may choose from two medical plans: an Open Access Plus In-Network (OAPIN) Plan and an Open Access Plus (OAP) Plan (which provides both in- and out-of network benefits)

Group Term Life Insurance:

Employees hired prior to July 1, 2003 are eligible for $3,000 in Group Term Life Insurance coverage at retirement. The same service requirements, as stated above, for health care coverage are applicable for life insurance coverage. The City pays the entire cost of this coverage. Employees hired on or after July 1, 2003 are not eligible to receive the post retirement Group Term Life Insurance benefit.

Group Dental Insurance:

Group Dental Insurance is available to retirees as a voluntary benefit based upon the eligibility requirements above, and the retiree is responsible for 100 percent of the premium costs based upon the coverage level selected.

Medicare-Entitled Retiree Coverage**:**

Once the participant is Medicare-eligible, s/he may enroll in a Medicare Advantage PPO Plan. Currently, the retiree (participant) cost share for the Medicare Advantage Plan is $30 per month per participant.

8. Post-Employment Health Care Benefits (continued)

Funding Policy:

The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The current ARC rate is 48.19% of annual covered payroll. The ARC consisted of the normal cost of $4,942,868, the amortization of unfunded accrued liability of $5,548,279 and interest of $629,469. The City contributed $5,882,079 for the year ended June 30, 2012 for current health care and life insurance premiums. This includes an estimated $926,617 of implicit retiree costs.

The City established an OPEB trust in fiscal year 2011 to pre-fund future benefits.

Annual OPEB Cost and Net OPEB Obligation:

The City had an actuarial valuation performed as of July 1, 2012 to determine the funded status of the plan as of that date as well as the City's ARC for the fiscal year ended June 30, 2013. The annual OPEB costs and net OPEB obligation for the current year were as follows:

Annual required contribution	$ 11,120,616
Interest on net OPEB obligation	831,546
Adjustment to annual required contribution	(923,941)
Annual OPEB cost	11,028,221
Contributions made	(5,882,079)
Increase in net OPEB obligation	5,146,142
Net OPEB obligation beginning of year	13,859,114
Net OPEB obligation end of year	$ 19,005,256

Three-Year Trend Information

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 12,488,000	$ 3,299,727	26.42%	$ 14,433,073
2011	11,024,157	11,598,116	105.21%	13,859,114
2012	11,028,221	5,882,079	53.34%	19,005,256

Additional information for the OPEB plan as of the latest actuarial valuation is as follows:

Actuarial valuation date -	July 1, 2012
Actuarial value of assets -	$ 10,457,567
Actuarial accrued liability -	114,742,755
Total unfunded actuarial liability -	104,285,188
Actuarial value of assets as a percentage of actuarial accrued liability -	9.11%
Annual covered payroll -	$ 23,077,699
Ratio of the unfunded actuarial liability to annual covered payroll -	451.89%

8. Post-Employment Health Care Benefits (continued)

Funded status and progress:

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

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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.

The projected unit credit method with linear pro-ration to assumed benefit commencement was used in this valuation.

The unfunded liability was amortized over a period of 30 years as a level percentage of pay. The amortization period is open.

Participants are assumed to elect coverage for life insurance at the same rate as health coverage.

Actual coverage status is used; females assumed to be 1 year younger than male spouse. Employees with family coverage are assumed to continue family coverage in retirement. Employees with individual coverage are assumed to elect individual coverage in retirement. Employees who have waived coverage are assumed to waive coverage in retirement.

This valuation assumes that 95% of those eligible for post-retirement health care will continue the same coverage levels at retirement.

Interest assumptions – discount rate of 6.0% and payroll growth of 4.0%.

Inflation rate assumption – 2.5%

Healthcare cost trend assumptions –

Medical and Prescription Drug	Base
2012	8.5%
2013	8.0%
2014	7.5%
2015 - 2016	7.2%
2017 - 2022	7.1%
2023 - 2027	6.9%
2028 - 2032	6.8%
2033 - 2042	6.7%
2043 - 2052	6.2%
2053 - 2062	5.9%
2063 - 2072	5.8%
2073 – 2082	5.7%
2083 – 2092	5.2%
2093 +	5.2%

Mortality – RP 2000 Combined Healthy Table and RP 2000 Disabled Table

Disability assumptions –

Age	22-Year Plan	25-Year Plan	30-Year Plan
25	0.090%	0.060%	0.060%
35	0.133%	0.089%	0.089%
45	0.459%	0.306%	0.306%
55	1.206%	0.804%	0.804%

8. Post-Employment Health Care Benefits (continued)

Turnover assumptions –

Age	22-Year Plan	25-Year Plan	30-Year Plan
25	5.29%	7.72%	7.72%
35	4.70%	6.86%	6.86%
45	3.54%	5.16%	5.16%
55	0.94%	1.37%	1.37%

For the 22-Year Plan the rates are adjusted for service according to the following table:

Years of Service	Percentage of Annual Termination Rate
Less than 5	150%
5 – 9	100%
10 – 14	40%
15 – 19	15%
20 or more (not retirement eligible)	10%

Retirement – 100% of employees are assumed to retire at the earlier of:

A) for 22-Year Plan
   a. Age 62 with 5 years of service
   b. Age 63 with 4 years of service
   c. Age 64 with 3 years of service
   d. Age 65 with 2 years of service
   e. Age 55 with 15 years of service
   f. 22 years of service

B) for 25-Year Plan
   a. Age 62 with 5 years of service
   b. Age 63 with 4 years of service
   c. Age 64 with 3 years of service
   d. Age 65 with 2 years of service
   e. Age 55 with 15 years of service
   f. 25 years of service

C) for 30-Year Plan
   a. Age 62 with 5 years of service
   b. Age 63 with 4 years of service
   c. Age 64 with 3 years of service
   d. Age 65 with 2 years of service
   e. Age 55 with 15 years of service
   f. 30 years of service

Claims: Medical and Drug Costs:		
	Under 50	$ 8,302.26
	50 – 54	9,826.68
	55 – 59	11,249.37
	60 – 64	13,076.39
	Over 64	4,077.95

9. Commitments and contingencies

Grant Compliance - The City participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits of some of these programs through June 30, 2012, have not been conducted; however, such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, for the current year.

Litigation – A complaint was filed against the City for declaratory judgment and breach of contract related to a construction project. The plaintiff is requesting relief in the amount of $5,000,000. At this time, the City does not believe there is merit to the claim and intends to vigorously fight the claim.

The City is subject to other various legal proceedings. In the opinion of the City Attorney, the potential liability arising from claims against the City not covered by insurance, would not materially affect the financial statements.

10. Conduit Debt Obligations

From time to time, the City has issued Industrial/Economic Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2012 there were thirteen series of Industrial/Economic Revenue Bonds outstanding. The aggregate principal amount payable for these issues could not be determined; however, their original issue amounts totaled $53,074,353.

11. Risk Management

The City faces the full realm of risks typical of a thriving entity. Liabilities associated with torts and protection against damage or loss of assets are the two general categories of risk for which the City carries commercial insurance. Specific insurance related to these categories includes general, police and public official liability coverage, workers compensation, inland marine and automobile insurance. The City is liable for deductibles ranging up to $50,000 and for settlements exceeding its limits of coverage, which range from $1 million to $5 million.

The City self insures against any damage caused by sinkholes located in well influence zones.

The City has experienced no claim awards greater than its insurance coverage in the last three fiscal years.

12. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2012 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 Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the City in fiscal year 2013. The purpose of this Statement is to improve financial reporting by addressing issues related to service concession arrangements which are a type of public-private or public-public partnership.

GASB Statement Number 61, *the Financial Reporting Entity: Omnibus*, will be effective for the City beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the City beginning with its year ending June 30, 2013. This Statement incorporates into GASB's authoritative literature accounting and financial reporting guidance included in certain pronouncements issued on or before November 30, 1989.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the City beginning with its year ending June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement Number 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, will be effective for the City beginning with its fiscal year that ends June 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

12. New Governmental Accounting Standards Board Standards (continued)

GASB Statement Number 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 2,* will be effective for the City with its year ending June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessment of accountability and inter-period equity, and creating additional transparency.

GASB Statement Number 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* will be effective for the City with its fiscal years that ends on June 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement also results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessment of accountability and inter-period equity, and creating additional transparency.

13. Subsequent Events

The City evaluated subsequent events through October 29, 2012, which represents the dates the financial statements were available to be issued.

On September 6, 2012, an ordinance was approved that authorized the City to issue up to $5,500,000 in debt through the Maryland Water Quality Financing Administration to fund the solids processing rehabilitation project at the Gas House Pike Wastewater Treatment Plant. The closing on this loan occurred on October 19, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

The City of Frederick, Maryland
Required Supplementary Information (unaudited)
Schedule of Funding Progress - Pension Plans

The City of Frederick Thirty-Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/03	$ 7,315,294	$ 10,553,554	$ 3,238,260	69.32%	$ 7,562,016	42.82%
07/01/04	7,715,840	11,531,014	3,815,174	66.91%	7,554,517	50.50%
07/01/05	8,337,386	11,880,776	3,543,390	70.18%	7,508,089	47.19%
07/01/06	9,364,339	12,144,760	2,780,421	77.11%	7,121,925	39.04%
07/01/07	10,835,413	13,547,104	2,711,691	79.98%	7,888,669	34.37%
07/01/08	8,929,471	16,749,251	7,819,780	53.31%	7,160,069	109.21%
07/01/09	9,138,572	19,306,994	10,168,422	47.33%	7,780,038	130.70%
07/01/10	9,622,888	21,305,517	11,682,629	45.17%	8,685,338	134.51%
07/01/11	10,586,674	22,177,914	11,591,240	47.74%	8,854,752	130.90%
07/01/12	11,625,228	24,874,324	13,249,096	46.74%	8,724,909	151.85%

City of Frederick Twenty-Five Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/03	$ 33,541,406	$ 48,272,476	$ 14,731,070	69.48%	$ 7,865,877	187.28%
07/01/04	32,450,166	51,327,131	18,876,965	63.22%	7,998,673	236.00%
07/01/05	31,477,624	54,053,336	22,575,712	58.23%	8,738,749	258.34%
07/01/06	32,728,652	55,779,275	23,050,623	58.68%	8,728,421	264.09%
07/01/07	36,308,180	59,312,422	23,004,242	61.22%	8,913,644	258.08%
07/01/08	33,881,990	63,336,029	29,454,039	53.50%	8,238,801	357.50%
07/01/09	33,138,867	68,831,455	35,692,588	48.14%	9,582,428	372.48%
07/01/10	32,669,669	72,299,571	39,629,902	45.19%	10,747,148	368.75%
07/01/11	33,418,469	73,899,682	40,481,213	45.22%	10,615,123	381.35%
07/01/12	33,849,115	80,380,389	46,531,274	42.11%	11,012,096	422.55%

The City of Frederick Twenty-Two Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/03	$ 16,186,136	$ 32,019,641	$ 15,833,505	50.55%	$ 6,451,813	245.41%
07/01/04	17,371,771	36,676,680	19,304,909	47.36%	7,275,892	265.33%
07/01/05	19,343,006	41,731,458	22,388,452	46.35%	7,718,223	290.07%
07/01/06	22,661,227	49,943,963	27,282,736	45.37%	8,384,676	325.39%
07/01/07	27,609,635	53,545,904	25,936,269	51.56%	8,357,560	310.33%
07/01/08	32,852,717	58,162,448	25,309,731	56.48%	9,118,974	277.55%
07/01/09	35,850,764	68,509,327	32,658,563	52.33%	9,849,864	331.56%
07/01/10	38,108,396	74,698,614	36,590,218	51.02%	9,671,091	378.35%
07/01/11	42,249,987	82,059,278	39,809,291	51.49%	9,598,238	414.76%
07/01/12	45,249,399	85,542,315	40,292,916	52.90%	9,968,446	404.20%

The City of Frederick, Maryland
Required Supplementary Information (unaudited)
Schedule of Employer Contributions - Pension Plans

The City of Frederick Thirty-Year Pension System

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net Pension (Asset)
2003	$ 581,075	$ 614,003	105.67%	$ (244,501)
2004	656,744	656,744	100.00%	(242,687)
2005	881,850	881,850	100.00%	(240,886)
2006	923,773	923,773	100.00%	(240,703)
2007	834,948	834,948	100.00%	(240,520)
2008	846,175	846,175	100.00%	(240,337)
2009	886,197	886,197	100.00%	(240,154)
2010	1,342,669	1,342,669	100.00%	(239,971)
2011	1,518,438	1,518,438	100.00%	(238,589)
2012	1,686,613	1,686,613	100.00%	(237,214)

The City of Frederick Twenty-Five Year Pension System

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net Pension (Asset)
2003	$ 1,262,430	$ 1,333,968	105.67%	$ (1,558,155)
2004	1,535,489	1,535,489	100.00%	(1,546,594)
2005	2,017,267	2,017,267	100.00%	(1,535,119)
2006	2,419,945	2,419,945	100.00%	(1,533,951)
2007	2,721,772	2,721,772	100.00%	(1,532,784)
2008	2,764,732	2,764,732	100.00%	(1,531,617)
2009	2,774,792	2,774,792	100.00%	(1,530,452)
2010	3,479,683	3,479,683	100.00%	(1,529,284)
2011	3,854,773	3,854,773	100.00%	(1,520,470)
2012	4,219,798	4,219,798	100.00%	(1,511,707)

The City of Frederick Twenty-Two Year Pension System

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net Pension (Asset)
2003	$ 1,613,325	$ 1,704,747	105.67%	$ (843,119)
2004	2,040,739	2,040,739	100.00%	(836,863)
2005	2,238,697	2,238,697	100.00%	(830,654)
2006	2,746,631	2,746,631	100.00%	(830,022)
2007	3,287,281	3,287,281	100.00%	(829,390)
2008	4,126,228	4,126,228	100.00%	(828,759)
2009	4,066,446	4,066,446	100.00%	(828,129)
2010	4,130,255	4,130,255	100.00%	(827,497)
2011	4,952,458	4,952,458	100.00%	(822,728)
2012	5,216,531	5,216,531	100.00%	(817,986)

The City of Frederick, Maryland
Required Supplementary Information (unaudited)
Schedule of Funding Progress - Other Post Employment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/06	-	$ 88,005,000	$ 88,005,000	0.00%	24,235,022	363.13%
08/01/08	-	157,062,000	157,062,000	0.00%	24,517,844	640.60%
07/01/10	-	127,998,804	127,998,804	0.00%	29,103,577	439.80%
07/01/12	10,457,567	114,742,755	104,285,188	9.11%	23,077,699	451.89%

Required Supplementary Information (unaudited)
Schedule of Employer Contributions - Other Post Employment Benefits Plan

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	$ 7,474,000	$ 2,229,200	29.83%	$ 5,244,800
2010	12,628,000	3,299,727	26.13%	14,433,073
2011	11,120,616	11,598,116	104.29%	13,859,114
2012	11,120,616	5,882,079	52.89%	19,005,256

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OTHER SUPPLEMENTARY INFORMATION

(Unaudited)

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are restricted to expenditures for specified purposes.

CDS Program Fund - This fund is used to account for the activities of the City involving its controlled dangerous substance program.

Weinberg Center for the Arts - This fund is used to record the activities of the Weinberg Center for the Arts.

Community Development Fund - Transactions involving the City's Community Development Block Grants and related community development activities are recorded in this fund.

The City of Frederick, Maryland
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds			
	CDS Program	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ -	$ 11,416	$ -	$ 11,416
Equity in pooled cash/investments	164,322	19,599	144,161	328,082
Investments	-	320,275	-	320,275
Receivables (net of allowance for uncollectibles)	-	11,483	2,197,276	2,208,759
Prepaid items	-	1,250	-	1,250
Total assets	$ 164,322	$ 364,023	$ 2,341,437	$ 2,869,782
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 270	$ 25,024	$ 91	$ 25,385
Accrued liabilities	-	11,078	3,354	14,432
Deposits	45,456	-	-	45,456
Total liabilities	45,726	36,102	3,445	85,273
Fund balances:				
Nonspendable	-	1,250	2,168,458	2,169,708
Restricted	-	81,690	-	81,690
Committed	-	-	-	-
Assigned	118,596	244,981	169,534	533,111
Total fund balances	118,596	327,921	2,337,992	2,784,509
Total liabilities and fund balances	$ 164,322	$ 364,023	$ 2,341,437	$ 2,869,782

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue Funds			
	CDS Program	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
REVENUES:				
Intergovernmental	$ -	$ 49,628	$ 367,853	$ 417,481
Charges for services	-	877,800	-	877,800
Fines and forfeitures	46,259	-	-	46,259
Miscellaneous	714	287,655	582	288,951
Total revenues	46,973	1,215,083	368,435	1,630,491
EXPENDITURES:				
Current:				
Public safety	63,340	-	-	63,340
Recreation and parks	-	1,669,581	-	1,669,581
Community development	-	-	368,848	368,848
Total expenditures	63,340	1,669,581	368,848	2,101,769
Excess (Deficiency) of Revenues over Expenditures	(16,367)	(454,498)	(413)	(471,278)
OTHER FINANCING SOURCES (USES):				
Transfers in	134,963	147,745	-	282,708
Transfers out	-	-	(30,300)	(30,300)
Total Other Financing Sources (Uses)	134,963	147,745	(30,300)	252,408
Net Change in Fund Balances	118,596	(306,753)	(30,713)	(218,870)
Fund Balance - beginning	-	634,674	2,368,705	3,003,379
Fund Balance - ending	$ 118,596	$ 327,921	$ 2,337,992	$ 2,784,509

The City of Frederick, Maryland
CDS Program Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Fines and forfeitures	$ 25,000	$ 25,000	$ 46,259	$ 21,259
Miscellaneous	-	-	714	714
Total Revenues	25,000	25,000	46,973	21,973
EXPENDITURES:				
CDS Enforcement	100,653	100,653	63,340	37,313
Total Expenditures	100,653	100,653	63,340	37,313
Excess (Deficiency) of Revenues over Expenditures	(75,653)	(75,653)	(16,367)	59,286
OTHER FINANCING SOURCES (USES):				
Transfer in	75,653	75,653	134,963	59,310
Total Other Financing Sources (Uses)	75,653	75,653	134,963	59,310
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	-	-	118,596	118,596
Budgetary Fund Balance - beginning	-	-	-	-
Budgetary Fund Balance - ending	$ -	$ -	$ 118,596	$ 118,596

The City of Frederick, Maryland
Weinberg Center Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 41,121	$ 41,121	$ 49,628	$ 8,507
Charges for services	718,950	718,950	877,800	158,850
Miscellaneous	400,000	400,000	287,655	(112,345)
Total Revenues	1,160,071	1,160,071	1,215,083	55,012
EXPENDITURES:				
Weinberg Center	1,329,482	1,329,482	1,679,017	(349,535)
Total Expenditures	1,329,482	1,329,482	1,679,017	(349,535)
Excess (Deficiency) of Revenues over Expenditures	(169,411)	(169,411)	(463,934)	(294,523)
OTHER FINANCING SOURCES (USES):				
Transfer in	147,745	147,745	147,745	-
Total Other Financing Sources (Uses)	147,745	147,745	147,745	-
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	(21,666)	(21,666)	(316,189)	(294,523)
Budgetary Fund Balance - beginning	21,666	21,666	644,110	622,444
Budgetary Fund Balance - ending	$ -	$ -	$ 327,921	$ 327,921

The City of Frederick, Maryland
Community Development Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 464,000	$ 464,000	$ 367,853	$ (96,147)
Miscellaneous	600	600	582	(18)
Total Revenues	464,600	464,600	368,435	(96,165)
EXPENDITURES:				
Community development	465,362	465,362	371,503	93,859
Total Expenditures	465,362	465,362	371,503	93,859
Excess (Deficiency) of Revenues over Expenditures	(762)	(762)	(3,068)	(2,306)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(30,300)	(30,300)
Total Other Financing Sources (Uses)	-	-	(30,300)	(30,300)
Net Change in Fund Balance	(762)	(762)	(33,368)	(32,606)
Budgetary Fund Balance - beginning	762	762	2,371,360	2,370,598
Budgetary Fund Balance - ending	$ -	$ -	$ 2,337,992	$ 2,337,992

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Nonmajor Proprietary Funds

Proprietary Funds

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows.

Golf Course Fund - This fund is used to account for all activities relating to the City's public golf course.

Rental Operations Fund - This fund is used to account for all activities involving an apartment building the City operates for low income housing.

The City of Frederick, Maryland
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,000	$ -	$ 1,000
Investments	-	5,105	5,105
Equity in pooled cash/investments	-	58,753	58,753
Receivables (net of allowance of uncollectibles)	1,310	168	1,478
Inventories	88,819	-	88,819
Prepaids	3,000	-	3,000
Deferred charges	448	-	448
Total current assets	94,577	64,026	158,603
Noncurrent assets:			
Temporarily restricted assets:			
Cash and cash equivalents	18,212	-	18,212
Deferred charges	6,723	-	6,723
Net pension asset	31,876	-	31,876
Capital assets:			
Land	-	30,650	30,650
Buildings and systems	-	180,795	180,795
Improvements other than buildings	5,565,390	-	5,565,390
Machinery and equipment	696,339	90,866	787,205
Less accumulated depreciation	(2,718,575)	(193,355)	(2,911,930)
Total noncurrent assets	3,599,965	108,956	3,708,921
Total assets	3,694,542	172,982	3,867,524
LIABILITES			
Current liabilities:			
Accounts payable	52,629	431	53,060
Accrued liabilities	43,984	878	44,862
Deposits	-	410	410
Unearned revenue	44,550	-	44,550
Advances from other funds	4,552,976	-	4,552,976
Compensated absences	11,941	-	11,941
Bonds, notes, and loans payable	41,207	-	41,207
Total current liabilities	4,747,287	1,719	4,749,006
Noncurrent liabilities:			
OPEB Liabilities	287,572	-	287,572
Compensated absences	35,655	-	35,655
Bonds, notes, and loans payable	893,106	-	893,106
Total noncurrent liabilities	1,216,333	-	1,216,333
Total liabilities	5,963,620	1,719	5,965,339
NET ASSETS			
Invested in capital assets, net of related debt	2,627,053	108,956	2,736,009
Unrestricted	(4,896,131)	62,307	(4,833,824)
Total net assets	$ (2,269,078)	$ 171,263	$ (2,097,815)

The City of Frederick, Maryland
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	$ 1,549,495	$ -	$ 1,549,495
Miscellaneous	6,051	7,649	13,700
Total operating revenues	1,555,546	7,649	1,563,195
Operating expenses:			
Public housing	-	35,782	35,782
Golf course maintenance	624,606	-	624,606
Golf course clubhouse	661,871	-	661,871
Golf course restaurant	259,899	-	259,899
Depreciation	193,475	15,209	208,684
Total operating expenses	1,739,851	50,991	1,790,842
Operating income/(loss)	(184,305)	(43,342)	(227,647)
Nonoperating revenues/(expenses)			
Intergovernmental	-	25,280	25,280
Interest income	19	240	259
Debt premium amortization	1,207	-	1,207
Interest expense	(41,102)	-	(41,102)
Other nonoperating expenses	(456)	-	(456)
Total nonoperating revenue/(expenses)	(40,332)	25,520	(14,812)
Income/(loss) before transfers	(224,637)	(17,822)	(242,459)
Transfers In	40,000	-	40,000
Change in net assets	(184,637)	(17,822)	(202,459)
Total net assets - beginning	(2,084,441)	189,085	(1,895,356)
Total net assets - ending	$ (2,269,078)	$ 171,263	$ (2,097,815)

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 1,559,579	$ 7,751	$ 1,567,330
Payments to vendors	(893,692)	(15,719)	(909,411)
Payments to employees	(561,953)	(19,516)	(581,469)
Net cash provided (used) by operating activities	103,934	(27,484)	76,450
Cash flows from noncapital financing activities:			
Operating subsidy		25,280	25,280
Transfers in	40,000	-	40,000
Due to other funds	(67,376)	-	(67,376)
Net cash provided (used) by noncapital financing activities	(27,376)	25,280	(2,096)
Cash flows from capital and related financing activities:			
Principal payments	(35,000)	-	(35,000)
Interest payments	(41,569)	-	(41,569)
Other debt related costs	(7)	-	(7)
Net cash (used) by capital and related financing activities	(76,576)	-	(76,576)
Cash flows from investings activities:			
Interest earned	18	240	258
Net cash provided by investing activities	18	240	258
Net increase (decrease) in cash equivalents	-	(1,964)	(1,964)
Cash equivalents - beginning	19,210	65,822	85,032
Cash equivalents - ending	$ 19,210	$ 63,858	$ 83,068

(continued)

The City of Frederick, Maryland
Combining Statement of Cash Flows (continued)
Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	$ (184,305)	$ (43,342)	$ (227,647)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	193,475	15,209	208,684
(Increase)/decrease in accounts receivable	(761)	102	(659)
(Increase)/decrease in inventory	15,897	-	15,897
Decrease in net pension asset	272	-	272
(Decrease)/increase in accounts payable	(9,194)	358	(8,836)
(Decrease)/increase in deferred revenue	4,794	-	4,794
(Decrease)/increase in OPEB liability	107,843	-	107,843
(Decrease)/increase in wages payable	2,146	189	2,335
(Decrease)/increase in compensated absences	(26,233)	-	(26,233)
Total adjustments	288,239	15,858	304,097
Net cash provided (used) by operating activities	$ 103,934	$ (27,484)	$ 76,450

STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

THE CITY OF FREDERICK, MARYLAND
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$ 64,563,229	$ 104,435,028	$ 54,856,404	$ 55,805,720	$ 55,591,683	$ 57,992,552	$ 59,517,153	$ 59,765,449	$ 58,911,146	$ 58,971,758
Restricted	145,572	113,014	820,341	795,991	1,190,033	1,873,394	2,649,212	1,547,698	1,818,497	1,741,456
Unrestricted	11,696,089	8,910,173	7,839,494	20,230,961	24,074,161	27,035,600	24,402,118	20,703,812	21,647,000	20,401,656
Total governmental activities net assets	$ 76,404,890	$ 113,458,215	$ 63,516,239	$ 76,832,672	$ 80,855,877	$ 86,901,546	$ 86,568,483	$ 82,016,959	$ 82,376,643	$ 81,114,870
Business-type activities										
Invested in capital assets, net of related debt	$ 68,202,650	$ 86,625,237	$ 143,574,323	$ 144,403,887	$ 158,629,713	$ 162,281,588	$ 152,780,782	$ 155,252,838	$ 162,204,773	$ 156,954,179
Restricted	446,635	3,252,369	6,490,579	12,695,679	9,463,659	6,343,147	4,801,857	498,487	1,849,613	3,036,286
Unrestricted	23,304,139	23,727,578	19,500,985	18,833,302	18,780,578	20,668,350	24,273,420	22,761,675	22,069,063	28,979,873
Total business-type activities net assets	$ 91,953,424	$ 113,605,184	$ 169,565,887	$ 175,932,868	$ 186,873,950	$ 189,293,085	$ 181,856,059	$ 178,513,000	$ 186,123,449	$ 188,970,338
Primary government										
Invested in capital assets, net of related debt	$ 132,765,879	$ 191,060,265	$ 198,430,727	$ 200,209,607	$ 214,221,396	$ 220,274,140	$ 212,297,935	$ 215,018,287	$ 221,115,919	$ 215,925,937
Restricted	592,207	3,365,383	7,310,920	13,491,670	10,653,692	8,216,541	7,451,069	2,046,185	3,668,110	4,777,742
Unrestricted	35,000,228	32,637,751	27,340,479	39,064,263	42,854,739	47,703,950	48,675,538	43,465,487	43,716,063	49,381,529
Total primary government net assets	$ 168,358,314	$ 227,063,399	$ 233,082,126	$ 252,765,540	$ 267,729,827	$ 276,194,631	$ 268,424,542	$ 260,529,959	$ 268,500,092	$ 270,085,208

THE CITY OF FREDERICK, MARYLAND
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	$ 7,719,643	$ 7,857,792	$ 7,811,588	$ 7,381,790	$ 8,442,242	$ 9,921,865	$ 13,843,701	$ 11,112,807	$ 9,605,846	$ 9,674,531
Public safety	16,114,175	17,670,546	18,969,032	20,289,857	22,335,882	24,930,778	27,774,500	29,380,419	28,689,755	29,619,355
Public works	10,405,465	12,977,426	12,666,210	13,955,935	14,025,384	14,258,037	16,085,179	17,920,281	16,782,556	16,913,468
Recreation and parks	5,317,760	5,585,375	5,513,056	5,334,442	6,473,547	7,218,619	8,537,986	8,593,681	8,904,412	8,787,099
Community development	667,175	787,758	1,102,406	711,756	1,035,084	1,030,103	1,042,266	1,233,762	1,074,238	1,055,298
Economic opportunity	2,055,864	1,964,282	2,194,580	2,323,843	2,413,856	2,665,212	2,762,777	3,550,150	3,160,817	3,265,475
Interest on long-term debt	2,087,187	2,186,093	2,097,849	1,999,391	1,924,408	1,757,506	2,096,126	3,130,649	3,230,708	3,165,462
Miscellaneous	62,839	59,002	61,126	15,216	-	-	-	-	-	-
Total governmental activities expenses	44,430,108	49,088,274	50,415,847	52,012,230	56,650,403	61,782,120	72,142,535	74,921,749	71,448,332	72,480,688
Business-type activities:										
Rental operations	27,017	33,412	63,547	22,433	36,695	47,628	46,580	51,008	57,746	50,991
Water and sewer	9,461,124	10,991,499	14,262,777	14,709,615	16,114,447	15,719,737	21,183,272	19,495,148	18,387,834	22,986,792
Golf course	1,731,567	1,629,269	1,660,229	1,612,515	1,758,967	1,848,767	1,781,729	1,964,708	1,829,914	1,781,409
Airport	1,069,779	1,711,743	1,685,136	1,764,846	1,332,623	1,501,508	1,783,928	2,317,740	2,028,957	2,492,055
Parking	1,382,570	1,588,800	1,899,409	3,724,869	3,792,464	3,447,433	3,611,042	4,025,218	4,760,912	4,468,651
Storm water	-	-	1,942,658	1,984,030	1,989,406	2,087,634	2,357,663	2,344,948	2,512,994	2,524,774
Total business-type activities expenses	13,672,057	15,954,723	21,513,756	23,818,308	25,024,602	24,652,707	30,764,214	30,198,770	29,578,357	34,304,672
Total primary government expenses	$ 58,102,165	$ 65,042,997	$ 71,929,603	$ 75,830,538	$ 81,675,005	$ 86,434,827	$ 102,906,749	$ 105,120,519	$ 101,026,689	$ 106,785,360
Program Revenues										
Government activities:										
Charges for services:										
Public safety	$ 633,197	$ 1,121,937	$ 1,966,838	$ 2,731,753	$ 2,914,865	$ 1,966,484	$ 1,749,465	$ 2,523,502	$ 1,818,954	$ 3,017,097
Recreation and parks	1,383,679	1,336,374	1,265,644	1,347,786	1,989,950	1,974,985	2,426,172	2,223,533	2,543,464	2,264,643
Other activities	1,416,155	1,310,454	1,985,858	1,616,970	899,633	1,021,607	909,424	646,804	793,407	867,871
Operating grants and contributions	5,307,237	4,794,391	6,409,566	6,413,053	6,796,260	6,226,986	6,093,560	5,587,027	4,195,169	4,766,506
Capital grants and contributions	5,591,748	1,852,181	2,678,857	3,074,822	2,633,527	2,850,668	4,706,273	2,569,066	1,813,587	1,706,795
Total governmental activities program revenues	14,332,016	10,415,337	14,306,763	15,184,384	15,234,235	14,040,730	15,884,894	13,549,932	11,164,581	12,622,912
Business-type activities:										
Charges for services:										
Water and sewer	9,606,540	10,097,461	10,937,738	12,827,261	14,829,193	14,510,771	14,524,384	16,433,555	19,343,380	21,495,925
Golf course	1,414,023	1,593,098	1,615,152	1,739,201	1,761,511	1,758,726	1,531,269	1,529,491	1,520,422	1,556,753
Airport	820,820	995,699	1,138,627	1,045,308	1,116,295	1,164,930	1,135,860	943,969	864,021	818,464
Parking	2,034,922	2,163,631	2,987,254	3,148,483	3,349,077	3,808,048	3,894,883	3,632,117	4,400,010	4,541,440
Other activities	10,391	14,086	817,109	818,503	955,642	1,100,508	1,340,575	1,510,399	1,740,966	1,746,214
Operating grants and contributions	136,919	99,610	109,830	103,762	177,585	166,747	131,486	136,640	141,820	638,020
Capital grants and contributions	3,487,957	11,907,542	7,346,014	14,414,700	8,667,779	4,699,256	2,102,232	4,213,433	10,429,437	7,314,724
Total business-type activities program revenues	17,511,572	26,871,127	24,951,724	34,097,218	30,857,082	27,208,986	24,660,689	28,399,604	38,440,056	38,111,540
Total primary government revenues	$ 31,843,588	$ 37,286,464	$ 39,258,487	$ 49,281,602	$ 46,091,317	$ 41,249,716	$ 40,545,583	$ 41,949,536	$ 49,604,637	$ 50,734,452
Net (expense)/revenue										
Governmental activities	$ (30,098,092)	$ (38,672,937)	$ (36,109,084)	$ (36,827,846)	$ (41,416,168)	$ (47,741,390)	$ (56,257,641)	$ (61,371,817)	$ (60,283,751)	$ (59,857,776)
Business-type activities	3,839,515	10,916,404	3,437,968	10,278,910	5,832,480	2,556,279	(6,103,525)	(1,799,166)	8,861,699	3,806,868
Total primary government net expense	$ (26,258,577)	$ (27,756,533)	$ (32,671,116)	$ (26,548,936)	$ (35,583,688)	$ (45,185,111)	$ (62,361,166)	$ (63,170,983)	$ (51,422,052)	$ (56,050,908)

THE CITY OF FREDERICK, MARYLAND
CHANGES IN NET ASSETS - (continued)
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Property taxes	$ 24,256,535	$ 24,873,386	$ 27,784,135	$ 31,426,436	$ 35,077,508	$ 37,948,719	$ 40,656,389	$ 43,570,134	$ 46,567,875	$ 43,816,598
Income taxes	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166	5,806,339	5,548,046	6,090,857	6,587,811
Other taxes	491,614	575,344	387,408	389,999	402,365	431,408	346,904	305,873	317,816	401,280
Unrestricted grants and contributions	2,706,746	3,092,151	3,341,584	3,728,364	4,695,551	5,259,594	5,769,443	5,146,165	5,848,174	5,094,664
Interest earnings	574,113	352,445	506,950	886,927	1,201,986	1,129,019	526,778	274,691	191,738	157,056
Gain/(loss) on sale of capital assets	403,980	264,778	1,036,837	1,221,775	5,857	232,107	361,697	23,614	39,538	258,914
Miscellaneous	141,320	74,783	58,991	56,199	49,751	52,893	41,093	41,622	36,819	1,181,437
Transfers	907,800	1,870,044	1,518,921	7,267,939	(1,621,248)	2,738,153	2,415,935	1,910,148	1,448,229	1,098,243
Transfer of capital assets	-	-	(53,375,524)	-	-	-	-	-	-	-
Total governmental activities	34,256,879	35,664,346	(13,832,892)	50,144,279	45,439,373	53,787,059	55,924,578	56,820,293	60,541,046	58,596,003
Business-type activities:										
Interest earnings	700,093	467,727	666,132	3,356,010	3,487,354	2,601,009	1,082,434	366,255	196,979	138,264
Transfers	(907,800)	(1,870,044)	(1,518,921)	(7,267,939)	1,621,248	(2,738,153)	(2,415,935)	(1,910,148)	(1,448,229)	(1,098,243)
Transfer of capital assets	-	-	53,375,524	-	-	-	-	-	-	-
Total business-type activities	(207,707)	(1,402,317)	52,522,735	(3,911,929)	5,108,602	(137,144)	(1,333,501)	(1,543,893)	(1,251,250)	(959,979)
Total primary government	$ 34,049,172	$ 34,262,029	$ 38,689,843	$ 46,232,350	$ 50,547,975	$ 53,649,915	$ 54,591,077	$ 55,276,400	$ 59,289,796	$ 57,636,024
Change in Net Assets										
Governental activities	$ 4,158,787	$ (3,008,591)	$ (49,941,976)	$ 13,316,433	$ 4,023,205	$ 6,045,669	$ (333,063)	$ (4,551,524)	$ 257,295	$ (1,261,773)
Business-type activities	3,631,808	9,514,087	55,960,703	6,366,981	10,941,082	2,419,135	(7,437,026)	(3,343,059)	7,610,449	2,846,889
Total primary government	$ 7,790,595	$ 6,505,496	$ 6,018,727	$ 19,683,414	$ 14,964,287	$ 8,464,804	$ (7,770,089)	$ (7,894,583)	$ 7,867,744	$ 1,585,116

THE CITY OF FREDERICK, MARYLAND
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Reserved	$ 5,108,192	$ 5,290,273	$ 4,956,617	$ 5,288,664	$ 5,793,698	$ 10,213,220	$ 5,906,069	$ 5,802,406	$ -	$ -
Unreserved:										
Designated	2,376,475	1,630,579	1,910,579	3,047,463	2,042,750	4,946,108	2,752,110	926,039	-	-
Undesignated	3,906,757	821,580	2,860,897	7,270,067	11,623,563	5,709,009	11,430,350	14,153,802	-	-
Nonspendable	-	-	-	-	-	-	-	-	5,284,535	5,269,844
Restricted	-	-	-	-	-	-	-	-	197,938	197,674
Committed	-	-	-	-	-	-	-	-	524,324	522,177
Assigned	-	-	-	-	-	-	-	-	2,781,723	6,446,946
Unassigned	-	-	-	-	-	-	-	-	17,048,404	15,252,943
Total general fund	$ 11,391,424	$ 7,742,432	$ 9,728,093	$ 15,606,194	$ 19,460,011	$ 20,868,337	$ 20,088,529	$ 20,882,247	$ 25,836,924	$ 27,689,584
All other governmental funds										
Reserved	$ 4,552,956	$ 9,631,509	$ 11,388,067	$ 7,225,118	$ 3,923,804	$ 11,956,981	$ 9,198,552	$ 8,738,827	$ -	$ -
Unreserved, reported in:										
Special revenue funds	188,943	(55,409)	30,209	140,431	161,639	326,626	542,145	891,196	-	-
Capital projects funds	17,707,505	10,265,668	4,864,579	4,427,961	2,588,627	(4,313,083)	9,352,102	5,545,065	-	-
Nonspendable	-	-	-	-	-	-	-	-	2,206,633	2,169,708
Restricted	-	-	-	-	-	-	-	-	4,107,321	3,668,132
Committed	-	-	-	-	-	-	-	-	2,885,570	2,186,365
Assigned	-	-	-	-	-	-	-	-	3,319,297	4,023,980
Total all other governmental funds	$ 22,449,404	$ 19,841,768	$ 16,282,855	$ 11,793,510	$ 6,674,070	$ 7,970,524	$ 19,092,799	$ 15,175,088	$ 12,518,821	$ 12,048,185

Note - GASB Statement No. 54 altered the classification of governmental fund balances on a prospective basis effective with fiscal year 2011. Retroactive application was encouraged; however, information pertaining to prior years is not readily available. The objective of this statement is to more clearly define categories that reflect the nature and extent of constraints placed on the City's fund balances.

THE CITY OF FREDERICK, MARYLAND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes:										
Property taxes	$ 24,256,535	$ 24,984,483	$ 27,784,135	$ 31,426,435	$ 35,077,508	$ 37,948,719	$ 40,656,389	$ 43,570,135	$ 46,567,875	$ 43,495,667
Income taxes	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166	5,806,340	5,548,045	6,090,857	6,587,811
Other taxes	491,614	464,247	387,408	389,999	402,365	431,408	346,904	305,873	317,816	401,280
Licenses and permits	811,367	1,160,087	1,965,138	2,693,743	2,711,634	1,911,285	1,468,000	2,375,343	1,687,457	2,230,532
Intergovernmental	8,271,637	9,226,953	10,627,614	11,162,584	11,168,733	11,195,720	12,074,875	10,648,160	9,305,651	9,776,411
Charges for services	1,233,540	1,490,066	1,774,069	1,745,271	1,924,643	2,155,354	2,321,749	2,332,081	2,536,048	2,455,452
Fines and forfeitures	122,942	71,864	116,690	444,404	577,893	485,832	624,082	577,466	532,398	1,705,111
Miscellaneous	1,631,836	2,471,717	2,236,450	2,363,280	2,690,232	2,491,345	4,337,261	2,257,919	1,813,516	2,530,774
Total revenues	41,594,242	44,430,832	49,799,310	55,392,356	60,180,611	62,614,829	67,635,600	67,615,022	68,851,618	69,183,038
Expenditures										
General government	7,201,732	7,291,826	7,544,954	7,081,328	7,567,824	8,807,373	12,976,950	9,692,762	8,724,561	8,549,607
Public safety	15,590,211	17,350,095	18,469,066	20,019,582	22,096,860	24,566,690	27,172,993	26,441,580	26,765,448	27,489,456
Public works	9,439,703	9,678,425	9,146,013	10,251,810	11,170,943	10,978,191	11,712,321	12,411,139	11,976,035	12,616,116
Recreation and parks	4,456,581	4,569,933	4,671,167	4,585,333	4,760,130	5,579,399	6,715,101	5,979,589	5,969,521	6,191,212
Urban development and housing	803,601	793,812	1,437,530	776,877	1,321,871	793,394	1,005,062	1,170,722	1,010,691	1,024,771
Economic opportunity	2,085,198	1,982,785	2,152,705	2,231,192	2,324,480	2,765,476	2,638,573	3,260,161	2,995,984	2,924,599
Miscellaneous	62,839	59,002	61,126	3,931	77,889	59,477	-	-	-	-
Capital projects	3,952,098	7,056,923	8,071,281	13,219,554	4,755,216	3,932,281	35,731,632	7,154,657	3,628,998	3,816,969
Debt service:										
Principal	2,222,479	3,328,662	4,042,885	4,024,631	3,964,680	4,735,368	4,638,528	3,785,104	4,009,270	4,346,545
Interest	1,712,226	2,096,685	2,016,215	1,908,433	1,849,520	1,713,343	1,545,865	3,075,786	3,045,211	2,821,654
Other charges	107,891	40,159	25,268	19,166	22,837	18,567	407,157	8,762	9,054	159,596
Total expenditures	47,634,559	54,248,307	57,638,210	64,121,837	59,912,250	63,949,559	104,544,182	72,980,262	68,134,773	69,940,525
Excess (deficiency) of revenues over expenditures	(6,040,317)	(9,817,475)	(7,838,900)	(8,729,481)	268,361	(1,334,730)	(36,908,582)	(5,365,240)	716,845	(757,487)
Other financing sources (uses)										
Capital asset disposition	923,416	420,803	3,347,897	1,588,366	5,857	1,102,369	682,309	282,909	27,290	246,114
Insurance reimbursements	-	-	-	67,774	81,407	99,734	110,633	48,190	14,982	24,527
Debt proceeds	24,689,331	1,270,000	1,398,945	1,194,043	-	99,255	44,043,053	-	-	8,367,000
Premium on bonds issued	-	-	-	-	-	-	-	-	-	127,312
Transfers in	3,516,462	3,586,580	3,610,205	10,115,807	3,733,281	5,695,808	6,327,327	2,470,432	3,319,151	3,768,259
Transfers out	(2,608,662)	(1,716,536)	(2,091,284)	(2,847,868)	(5,354,529)	(2,957,656)	(3,912,273)	(560,284)	(1,882,247)	(2,670,016)
Payment to refunded bond escrow	-	-	-	-	-	-	-	-	-	(7,723,685)
Total other financing sources (uses)	26,520,547	3,560,847	6,265,763	10,118,122	(1,533,984)	4,039,510	47,251,049	2,241,247	1,479,176	2,139,511
Net change in fund balances	$ 20,480,230	$ (6,256,628)	$ (1,573,137)	$ 1,388,641	$ (1,265,623)	$ 2,704,780	$ 10,342,467	$ (3,123,993)	$ 2,196,021	$ 1,382,024
Debt service as a percentage of noncapital expenditures	9.0%	11.5%	12.2%	11.6%	10.7%	10.8%	9.6%	10.4%	10.8%	10.9%

THE CITY OF FREDERICK, MARYLAND
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
TEN-YEAR SUMMARY
For the years ended June 30,

	REAL PROPERTY			PERSONAL PROPERTY			TOTAL		Ratio of Total Assessed to
Fiscal Year	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Total Estimated Actual Value
2003	$3,356,541,848	$3,356,541,848	$ 0.64	$ 459,129,176	$ 172,173,441	$ 1.55	$3,815,671,024	$3,528,715,289	92.48%
2004	3,500,070,576	3,500,070,576	0.64	437,145,803	163,929,676	1.55	3,937,216,379	3,664,000,252	93.06%
2005	3,644,565,359	3,644,565,359	0.69	441,113,224	165,417,459	1.55	4,085,678,583	3,809,982,818	93.25%
2006	4,138,633,781	4,138,633,781	0.69	432,435,000	162,163,125	1.55	4,571,068,781	4,300,796,906	94.09%
2007	4,675,591,445	4,675,591,445	0.69	430,311,680	161,366,880	1.55	5,105,903,125	4,836,958,325	94.73%
2008	5,299,468,558	5,299,468,558	0.67	416,806,432	156,302,412	1.55	5,716,274,990	5,455,770,970	95.44%
2009	5,877,472,266	5,877,472,266	0.65	417,388,892	156,520,834	1.55	6,294,861,158	6,033,993,100	95.86%
2010	6,324,191,887	6,324,191,887	0.65	411,723,070	154,396,151	1.55	6,735,914,957	6,478,588,038	96.18%
2011	6,762,305,403	6,762,305,403	0.65	420,906,402	157,839,901	1.55	7,183,211,805	6,920,145,304	96.34%
2012	6,158,768,855	6,158,768,855	0.65	592,379,348	222,142,255	1.55	6,751,148,203	6,380,911,110	94.52%

THE CITY OF FREDERICK, MARYLAND
PROPERTY TAX LEVIES AND COLLECTIONS
TEN-YEAR SUMMARY
For the years ended June 30,

Fiscal Year	Current Tax Levy	Taxes Collected In Year of Levy Amount	Taxes Collected In Year of Levy Percent	(Note 1) Applicable to Prior Years	(Note 2) Amount	Percent
2003	$ 24,137,418	$ 23,994,424	99.4%	$ 141,831	$ 24,136,255	100.0%
2004	24,936,205	24,804,259	99.5%	125,866	24,930,125	100.0%
2005	27,663,408	27,469,863	99.3%	193,084	27,662,947	100.0%
2006	31,023,926	30,834,951	99.4%	187,866	31,022,817	100.0%
2007	34,716,468	34,454,566	99.2%	236,200	34,690,766	99.9%
2008	37,890,393	37,663,481	99.4%	222,951	37,886,432	100.0%
2009	40,600,977	40,412,247	99.5%	126,737	40,538,984	99.8%
2010	43,488,738	43,351,084	99.7%	105,473	43,456,557	99.9%
2011	46,395,466	46,264,937	99.7%	41,767	46,306,704	99.8%
2012	43,475,202	43,013,544	98.9%	-	43,013,544	98.9%

Note 1 - Includes additions, abatements and collections of original levy
Note 2 - Total amount collected and abated.

THE CITY OF FREDERICK, MARYLAND
PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND OVERLAPPING GOVERNMENTS
TEN-YEAR SUMMARY
For the years ended June 30,

Fiscal Year	City Property Tax Rate Real	City Property Tax Rate Personal	City Levy	County Rate	County Levy	State Rate	State Levy	Total Rate	Total Levy
2003	$ 0.64	$ 1.55	$ 24,137,418	$ 1.100	$ 36,921,960	$ 0.084	$ 2,819,495	$ 1.824	$ 63,878,873
2004	0.64	1.55	24,936,205	1.135	39,725,801	0.132	4,620,093	1.907	69,282,099
2005	0.69	1.55	27,663,408	1.135	41,365,817	0.132	4,810,826	1.957	73,840,051
2006	0.69	1.55	31,023,926	1.135	46,973,493	0.132	5,462,997	1.957	83,460,416
2007	0.69	1.55	34,716,468	1.064	49,748,293	0.112	5,236,662	1.866	89,701,423
2008	0.67	1.55	37,890,393	1.064	56,386,345	0.112	5,935,405	1.846	100,212,143
2009	0.65	1.55	40,600,977	1.064	62,536,305	0.112	6,582,769	1.826	109,720,051
2010	0.65	1.55	43,488,738	1.064	67,289,402	0.112	7,083,095	1.826	117,861,235
2011	0.65	1.55	46,395,466	1.064	71,950,929	0.112	7,573,782	1.826	125,920,177
2012	0.65	1.55	43,475,202	1.064	65,529,301	0.112	6,897,821	1.826	115,902,324

Note 1 - Tax rate is per $100 of assessed value
Note 2 - No tax rate limits
Note 3 - Current taxes are due July 1 except for principal residences which are due semiannually on July 1 and December 31
Note 4 - Taxes become delinquent October 1 except for semiannual payments due December 31 which become delinquent January 1
Note 5 - Penalty of 1% per month for delinquent taxes
Note 6 - Discount of 1% if paid in July and 0.5% if paid in August
Note 7 - All properties owing delinquent real property taxes are sold at tax sale

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF PRINCIPAL TAXPAYERS
Current Year and Nine Years Ago

Real Property Tax:

	2012			2003		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	$ 52,191,900	1	0.77%	12,090,100	10	0.36%
River X, LLC	45,635,733	2	0.67%	-	-	-
State Farm Mutual Auto Insurance	41,615,200	3	0.62%	37,777,400	1	1.13%
RIV 402 LLC	38,204,400	4	0.56%	-	-	-
Aldi, Inc.	30,575,600	5	0.45%	-	-	-
I&G Direct Real Estate 23 LP	30,573,100	6	0.45%	-	-	-
Westfreit Corp.	28,336,100	7	0.42%	27,562,220	3	0.82%
ASN Sunset LLC	28,217,633	8	0.42%	19,114,833	5	0.57%
FCP Crystal Park, LLC	28,000,000	9	0.41%	19,312,700	4	0.58%
Frederick Shopping Center LLC	26,549,500	10	0.39%	15,706,666	6	0.47%
Fredericktowne Mall Assoc.	-	-	-	28,354,500	2	0.84%
Waverly Limited Partnership	-	-	-	13,572,300	8	0.40%
Washington Real Estate Inv. Trust	-	-	-	15,192,900	7	0.45%
Frederick Commons, LLC	-	-	-	13,205,800	9	0.39%
	$ 349,899,166		5.17%	$ 201,889,419		6.01%

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

	2012			2003		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	$ 88,120,220	1	39.67%	$ -	-	-
Randall Family LLC	9,328,090	2	4.20%	-	-	-
BP Solar International Inc.	6,947,120	3	3.13%	-	-	-
Mid-Atlantic Medical Services, LLC	4,805,480	4	2.16%	5,367,550	2	3.12%
Maryland Grocery Store Company	2,370,090	5	1.07%	-	-	-
Comcast	2,164,270	6	0.97%	3,489,820	6	2.03%
Morningstar Foods, LLC	1,913,810	7	0.86%	3,960,350	5	2.30%
State Farm Mutual Automobile						0.00%
Insurance Co.	1,667,550	8	0.75%	3,118,300	7	1.81%
Manufacturers and Traders Trust Co.	1,594,960	9	0.72%	-	-	-
Fairchild Controls Corp.	1,413,200	10	0.64%	-	-	-
BP Solar International LLC	-	-	-	7,717,340	1	4.48%
Banc One Financial Services, Inc.	-	-	-	4,260,950	4	2.47%
Von Hoffman Graphics, Inc.	-	-	-	2,664,320	9	1.55%
GS Communications, Inc.	-	-	-	2,517,880	10	1.46%
Galaxy Registration, Inc.	-	-	-	2,826,270	8	1.64%
	$ 120,324,790		54.17%	$ 35,922,780		20.86%

Assessed Value provided by the Maryland Department of Assessment and Taxation

THE CITY OF FREDERICK, MARYLAND
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

	Governmental Activities				Business-Type Activities					
Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Leases	Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
2003	$ 52,738,000	$ 2,342,399	$ 1,290,333	$ -	$ 26,907,000	$ 5,365,105	$ 97,250	$ 88,740,087	4.32%	$ 1,532.14
2004	49,553,000	2,283,494	1,205,576	1,270,000	25,157,000	5,140,568	-	84,609,638	3.85%	1,442.62
2005	45,611,646	2,221,084	1,117,651	1,019,450	21,993,067	4,910,560	-	76,873,458	3.33%	1,302.65
2006	43,680,000	2,154,960	1,033,999	1,968,583	89,269,364	4,674,983	225,957	143,007,846	5.69%	2,355.01
2007	40,352,000	2,084,902	955,120	1,480,841	84,881,629	4,191,728	181,238	134,127,458	5.02%	2,180.65
2008	37,018,000	2,010,676	228,103	979,971	80,384,180	3,954,548	154,029	124,729,507	4.42%	2,018.90
2009	76,440,000	1,932,033	206,238	484,952	162,921,695	3,711,913	104,474	245,801,305	8.83%	3,950.71
2010	72,999,000	1,848,711	183,685	246,723	157,560,284	3,469,278	54,919	236,362,600	7.87%	3,623.03
2011	69,348,000	1,760,431	160,417	-	152,029,199	3,209,772	-	226,507,819	N/A	3,457.13
2012	65,931,000	1,666,899	136,404	-	146,169,000	10,319,038	-	224,222,341	N/A	3,405.93

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(1) - See Selected Demographic Statistics for personal income data.
(2) - See Ratios of General Bonded Debt Outstanding below for population data.

THE CITY OF FREDERICK, MARYLAND
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	Total General Bonded Debt	Assessed Value of Taxable Property	Percentage of Total General Bonded Debt to Assessed Value of Taxable Property	Population	Total General Bonded Debt Per Capita
2003	$ 52,738,000	$ 2,342,399	$ 55,080,399	$ 3,528,715,289	1.56%	57,919	$ 950.99
2004	49,553,000	2,283,494	51,836,494	3,664,000,252	1.41%	58,650	883.83
2005	45,611,646	2,221,084	47,832,730	3,809,982,818	1.26%	59,013	810.55
2006	43,680,000	2,154,960	45,834,960	4,300,796,906	1.07%	60,725	754.80
2007	40,352,000	2,084,902	42,436,902	4,836,958,325	0.88%	61,508	689.94
2008	37,018,000	2,010,676	39,028,676	5,455,770,970	0.72%	61,781	631.73
2009	76,440,000	1,932,033	78,372,033	6,033,993,100	1.30%	62,217	1,259.66
2010	72,999,000	1,848,711	74,847,711	6,478,588,038	1.16%	65,239	1,147.28
2011	69,348,000	1,760,431	71,108,431	6,920,145,304	1.03%	65,519	1,085.31
2012	65,931,000	1,666,899	67,597,899	6,380,911,110	1.06%	65,833	1,026.81

THE CITY OF FREDERICK, MARYLAND
DIRECT AND OVERLAPPING DEBT
as of June 30, 2012

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Frederick County	$ 497,034,926	25.41%	$ 126,296,575
The City of Frederick direct debt			67,734,303
			$ 194,030,878

Sources: Debt outstanding and assessed value data used to estimate applicable percentages provided by Frederick County.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of The City of Frederick. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

The City of Frederick direct debt included in this schedule is limited to debt related to governmental activities.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the City's boundaries and dividing it by the County's total taxable assessed value.

THE CITY OF FREDERICK, MARYLAND
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Ratio of Total Net Debt Applicable to Limit to Debt Limit
2003	$ 282,297,223	$ 69,725,527	$ 212,571,696	24.70%
2004	293,120,020	65,525,887	227,594,133	22.35%
2005	304,798,625	61,400,017	243,398,608	20.14%
2006	344,063,752	76,733,730	267,330,022	22.30%
2007	386,956,666	71,374,651	315,582,015	18.45%
2008	436,461,678	65,546,959	370,914,719	15.02%
2009	482,719,448	126,415,966	356,303,482	26.19%
2010	518,287,043	120,931,380	397,355,663	23.33%
2011	553,611,624	115,182,848	438,428,776	20.81%
2012	510,472,889	109,578,303	400,894,586	21.47%

THE CITY OF FREDERICK, MARYLAND
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2012

Assessed valuations		$ 6,380,911,110
Debt limit (8% of assessed value per City Charter)		$ 510,472,889
Amount of debt applicable to debt limit:		
Total bonded debt	$ 213,766,899	
Other debt	10,455,442	
	$ 224,222,341	
Less: Water and sewer debt	114,644,038	
Total amount of debt applicable to debt limit		109,578,303
Legal debt margin		$ 400,894,586

The City charter establishes a debt limit of 8% of the total assessed value of all taxable property. Debt issued for the purpose of financing and paying for the construction, operation, maintenance and repair of the water supply and treatment facilities and the sewage collection and treatment facilities are not included in the calculation of the amount of debt subject to this limitation.

The City of Frederick, Maryland
Ratio of General Fund Annual Debt Service Expenditures to General Fund Revenues
Ten-Year Summary
For the years ended June 30,

Fiscal Year	Principal	Interest	Total General Fund Debt Service	Total General Fund Revenue	Ratio of Debt Service to General Fund Revenue
2003	$ 2,222,485	$ 1,716,265	$ 3,938,750	$ 39,519,168	9.97%
2004	3,328,662	2,096,685	5,425,347	40,719,474	13.32%
2005	4,042,885	2,016,215	6,059,100	46,515,231	13.03%
2006	4,024,631	1,908,433	5,933,064	52,683,932	11.26%
2007	3,964,680	1,849,520	5,814,200	57,622,015	10.09%
2008	4,735,368	1,713,343	6,448,711	60,460,843	10.67%
2009	4,638,528	1,545,865	6,184,393	62,372,998	9.92%
2010	3,785,104	3,075,786	6,860,890	63,281,356	10.84%
2011	4,009,270	3,045,211	7,054,481	66,468,557	10.61%
2012	4,346,545	2,821,654	7,168,199	66,220,095	10.82%

THE CITY OF FREDERICK, MARYLAND
PLEGED-REVENUE COVERAGE
Last Ten Fiscal Years

	Real Property Tax Increment Financing Bonds							
	Pledged Revenues			Expenditures				
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total	Coverage
2003	$ 113,772	$ 105,000	$ 218,772	$ 55,597	$ 142,672	$ 6,511	$ 204,780	107.00%
2004	124,781	110,000	234,781	58,905	139,391	6,470	204,766	115.00%
2005	167,679	-	167,679	62,410	135,839	2,356	200,605	84.00%
2006	195,074	-	195,074	66,124	56,668	5,866	128,658	152.00%
2007	240,421	-	240,421	70,058	79,938	9,924	159,920	150.00%
2008	746,100	-	746,100	74,226	77,340	6,069	157,635	473.00%
2009	865,402	-	865,402	78,643	74,586	6,955	160,184	540.00%
2010	942,403	-	942,403	83,322	57,927	7,156	148,405	635.00%
2011	1,022,905	-	1,022,905	88,280	42,280	7,549	138,109	741.00%
2012	914,466	-	914,466	93,532	40,261	9,860	143,653	637.00%

THE CITY OF FREDERICK, MARYLAND
SELECTED DEMOGRAPHIC STATISTICS
June 30, 2012
For the years ended June 30,

Fiscal Year	(1) Population	(2) Per Capita Personal Income	(1 x 2) Estimated Personal Income (000s)	(3) School Enrollment	(4) Estimated Unemployment Rate - June
2003	57,919	$ 35,489	$ 2,055,487	38,621	6.10%
2004	58,650	37,460	2,197,029	39,004	5.90%
2005	59,013	39,147	2,310,182	39,564	3.70%
2006	60,725	41,384	2,513,043	39,741	3.70%
2007	61,508	43,414	2,670,308	40,315	3.30%
2008	61,781	45,674	2,821,785	40,566	3.90%
2009	62,217	44,723	2,782,531	40,155	7.30%
2010	65,239	46,057	3,004,713	40,210	7.40%
2011	65,519	N/A	N/A	40,255	7.00%
2012	65,833	N/A	N/A	40,360	6.50%

Data on population, estimated personal income and unemployment rate is for The City of Frederick; all other data is for Frederick County

Sources:
(1) 2007 Estimate by Frederick County Planning Department
2003 - 2006, 2008 - 2009, 2011 - 2012 - The City of Frederick Planning Department
2010 - U.S. Census Bureau
(2) Regional Economic Information System, Bureau of Economic Analysis, April 2012 (current dollars, not adjusted for inflation)
(3) Frederick County Board of Education
(4) U.S. Department of Labor, Bureau of Labor Statistics, Frederick City

N/A - Not available

THE CITY OF FREDERICK, MARYLAND
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

	2012			2003			
Employer	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment	Business Classification
Fort Detrick	9,200	1	N/A	7,300	1	N/A	Military, bioscience, communications
Frederick County Board of Education	5,538	2	N/A	4,800	2	N/A	Public Education
Frederick Memorial Healthcare System	2,300	3	N/A	2,270	4	N/A	Comprehensive Healthcare
Frederick County Government	2,130	4	N/A	2,526	3	N/A	County Government
SAIC - Frederick	1,965	5	N/A	-	-	-	Medical Research
Wells Fargo Home Mortgage	1,881	6	N/A	1,700	5	N/A	Mortgage Loans & Service Center
Frederick Community College	899	7	N/A	1,137	7	N/A	Two-Year College
Frederick City Government	852	8	N/A	709	10	N/A	Municipal Government
United Health Care	832	9	N/A	-	-	-	Medical Insurance
State Farm Insurance Company	793	10	N/A	1,000	8	N/A	Regional Headquarters - Insurance
Mid Atlantic Medical Services Inc.	-	-	-	1,565	6	N/A	Medical Insurance
F & M Bancorp	-	-	-	753	9	N/A	Banking Headquarters

Frederick County Economic and Community Development Commission 2003
Frederick County Business Development and Retention Division 2012
Total City employment figures are not readily available to make calculation.

The City of Frederick, Maryland
Authorized Full-time Equivalent Employees by Function
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function:										
General government	89.51	80.93	80.27	77.30	81.18	81.68	88.18	84.69	77.14	75.01
Public safety	187.00	197.30	197.40	194.24	203.15	203.84	212.70	211.3	207.75	195.15
Public works	85.02	90.52	89.35	84.77	86.59	85.38	93.78	96.33	93.69	90.15
Recreation and parks	68.70	69.34	64.52	60.44	58.73	60.56	58.78	61.46	57.98	53.83
Community development	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6	5	4.4
Economic opportunity	36.68	37.84	41.56	38.27	41.34	39.17	36.95	46.04	43.81	39.88
Rental operations	0.00	0.00	0.35	0.50	0.50	0.40	0.50	0.5	0.5	0.5
Water and sewer	66.11	68.54	75.58	76.83	76.34	72.60	77.29	75.65	74.81	75.54
Golf course	22.47	22.37	22.08	21.01	20.80	20.69	22.17	19.77	19.85	15.64
Airport	2.00	3.13	3.50	3.50	3.50	3.50	3.50	2.86	2.5	2.5
Parking	11.96	13.05	15.73	15.74	16.60	17.04	13.09	16.26	17.03	16.14
Storm water	4.62	4.82	7.15	7.00	7.40	7.23	7.10	7.07	7.05	7.55
Total	579.07	593.84	603.49	585.60	602.13	598.09	620.04	627.93	607.11	576.29

Source: The City of Frederick Finance Department

The City of Frederick, Maryland
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function:										
Public safety										
Police:										
Stations	2	2	2	2	2	1	1	1	1	1
Public works:										
Miles of paved streets (road miles)	180	180	183	184	250	257	275	278	280	282
Miles of sidewalks	344	344	350	350	500	530	544	552	562	565
Number of street lights	7,506	7,790	7,959	8,131	8,213	7,459	9,050	9,135	9,216	9,256
Number of traffic signals	71	71	72	71	72	71	71	74	74	75
Recreation and parks:										
Number of parks	63	63	63	59	57	57	55	55	61	61
Parks acreage	465	465	443	464	400	435	583	603	603	603
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	32	32	25	26	26	26	23	23	23	23
Number of municpal stadiums	2	2	2	2	2	2	2	2	2	2
Economic opportunity:										
Number of transitional shelters	1	1	1	1	1	1	1	1	1	1
Number of transitional apartments	3	3	3	3	3	3	3	3	3	4
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Water and sewer:										
Miles of water main	250	250	255	215	220	220	220	220	260	260
Number of fire hydrants	2,600	2,600	2,675	2,500	2,520	2,520	2,520	2,750	2,750	2,750
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Number of water pump stations	N/A	N/A	N/A	N/A	N/A	3	3	3	3	3
Miles of sanitary sewer	157	157	162	161	161	161	161	161	161	161
Number of sewage treatment plants	1	1	1	1	1	1	1	1	1	1
Number of sewage pump stations	N/A	N/A	N/A	N/A	N/A	9	9	10	11	11
Golf course:										
Number of golf courses	1	1	1	1	1	1	1	1	1	1
Airport:										
Number of runways	2	2	2	2	2	2	2	2	2	2
Number of T-hangars	125	125	125	125	125	125	125	125	125	125
Number of corporate hangars	1	1	1	1	1	1	1	1	1	1
Parking:										
Number of parking areas	5	5	3	3	3	3	3	3	4	5
Number of parking area spaces	250	250	156	156	156	164	158	143	231	265
Number of parking garages	3	3	3	3	4	4	4	5	5	5
Number of parking garage spaces	1,469	1,469	1,469	1,470	2,112	2,116	2,116	2,477	2,477	2,474
On street parking spaces	N/A	N/A	N/A	N/A	N/A	2,500	2,500	2,500	2,500	2,500
Number of parking meters	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	744	856
Stormwater:										
Miles of storm drain	N/A	N/A	N/A	210	211	211	210	210	210	210
Number of storm water pump stations	N/A	N/A	N/A	N/A	N/A	4	4	5	5	6

N/A - information is not readily available
Source: The City of Frederick Departments

The City of Frederick, Maryland
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function:										
Public safety										
Police:										
Calls for service	59,586	58,396	64,876	65,227	70,606	74,906	83,164	80,349	74,607	79,000
Physical arrests	3,739	3,442	3,693	2,897	4,161	3,229	4,359	4,116	2,225	1,908
Traffic violations	9,819	9,819	12,684	8,750	10,425	11,682	14,292	10,679	10,189	9,617
Water and sewer:										
Number of water service connections	16,600	16,600	17,100	17,587	17,814	17,939	18,092	18,246	18,342	18,502
Avg. daily water consumption (thousands of gallons)	6,412	6,412	6,500	5,780	5,989	6,300	5,533	5,509	5,437	5,612
Number of sewer service connections	14,300	14,300	14,729	14,713	14,845	14,934	14,987	15,030	15,050	15,088
Avg. daily sewage treatment (thousands of gallons)	6,610	6,610	7,000	6,450	6,690	6,900	6,200	6,890	6,005	6,228
Golf course:										
Number of rounds of golf	32,298	34,816	33,979	35,260	33,758	33,672	29,780	29,258	29,579	30,382
Airport:										
Number of Operations	156,627	159,562	150,441	154,107	160,657	151,088	130,284	132,803	131,500	131,500
Parking:										
Number of parking violations	40,816	40,816	48,094	30,272	38,177	42,354	39,213	25,320	29,996	28,995

N/A - information is not readily available
Source: The City of Frederick Departments

SINGLE AUDIT SECTION

McGladrey

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Honorable Mayor and Board of Aldermen
The City of Frederick, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 29, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Mayor, Board of Aldermen and City Management, and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Frederick, Maryland
October 29, 2012

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McGladrey

Independent Auditor's Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

To the Honorable Mayor and Board of Aldermen
The City of Frederick, Maryland

Compliance

We have audited The City of Frederick, Maryland's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Item 2012-01.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated October 29, 2012 which contains an unqualified opinion on the financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Mayor, Board of Aldermen, City management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Frederick, Maryland
October 29, 2012

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2011 - June 30, 2012
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Community Development Block Grant - Entitlement Program	B-10-MC-240013	14.218	$ 421,306	$ 295,700
Community Development Block Grant - Entitlement Program	B-10-MC-240013	14.218	351,775	69,152
Community Development Block Program Income				66,460
Total Program				431,312
Supportive Housing Program Grant	MD06B709004	14.235	135,536	135,536
Supportive Housing Program Grant	MD06B709005	14.235	65,895	65,895
Total Program				201,431
Emergency Shelter Grant	2010-ESG-BOS-10	14.231	13,750	13,750
Total Program				13,750
HUD Housing Counseling Grant		14.169	38,441	15,845
HUD Housing Counseling Grant		14.169	17,484	17,484
Total Program				33,329
Passed Through Maryland Department of Housing and Community Development:				
Emergency Mortgage Assistance			55,000	39,688
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				$ 719,510
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Maryland State Department of Human Resources:				
Community Services Block Grant	CAN 2011G994002	93.569	$ 267,914	$ 97,856
Community Services Block Grant		93.569	267,914	203,042
Total Program				300,898
Passed Through Healthcare for the Homeless, Inc.:				
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	59,305
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	75,528
Total Program				134,833
Passed Through Maryland State Department of Health and Mental Hygiene:				
McKinney PATH Grant	MH-263-OTH	93.150	77,400	77,400
Total Program				77,400
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				$ 513,131
DEPARTMENT OF ENERGY				
Direct Programs				
ARRA - Energy Efficiency/Conservation Block Grant	DE-SC00002303	81.128	$ 614,700	$ 11,900
Passed Through Maryland Department of Housing and Community Development:				
ARRA - Weatherization Assistance Program		81.042	1,168,005	529,553
Maryland Energy Assistance Program		81.042	119,762	12,490
Maryland Energy Assistance Program		81.042	150,000	20,411
				562,454
TOTAL DEPARTMENT OF ENERGY				$ 574,354

The accompanying notes are an integral part of this statement.

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2011 - June 30, 2012
DEPARTMENT OF JUSTICE				
Direct Programs				
2010 Justice Assistance Grant	2010-DJ-BX-0696	16.738	$ 78,272	$ 50,349
2011 Justice Assistance Grant	2011-DJ-BX-2584	16.738	66,513	56,247
Organized Crime Drug Enforcement Task Force	281D-BA-110325			18,864
Total Program				125,460
Passed Through Governor's Office of Crime Control and Prevention				
E-Ticket Expansion Program	BJAG-2010-1002		35,623	34,990
Bulletproof Vest Partnership Program	2008 Regular Grant	16.607	8,662	2,944
Bulletproof Vest Partnership Program	2010 Regular Grant	16.607	21,593	18,731
Total Program				21,675
TOTAL DEPARTMENT OF JUSTICE				$ 182,125
DEPARTMENT OF TRANSPORTATION				
Direct Program:				
Airport Traffic Control Tower - ARRA	DTFA-WA-10-A-80026	20.999	$ 5,332,462	$ 2,367,045
Airport Development Aid Program	3-24-0017-035	20.106	135,236	135,236
				2,502,281
TOTAL DEPARTMENT OF TRANSPORTATION				$ 2,502,281
DEPARTMENT OF AGRICULTURE				
Passed Through Maryland State Dept. of Education				
Summer Food Service Program		10.559	(B)	$ 68,396
Child/Adult Care Food Program		10.558	(B)	3,386
TOTAL DEPARTMENT OF AGRICULTURE				$ 71,782
DEPARTMENT OF THE INTERIOR				
Direct Program:				
National Parks Service Preserve America Grant	24-07-PA-3064	15.929	$ 150,000	$ 136,606
TOTAL DEPARTMENT OF THE INTERIOR				$ 136,606
ENVIRONMENTAL PROTECTION AGENCY				
Passed Through the Maryland Water Quality Financing Administration				
Clean Water State Revolving Funds	WQBL11-701-11L	66.458	$ 14,874,000	$ 7,369,031
CONGRESSIONAL ACTION				
Passed Through Maryland State Department of Housing and Community Development				
Foreclosure Mitigation Grant	PL 110-161:95X1350	99.999	$ 95,400	$ 27,421
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 12,096,241

(B) The City is a subgrantee of the State of Maryland. Grant awards are not made, rather passed-through receipts are based on the number of meals served.

The accompanying notes are an integral part of this statement.

THE CITY OF FREDERICK, MARYLAND
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

1. Single Audit Overview

The Single Audit is the performance of a uniform audit of all the City's federal grants in conjunction with the annual audit of the general-purpose financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the Federal agencies' audit requirements which include financial, compliance, and the adequacy of internal control.

2. Fiscal Period Audited

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2012.

3. Pass-Through Funds

A portion of the federal awards received by the City have been "passed-through" various agencies and departments of the State of Maryland. Such funds have been included in the Schedule of Expenditures of Federal Awards as they represent federal assistance awards and the State agencies are so identified.

4. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the City has met the qualifications for the respective grants. Several programs are funded jointly by Federal, State and Local funds. Costs incurred in programs partially funded by Federal grants are applied against those grant funds to the extent of revenue available when they properly apply to the grant.

b. Revenue Recognized

Revenue recognized on grant reimbursement type programs represents the federal share of costs claimed for reimbursement. Timing differences can exist between expenditures and program reimbursements at the beginning and end of the year. Accrued balances at year end represent an excess of expenditures over cash reimbursements received to date. Generally, accrued balances caused by differences in the timing of cash reimbursements and expenditures will reverse in the subsequent grant period.

5. Loan Outstanding

The ARRA federal expenditures reflected in the accompanying schedule of expenditures of federal awards for the Environmental Protection Agency (CFDA #66.458) of $7,369,031 represents loan proceeds received under an agreement with the Maryland Water Quality Financing Administration which provides for maximum borrowings of $14,874,000,. Terms of the note require semiannual interest payments on February 1 and August 1 at .8% and annual principal payments due February 1 at varying amounts. The note is due February 1, 2033. At June 30, 2012, the total amount outstanding under this note was $7,369,031.

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012

Section I – Summary Of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ____ Yes X No

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major programs:
- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ____ Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes ____ No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program
20.106 / 20.999	Non-ARRA Airport Improvements and ARRA Airport Traffic Control Tower
66.458	Capitalization Grants for Clean Water
81.042	ARRA and Non-ARRA Weatherization Assistance Program

Dollar threshold used to distinguish between type A and type B programs: $ 362,887

Auditee qualified as low-risk auditee? X Yes ____ No

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012

Section II – Financial Statement Findings

Internal Control

No matters were reported.

Compliance

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

Internal Control

No matters were reported.

Compliance

Finding 2012-01: Reporting of Federal Expenditures

Federal Program: Department of Energy, CFDA 81.042 ARRA and Non-ARRA Weatherization Assistance Program

Criteria: In accordance with OMB Circular A-133, Subpart C. 300(a) the Auditee shall identify all federal awards received and expended.

Condition: The Schedule of Expenditures of Federal Awards that was presented to us at the start of our audit did not include $32,901 of federal weatherization expenditures.

Context: In performing our audit, program personnel stated that they became aware during FY12 that Maryland Energy Assistance Program (MEAP) funds were passed through to the State from a federal agency. However, MEAP expenditures of $32,901 were not reported on the Schedule.

Effect: The City's Schedule of Expenditures of Federal Awards was understated by $32,901. In addition, the City has not reported an undetermined amount of MEAP expenditures in past fiscal years.

Cause: Communication between City program personnel and the City's finance department was not effective to properly report the federal origin of the MEAP funds.

Recommendation: We recommend program personnel enhance the process by which federal expenditures are identified and reported to the City's finance department.

Views of Responsible Officials and Planned Corrective Actions: As applicable, federal funds from the Low-Income Home Energy Assistance Program (LIHEAP), which are utilized in Maryland under the name of the Maryland Energy Assistance Program (MEAP), will be included on all future Schedules of Expenditures of Federal Awards. The Director of the Frederick Community Action Agency will be responsible for implementing this action.

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2012

Section II – Financial Statement Findings

Internal Control

No matters were reported

Compliance

No matters were reported

Section III – Federal Award Findings and Questioned Costs

Internal Control

Finding 2011-01: Buy American Act

Audit Finding: The City does not have a formal policy to address compliance with the Buy American Act, and therefore the Buy American certifications were not always obtained by the City in a timely manner and subjected to a formal review process.

Corrective action taken: Corrective action was taken.

Compliance

Finding 2011-02: Performance Reporting

Audit Finding: The Energy Efficiency/Conservation Block Grant agreement, which was effective September 21, 2009, states the grantee must file quarterly performance reports within 10 days after the end of each reporting period. During the audit period, the City did not file the performance reports within 10 days after the end of each reporting period.

Corrective action taken: Corrective action was taken.

Finding 2011-03: Buy American Act

Audit Finding: The City expended ARRA Community Services Block Grant funds for construction activities (installation of air conditioning and heat pumps in a City owned low income housing project) which are subject to the Buy American Act. The City did not obtain Buy American certification in a timely manner.

Corrective action taken: Corrective action was taken.

Finding 2011-04: Cash Management

Audit Finding: The City entered into an Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA) whereby significant federal funds were advanced to the City. Interest earned on the advanced funding, which amounted to approximately $4,000 as of June 30, 2011, had not been remitted to the funding agency.

Corrective action taken: Corrective action was taken.

Section III – Federal Award Findings and Questioned Costs (Continued)

Compliance *(Continued)*

Finding 2011-05: Progress Reporting

Audit Finding: In accordance with the terms of the City's Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA), the City will provide written progress reports each month to FAA. The City has not submitted these written progress reports.

Corrective action taken: Corrective action was taken.

Finding 2011-06: Davis Bacon

Audit Finding: In accordance with the terms of the City's Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA), the City must adhere to the provision of the Davis Bacon Act which requires monitoring of construction contractor compliance. For two of the construction contractors, the City did not properly monitor construction contractors to ensure compliance with applicable wage determinations under the Davis Bacon Act.

Corrective action taken: Corrective action was taken.