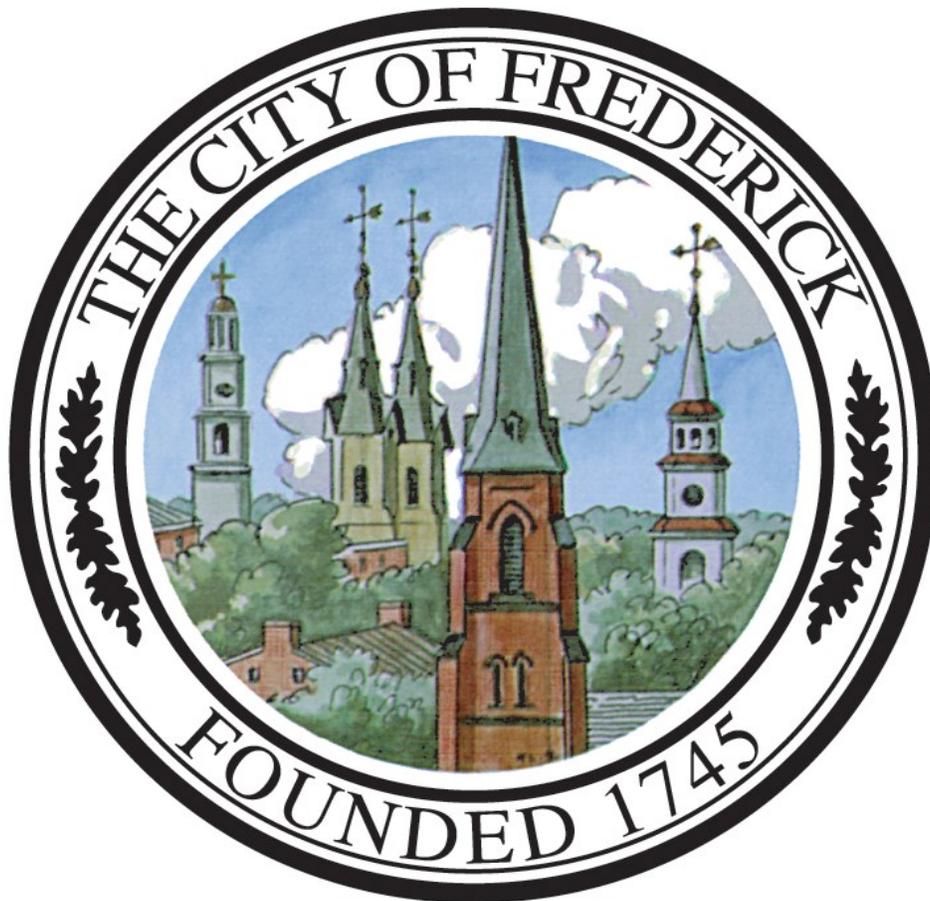


# **THE CITY OF FREDERICK**

## **FREDERICK, MARYLAND**



### **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal Year  
July 1, 2012—June 30, 2013

# THE CITY OF FREDERICK, MARYLAND

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013

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Randy McClement  
Mayor



**Aldermen**

Karen Lewis Young  
President Pro Tem

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

October 29, 2013

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, 2013. 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, 2013, 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, 2013, 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.

## **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 23.003 square miles and serves an estimated population of 66,127. 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 30<sup>th</sup>. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29<sup>th</sup>. 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 28 and 29 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 75.

## **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 66,127, coupled with an additional 50,000 residents who live in surrounding neighborhoods, represents approximately fifty percent of Frederick County's total population. Professional and business services, along with health and education make up 34% of the City's total number of jobs. The government sector account for 23% of the total jobs. The median household income holds at \$83,408. 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 approximately 26,000 households, a third of all those located in Frederick County. In 2011, the median home value in Frederick City was \$180,000, 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 makes 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 Program which 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 Program 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 Program 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 opportunities for new 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. Phase I of the project is completed and open to the public. The completion of this section, along with the connection to Schifferstadt Boulevard allows for a cross connection from Route 355 to North Market Street.

The Carroll Creek Linear Park project is to construct improvements primarily east of the Delaplaine Visual Arts Center across East Street to East Patrick Street. The project will include ADA multi-use paths, lighting, furniture, planters, landscaping, fountains, and other park improvements. The project is funded in partnership with Frederick County, developers, and a Federal Transportation Enhancement Program grant.. These improvements will provide development opportunities, create jobs and services and enhance the tax base of the City. Phase II construction of this project is slated to begin during FY 2014.

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 revenues (excluding beginning fund balance) to provide for adequate working capital and to provide funds to meet unforeseen emergencies. In fiscal year 2013, the City was not able to maintain its Rainy Day reserve in compliance with adopted policies due to the anticipated use of fund balance for one-time expenditures in the following year's budget. Upon notification, the Mayor and the Board of Aldermen directed staff to prepare necessary amendments to the fiscal year 2014 budget which will return the City to compliance with the Rainy Day Reserve policy.

### **Major Initiatives**

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

In an effort to help stimulate the local economy and meet citizen and business needs, the City is facilitating efforts by the Downtown Hotel Advisory Committee to attract a privately owned and operated 200 room full service hotel with up to 20,000 square feet of meeting space. A report released by the Maryland Stadium Authority confirmed there are a number of quality select-service hotels in the Frederick area providing overnight accommodations and

limited event and meeting space for citizen, business and leisure needs. However, there is no full-service hotel with large meeting capabilities in the Frederick lodging market and there are no hotel rooms in downtown Frederick. This study shows the Frederick lodging market is under-served and downtown Frederick is a great place for a full service hotel. Over the past several months, the advisory team and hotel real estate advisor Jones Lang LaSalle have been working on a number of parallel paths to be in a position to make recommendations on site acquisition strategies, development team selection processes and financial matters.

The Golden Mile Alliance, an organization created to strengthen the Golden Mile corridor for businesses and residents, continues to move forward with organizing community events and boosting the identity of the Golden Mile as a major place for retail business in Frederick. They recently were involved in advocating for the implementation of the Golden Mile Small Area Plan and redevelopment of the Frederick Towne Mall. The City is beginning to realize reinvestment and revitalization of businesses along the Golden Mile.

The City is also investing in the Vision Plan set forth by East Frederick Rising. This group is setting in motion a plan for a sustainable community to deliver a desirable mixed use plan to encourage people to reinvest in the east side of the City.

The City is expanding efforts to create a sustainable tomorrow. The City's Bicycle and Pedestrian Committee led the way to fund a public-private project that created a bicycle lane along Seventh Street from Fort Detrick to East Street. The City was one of seven communities awarded funds from the Maryland Department of Transportation to begin the process of creating a bike-share pilot program and we have been awarded a bronze designation by the League of American Bicyclists towards our goal of becoming a bike friendly community. In addition, the City was awarded a \$200,000 Maryland Department of Transportation bikeways grant for the design of the Route 15 exit ramp tunnel that will make the final east to west connection of our shared use path system.

#### **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, 2012. This was the thirtieth 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



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

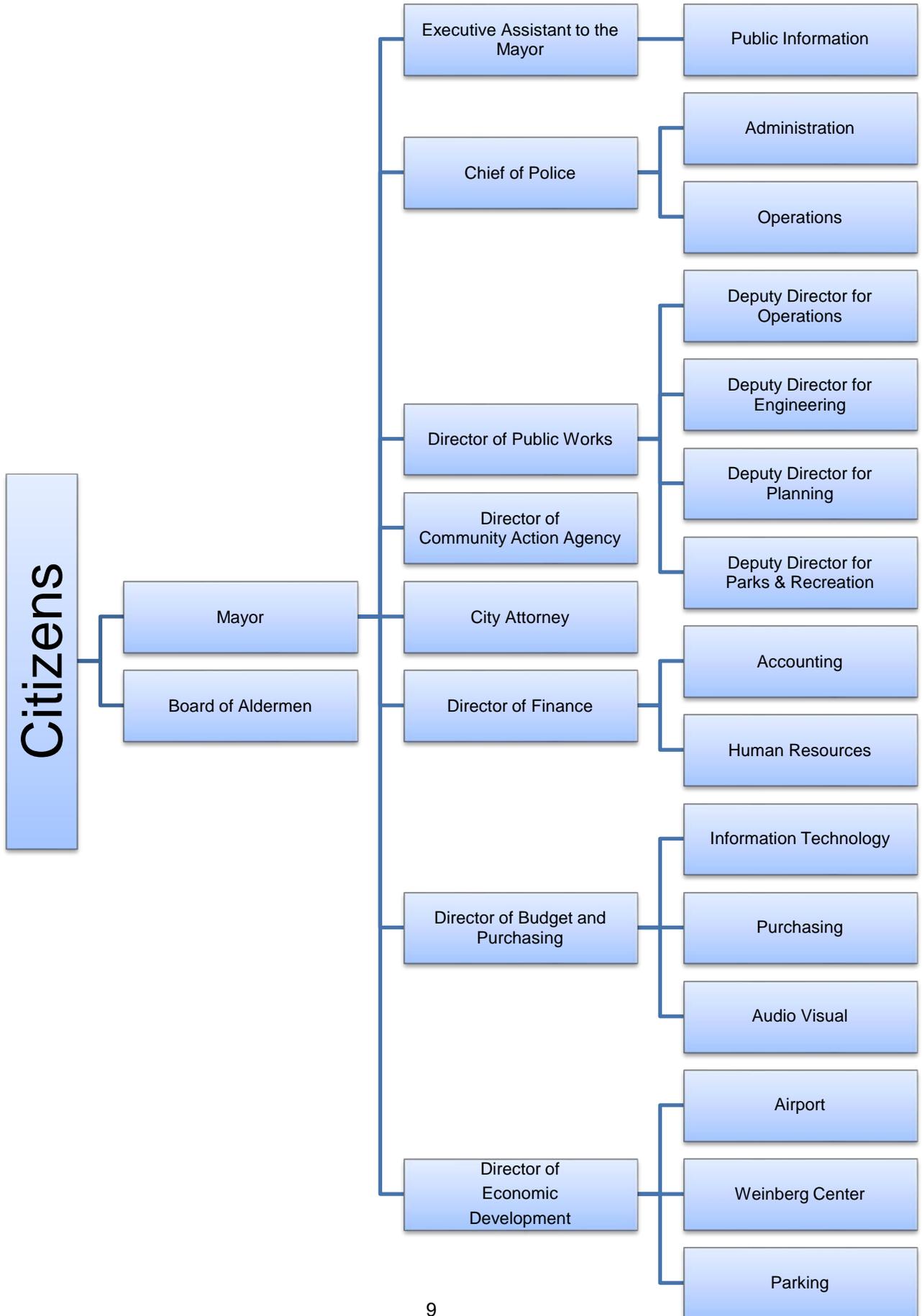
Presented to

**The City of Frederick  
Maryland**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO



THE CITY OF FREDERICK, MARYLAND  
SUMMARY OF ELECTED AND APPOINTED OFFICIALS  
June 30, 2013

MAYOR

Randy McClement

BOARD OF ALDERMEN

Karen Lewis Young  
President Pro Tem

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

APPOINTED OFFICIALS

Chief of Police  
City Attorney  
Deputy Director for Engineering  
Deputy Director for Parks and Recreation  
Deputy Director for Planning  
Acting Deputy Director for Operations  
Director of Budget and Purchasing  
Director of Community Action  
Director of Economic Development  
Director of Finance

Colonel Thomas J. Ledwell  
Saundra A. Nickols  
Zachary J. Kershner  
Roelkey I. Myers  
Joseph A. Adkins  
Marc P. Stachowski  
M. Katherine Barkdoll  
Michael R. Spurrier  
Richard G. Griffin  
Gerald D. Kolbfleisch

# FINANCIAL SECTION



## Independent Auditor's Report

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

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

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 22, the Schedule of Funding Progress – Pension Plans on page 70, the Schedule of Employer Contributions – Pension Plans on page 71, the Schedule of Funding Progress – Other Post Employment Benefit Plans and the Schedule of Employer Contributions – Other Post Employment Benefit Plans on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of

financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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 supplementary information, listed in the table of contents as other supplementary information and the single audit section, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other information, listed in the table of contents as the introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, listed in the table of contents as other supplementary information and the single audit section, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information, listed in the table of contents as the introductory and statistical sections, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Emphasis of Matter**

As discussed in Note 6 to the basic financial statements, The City of Frederick, Maryland early adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of The City of Frederick, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Frederick, Maryland's internal control over financial reporting and compliance.



Frederick, Maryland  
October 29, 2013

# 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, 2013. 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 and deferred outflow of resources of The City of Frederick exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$274,972,417 (net position). Of this amount, \$48,524,644 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by \$6,505,440, or 2.41%. The governmental net position increased by \$942,161 and the business-type net position increased by \$5,563,279.

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 \$47,400,301, an increase of \$7,662,532 in comparison to the prior year. An increase of \$154,605 in the fund balance was attributable to non-major governmental funds, an increase of \$10,781,020 was attributable to the capital improvement program and the remaining change in fund balance was due to a decrease of \$3,273,093 in the general fund.

At June 30, 2013, the total general fund unassigned fund balance was \$5,945,753, or 8.77% 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 position 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 position presents information on all of the City's assets, deferred outflow of resources, liabilities and deferred inflow of resources. The total of assets plus deferred outflows of resources less liabilities and deferred inflows of resources equals net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future 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 - 69 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension

and other post-employment benefits to its employees. Required supplementary information can be found on pages 70 - 72 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 73 - 81 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$274,972,417 at the close of the most recent fiscal year.

#### The City of Frederick's Net Position

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 54,738,587	\$ 47,637,951	\$ 46,720,382	\$ 54,044,437	\$ 101,458,969	\$ 101,682,388
Capital assets	<u>123,660,625</u>	<u>125,336,875</u>	<u>304,857,109</u>	<u>302,941,887</u>	<u>428,517,734</u>	<u>428,278,762</u>
Total assets	<u>178,399,212</u>	<u>172,974,826</u>	<u>351,577,491</u>	<u>356,986,324</u>	<u>529,976,703</u>	<u>529,961,150</u>
Total deferred outflow of resources	<u>234,960</u>	<u>-</u>	<u>2,684,284</u>	<u>193,111</u>	<u>2,919,244</u>	<u>193,111</u>
Long-term liabilities outstanding	91,937,560	86,163,627	154,907,187	163,500,579	246,844,747	249,664,206
Other liabilities	<u>5,243,850</u>	<u>6,300,598</u>	<u>5,834,933</u>	<u>5,722,480</u>	<u>11,078,783</u>	<u>12,023,078</u>
Total liabilities	<u>97,181,410</u>	<u>92,464,225</u>	<u>160,742,120</u>	<u>169,223,059</u>	<u>257,923,530</u>	<u>261,687,284</u>
Net position:						
Invested in capital assets, net of related debt	61,782,387	58,971,758	155,846,982	156,954,179	217,629,369	215,925,937
Restricted	2,114,030	1,741,456	6,704,374	3,036,286	8,818,404	4,777,742
Unrestricted	<u>17,556,345</u>	<u>19,797,387</u>	<u>30,968,299</u>	<u>27,965,911</u>	<u>48,524,644</u>	<u>47,763,298</u>
Total net position	<u>\$ 81,452,762</u>	<u>\$ 80,510,601</u>	<u>\$ 193,519,655</u>	<u>\$ 187,956,376</u>	<u>\$ 274,972,417</u>	<u>\$ 268,466,977</u>

By far the largest portion of the City's net position (79.2 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 position, \$8,818,404, represents resources that are restricted on how they may be used. The remaining balance of net position, \$48,524,644, 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 position for the government as a whole. The golf course business-type activity had negative unrestricted net position in the amount of \$5,276,104 and the airport business-type had a negative unrestricted net position in the amount of \$227,333.

The City's net position increased by \$6,505,440 during the current fiscal year.

**Governmental activities.** Governmental activities increased the City's net position by \$942,161 in the current fiscal year with total revenues from governmental activities increasing by \$2,505,732 and total governmental activities expenses increasing by \$928,083.

Taxes increased by \$5,723,526 with the primary increase in property taxes resulting from a change to a tax differential methodology from a tax reimbursement payment for County taxes levied within the City. In previous years, City tax payers paid the same rate in County real estate taxes as County residents and the County would reimburse the City for the estimated costs of services that the County did not provide to City taxpayers. In fiscal year 2013, the County

levied a lower tax rate on City real property than that of County property, \$.813 versus \$.936 per \$100 of assessed value. The City raised its real estate tax rate from \$.65 to \$.732 to offset the County payment resulting in a net tax rate reduction on City real property tax bills of \$.041.

Business personal property tax remained steady and the City's share of income tax revenue increased by approximately \$200,000.

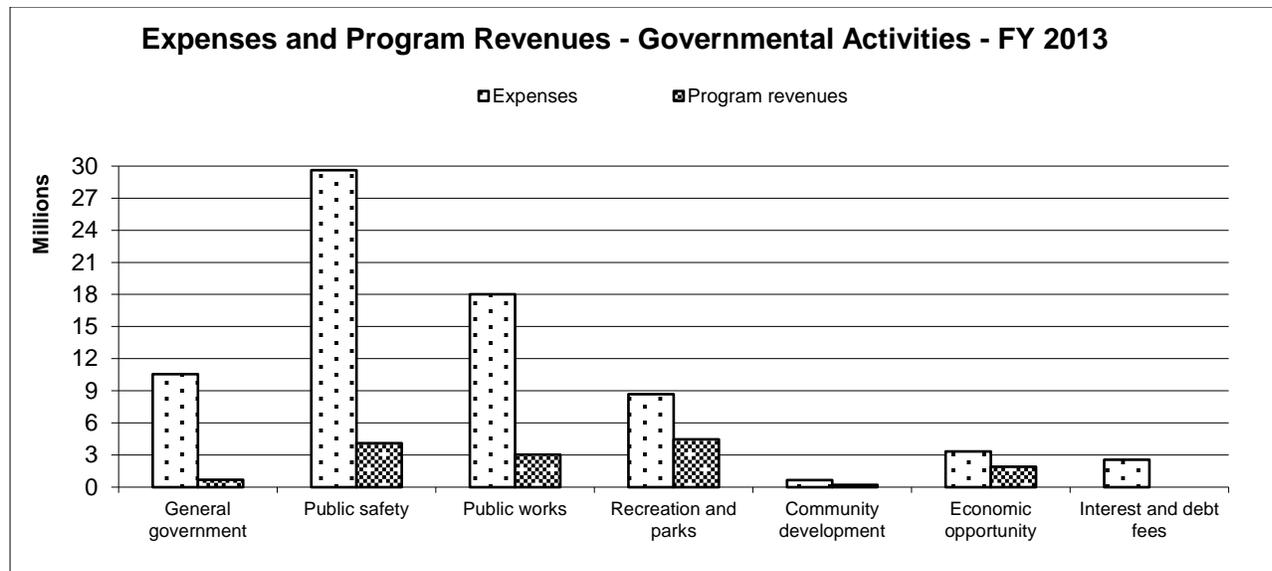
Licenses and permits also remained fairly level from the previous year and increased by \$86,593.

Intergovernmental revenues decreased by approximately \$4,765,000 with the change previously mentioned concerning the tax differential methodology. Operating grants and contributions decreased by approximately \$656,000 while grants and contributions to assist with capital project outlays increased by approximately \$1,900,000. One time operating grants that supported economic development efforts decreased from the previous fiscal by approximately \$200,000. State shared highway user revenue increased by \$247,538. The City received approximately \$1,032,000 from the State to assist in the acquisition of property designated as a regional park and donated infrastructure from developers was approximately \$700,000 greater than the previous fiscal year.

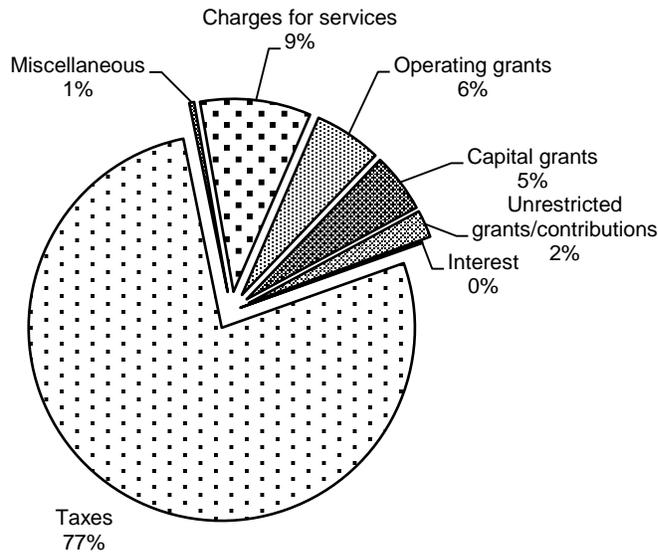
Fines and forfeitures decreased by nearly \$400,000 which is an indication that the City's automated red light and speed camera programs are encouraging greater conformance with traffic laws.

Total expenses increased by \$28,083 in fiscal year 2013. The significant changes were in salaries with a \$735,246 (3.0%) increase, personnel benefits with a decrease of \$997,988 (4.2%), other services and charges with a \$666,075 increase (7.0%) and an increase in capital outlays that did not meet the capitalization criteria of \$704,111 (272.3%). The increase in salaries was due to a 3.0% cost of living increase. The personnel benefits decrease was due to decreased OPEB costs associated primarily with changes in employee cost share. Contributions to the pension plans increased by approximately \$995,000 in the current year. The increase in other services and charges was primarily attributable to an increase in street repairs. 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 \$1,724,528. Transfer to the business-type activities, in the amount of \$724,392 was for airport debt service and operations assistance. \$601,420 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.



### Revenues by Source - Governmental Activities - FY 2013



### The City of Frederick's Changes in Net Position

	Governmental activities		Business-type activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 6,731,417	\$ 6,149,611	\$33,336,514	\$ 30,158,796	\$ 40,067,931	\$ 36,308,407
Operating grants/contributions	4,109,780	4,766,506	175,352	632,020	4,285,132	5,398,526
Capital grants/contributions	3,607,381	1,706,795	7,309,417	7,320,724	10,916,798	9,027,519
<b>General revenues:</b>						
Taxes	56,103,540	50,805,689	-	-	56,103,540	50,805,689
Non-restricted grants/contributions	1,667,027	5,094,664	-	-	1,667,027	5,094,664
Other	407,259	1,597,407	125,716	138,264	532,975	1,735,671
<b>Total revenues</b>	<b>72,626,404</b>	<b>70,120,672</b>	<b>40,946,999</b>	<b>38,249,804</b>	<b>113,573,403</b>	<b>108,370,476</b>
<b>Expenses:</b>						
General government	10,551,754	9,674,531	-	-	10,551,754	9,674,531
Public safety	29,614,505	29,619,355	-	-	29,614,505	29,619,355
Public works	18,022,285	16,913,468	-	-	18,022,285	16,913,468
Recreation and parks	8,672,576	8,787,099	-	-	8,672,576	8,787,099
Community development	657,361	1,055,298	-	-	657,361	1,055,298
Economic opportunity	3,327,477	3,265,475	-	-	3,327,477	3,265,475
Interest and long-term debt	2,562,813	3,165,462	-	-	2,562,813	3,165,462
Rental operations	-	-	50,788	50,991	50,788	50,991
Water and sewer	-	-	22,448,787	22,986,792	22,448,787	22,986,792
Golf course	-	-	2,056,395	1,781,409	2,056,395	1,781,409
Airport	-	-	2,042,753	2,492,055	2,042,753	2,492,055
Parking	-	-	4,634,473	4,468,651	4,634,473	4,468,651
Storm water	-	-	2,425,996	2,524,774	2,425,996	2,524,774
<b>Total expenses</b>	<b>73,408,771</b>	<b>72,480,688</b>	<b>33,659,192</b>	<b>34,304,672</b>	<b>107,067,963</b>	<b>106,785,360</b>
<b>Increase/(decrease) in net position</b>						
before transfers	(782,367)	(2,360,016)	7,287,807	3,945,132	6,505,440	1,585,116
Transfers	1,724,528	1,098,243	(1,724,528)	(1,098,243)	-	-
<b>Increase/(decrease) in net position</b>	<b>942,161</b>	<b>(1,261,773)</b>	<b>5,563,279</b>	<b>2,846,889</b>	<b>6,505,440</b>	<b>1,585,116</b>
Nets position, July 1	81,114,870	82,376,643	188,970,338	186,123,449	270,085,208	268,500,092
Adjustment to beginning net position	(604,269)	-	(1,013,962)	-	(1,618,231)	-
<b>Net position, June 30</b>	<b>\$ 81,452,762</b>	<b>\$ 81,114,870</b>	<b>\$ 193,519,655</b>	<b>\$ 188,970,338</b>	<b>\$ 274,972,417</b>	<b>\$ 270,085,208</b>

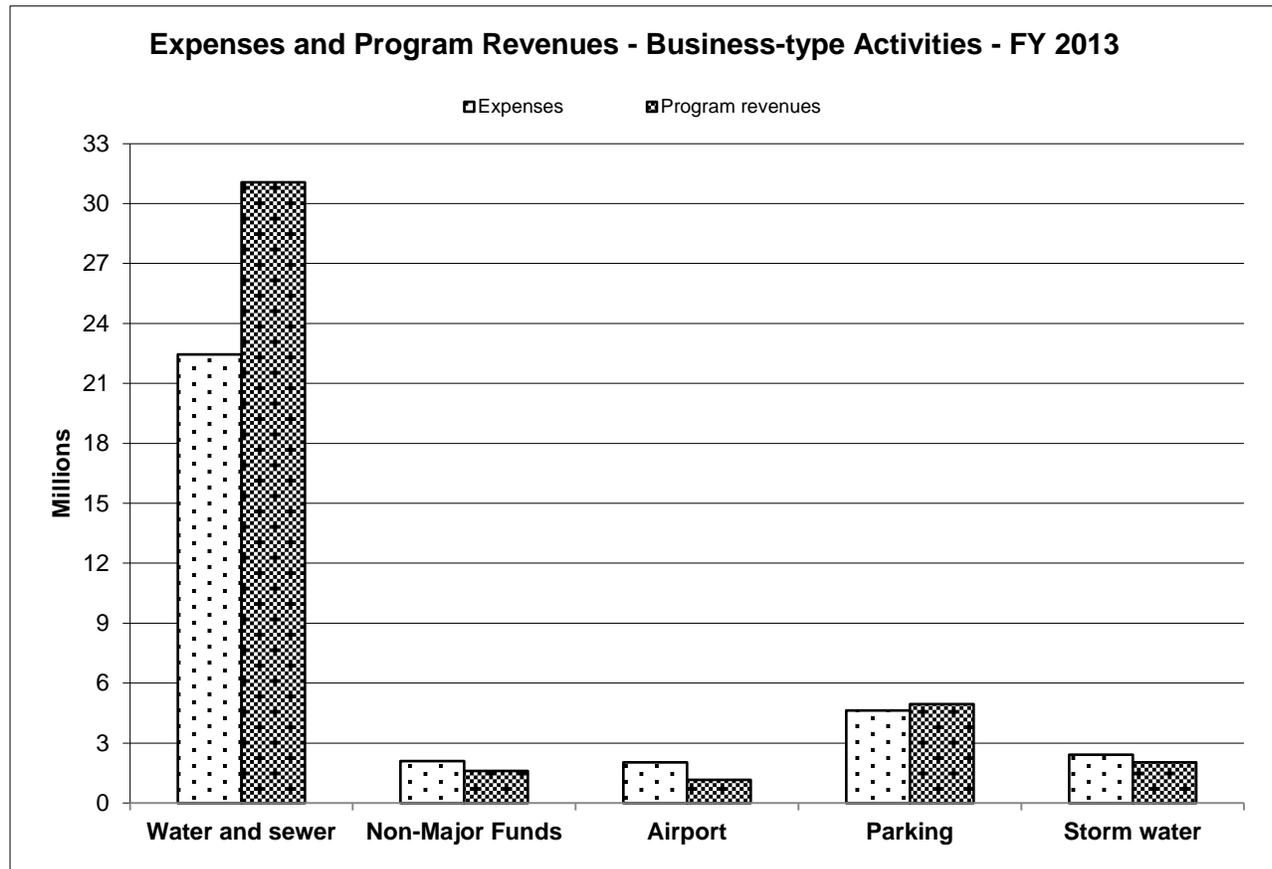
**Business-type activities.** Business-type activities increased the City's net position by \$5,563,279 in the current fiscal year. Total revenues increased by \$2,697,195 while expenses decreased by \$645,480.

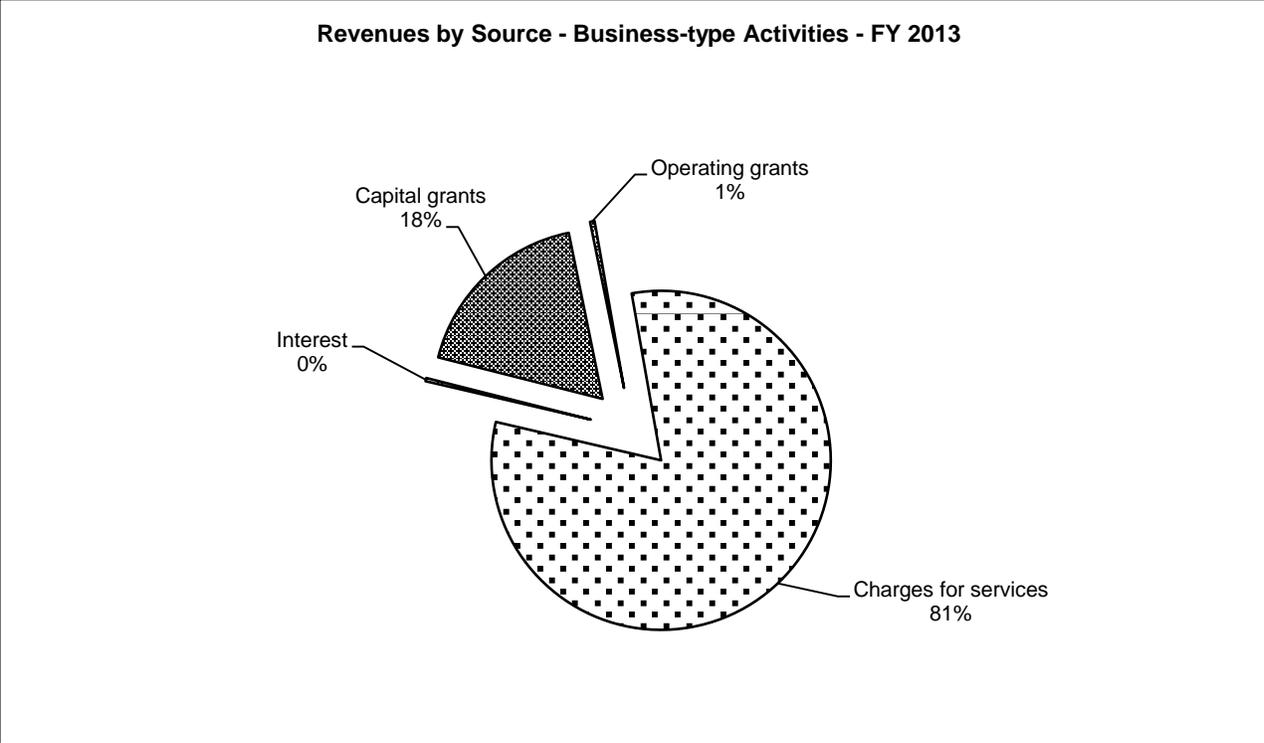
Charges for services increased by \$3,177,718, which included a ten percent (10%) increase in water and sewer rates.

Capital grants and contributions in total remained steady with a slight \$5,307 decrease in the current fiscal year. However, contributions for water and sewer activities increased by approximately \$1,500,000; airport contributions decreased by approximately \$1,900,000; parking contributions increase by nearly \$170,000 and contributions for stormwater activities increased by approximately \$185,000. Operating grants and contributions decreased by \$462,668 due to the City receiving a large one-time contribution in the previous fiscal year.

Total expenses decreased by \$645,480 in fiscal year 2013. Personnel benefits decreased by approximately \$655,000 which was due to reduced OPEB costs associated primarily with changes in employee cost share. Professional service charges increased approximately \$560,000, and were primarily due to debt issuance costs on the 2013 debt issue. Additionally, debt service expenditures (interest and amortization expenses), were \$472,000 less than the previous 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.

Business-type activities transferred \$2,448,920 into governmental activities in FY 2013 and received transfers of \$724,392 from governmental activities for a net amount of \$1,724,528. \$1,847,500 of the transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The remaining \$601,420 was for support of two street capital improvement projects. The transfer received from the general fund is for debt service and operational support for the airport.





**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, 2013, the City's governmental funds reported combined ending fund balances of \$47,400,301, an increase of \$7,662,532 over the prior fiscal year.

Revenues increased by approximately \$1,939,000 in the current year. Taxes increased by \$5,723,527. Approximately \$5,095,000 of this increase was due to the change to a tax differential methodology from a tax reimbursement payment for County taxes levied within the City. The City raised its real estate tax rate from \$.65 to \$.732 with an offsetting decrease in the County tax rate on City property of \$0.123, for a net reduction of \$.041 on the combined rates City real property. As a result, intergovernmental revenue for the governmental funds decreased by \$4,765,124. The City's share of income tax revenue increased by approximately \$209,000.

Licenses and permits had an increase of \$86,593.

Fines and forfeitures decreased by approximately \$397,000 which is an indication that the City's automated red light and speed camera programs are encouraging greater conformance with traffic laws.

Developer contributions to capital improvement projects increased by approximately \$731,000, contributions to the Weinberg Center for the Arts through Weinberg Center for the Arts Inc. increased approximately \$405,000 and interest earnings decreased by approximately \$33,000 reflecting lower investment yields.

Expenditures increased by \$3,892,346, or 5.57% over the preceding year. Spending for capital projects increased by \$314,766 in the current fiscal year, while other operating costs increased by \$3,744,17 and debt service expenditures decreased by \$166,524. Salaries were approximately \$768,000 greater than the previous fiscal year due to a 3.0% cost of living adjustment. Expenditures for retirement contributions increased approximately \$1,000,000 and expenditures for health care increased by nearly \$611,000. Workmen's compensation expenditures also increased nearly \$150,000. Other operating costs increase was due primarily to increased expenditures for street repairs of \$630,000 and capital purchases of \$715,000.

Of the ending fund balance, \$41,454,548 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 \$5,945,753, while total fund balance was \$24,416,491. \$5,553,876 of the fund balance is non-spendable, \$195,938 has external restrictions as to usage, \$1,192,444 has restrictions placed upon it by the Mayor and Board of Aldermen and \$11,528,480 is classified as assigned. The City has a policy of maintaining an unassigned general fund balance equal to 12% of general fund revenues, not including the use of fund balance, as a "rainy day" reserve to provide for adequate working capital and to provide funds to meet unforeseen emergencies. The rainy day reserve as of June 30, 2013 should be \$8,235,665. Only \$5,945,753 of unassigned fund balance is available to serve as the rainy reserve. The insufficient amount for the rainy day reserve was created by the anticipated use of fund balance for one-time expenditures in the following year's budget. The Mayor and Board of Aldermen, upon being notified of the insufficiency, indicated they plan to take action to amend the following year's budget to bring the City into compliance with its policy.

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 8.77 percent of total general fund expenditures, while total fund balance represents 36.02 percent of that same amount.

The fund balance for the City's general fund decreased by \$3,273,093 during the current fiscal year. Revenues increased by \$497,519, or 0.75 percent. Expenditures increased by \$3,770,202 or 5.89 percent. Salaries increased by \$786,082 reflecting a 3.0% cost of living adjustment. Benefits increased by \$1.8 million with approximately \$990,000 attributable to pension contributions and approximately \$613,000 attributable to healthcare costs. Other cost increases included approximately \$630,000 for street maintenance and an increase of approximately \$631,000 in expenditures for capital items.

The general capital improvements project fund has a total fund balance of \$20,044,696, all of which will be used for general capital improvements within the City. This is an increase of \$10,781,020 over the prior year fund balance. Expenditures for fiscal year 2013 exceeded revenues by \$1,625,202. Transfers into the CIP fund amounted to \$3,951,526 in the current year. Additionally, \$8,454,696 of debt proceeds were reallocated from proprietary funds into the CIP fund during the year.

Non-major governmental funds have a \$2,939,114 fund balance at the end of the fiscal year, an increase over the previous year of \$154,605. \$2,125,039 of the fund balance is non-spendable, \$120,188 is restricted and the balance of \$693,887 is assigned.

**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 \$17,282,578 and is summarized as follows:

Increase in general government	\$ 330,541
Increase in public safety	314,380
Increase in public works	51,573
Increase in recreation/parks	61,860
Increase in economic opportunity	70,900
Increase in debt service	78,461
Increase in transfers out	1,261,891
Increase in payment to refunded bond escrow agent	15,197,507
Decrease in contingency fund	<u>(84,535)</u>
Total change in budget	<u>\$ 17,282,578</u>

Of this increase, \$260,202 was increased intergovernmental revenues and \$44,000 was added to the donations account. Due to the City refunding some outstanding bonds, the budget was amended to include bonds issuance of \$12,828,000 and a premium on the bonds of \$2,530,310. Beginning fund balance was increased by \$1,620,066 and utilized for one-time expenditures.

During the year actual revenues exceeded the amended budget by \$818,228. Taxes were \$575,253 greater than estimated with property taxes being \$172,966 higher than expected and income taxes being \$296,948 more than budgeted. Miscellaneous revenues, which includes private contributions and donations exceeded the budget by approximately \$295,000.

Expenditures were less than the final budgetary estimates by \$4,345,363 or 6.0%. Of this amount, \$1,587,222 was encumbered at year end. Departments were aware of the economic challenges 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, 2013, amounts to \$428,517,734 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, equipment and construction in progress. The City's total net investment in capital assets for the current fiscal year increased by \$238,972. Capital assets for governmental activities decreased by 1.34 percent and increased by 0.63 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 \$2,125,026.
- 2) Expenditures for the water and sewer improvements for FY 2013 totaled \$9,275,618.
- 3) Airport improvement expenditures totaled \$498,097.
- 4) Parking facilities, \$631,375.
- 5) General governmental machinery and equipment acquisitions, \$1,176,273.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 49,044,196	\$ 40,503,582	\$ 89,547,778
Buildings	9,834,853	53,927,302	63,762,155
Other improvements	18,284,814	176,381,473	194,666,287
Infrastructure	39,205,796	-	39,205,796
Machinery and equipment	3,756,002	2,643,145	6,399,147
Construction in progress	<u>3,534,964</u>	<u>31,401,607</u>	<u>34,936,571</u>
Total	<u>\$ 123,660,625</u>	<u>\$ 304,857,109</u>	<u>\$ 428,517,734</u>

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 \$212,858,063. Of this amount, \$211,290,262 carried the full faith, credit and taxing power of the City. The remaining \$1,567,801 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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation debt	\$ 68,051,645	\$ 143,238,617	\$ 211,290,262
Tax increment financing debt	1,567,801	-	1,567,801
Premiums	2,882,035	7,338,929	10,220,964
Net OPEB obligation	17,025,396	3,936,165	20,961,561
Compensated absences	<u>2,410,683</u>	<u>393,479</u>	<u>2,804,162</u>
Total	<u>\$ 91,937,560</u>	<u>\$ 154,907,190</u>	<u>\$ 246,844,750</u>

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 \$514,915,074 and the legal debt margin of the City is \$407,455,228.

Additional information on the City’s long-term debt can be found in notes 5 and 6 on pages 50 - 53 of this report.

**Economic Factors and Next Year’s Budgets and Rates**

When preparing the City’s budget for the 2014 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 2013 was 6.9 percent, which is a .3 percent increase from June 2012. The estimated rate for June 2013 for the county was 6.6 percent, the state was 7.5 percent and the nation was 7.8 percent.

The fiscal year 2014 budget calls for maintaining the same level of key services. The City was able to reduce the tax rate from \$.732 to \$.7305 in preparing the FY 2014 budget.

Real 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 \$810,000 more in real estate taxes in fiscal year 2014 compared to fiscal year 2013 actuals.

The general fund unassigned fund balance at June 30, 2013 was \$5,945,753.

The City estimated that \$10,711,216 of fund balance would be available for one-time expenditures in the FY 2014 budget. The actual amount available is \$8,421,303, a shortage of \$2,289,913. This shortage created a violation of the City’s Rainy Day Reserve Policy. Upon notification, the Mayor and the Board of Aldermen directed staff to prepare necessary amendments to the fiscal year 2014 budget which will return the City to compliance with the Rainy Day Reserve policy.

**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, Department of Finance, 101 North Court Street, Frederick, Maryland 21701.

# BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland  
Statement of Net Position  
June 30, 2013

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 289,833	\$ 43,860	\$ 333,693
Investments	240,946	5,107	246,053
Equity in pooled cash/investments	31,648,267	43,153,089	74,801,356
Receivables (net of allowance of uncollectibles)	3,748,771	5,714,866	9,463,637
Inventories	528,725	464,589	993,314
Prepays	51,230	105,471	156,701
Deferred charges	-	-	-
Internal balances	4,881,122	(4,881,122)	-
Temporarily restricted assets:			
Cash and cash equivalents	10,924,471	1,587,631	12,512,102
Net pension asset	2,425,222	526,891	2,952,113
Capital assets (net of accumulated depreciation):			
Land	49,044,196	40,503,582	89,547,778
Buildings and systems	9,834,853	53,927,302	63,762,155
Improvements other than buildings	18,284,814	176,381,473	194,666,287
Infrastructure	39,205,796	-	39,205,796
Machinery and equipment	3,756,002	2,643,145	6,399,147
Construction in progress	3,534,964	31,401,607	34,936,571
Total assets	<u>178,399,212</u>	<u>351,577,491</u>	<u>529,976,703</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	<u>234,960</u>	<u>2,684,284</u>	<u>2,919,244</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	1,490,515	3,003,177	4,493,692
Accrued liabilities	2,603,408	2,176,688	4,780,096
Deposits	998,861	83,964	1,082,825
Unearned revenue	151,066	571,104	722,170
Noncurrent liabilities:			
Due within one year	7,106,399	7,766,522	14,872,921
Due in more than one year	84,831,161	147,140,665	231,971,826
Total liabilities	<u>97,181,410</u>	<u>160,742,120</u>	<u>257,923,530</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	61,782,387	155,846,982	217,629,369
Restricted for:			
Water/sewer improvements	-	6,611,468	6,611,468
Airport improvements	-	72,692	72,692
Parks improvements	1,797,904	-	1,797,904
Weinberg Center	120,188	-	120,188
Debt service	195,938	20,214	216,152
Unrestricted	17,556,345	30,968,299	48,524,644
Total net position	<u>\$ 81,452,762</u>	<u>\$ 193,519,655</u>	<u>\$ 274,972,417</u>

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, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary Government		Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary Government</b>	<b>Expenses</b>					
Governmental activities:						
General government	\$ 10,551,754	\$ 632,405	\$ 37,600	\$ 12,465	\$ (9,869,284)	\$ (9,869,284)
Public safety	29,614,505	2,833,586	1,255,549	32,999	(25,492,371)	(25,492,371)
Public works	18,022,285	335,462	547,500	2,160,191	(14,979,132)	(14,979,132)
Recreation and parks	8,672,576	2,921,182	157,821	1,401,726	(4,191,847)	(4,191,847)
Community development	657,361	1,400	212,113	-	(443,848)	(443,848)
Economic opportunity	3,327,477	7,382	1,899,197	-	(1,420,898)	(1,420,898)
Interest and long-term debt	2,562,813	-	-	-	(2,562,813)	(2,562,813)
Total governmental activities	<u>73,408,771</u>	<u>6,731,417</u>	<u>4,109,780</u>	<u>3,607,381</u>	<u>(58,960,193)</u>	<u>(58,960,193)</u>
<b>Business-type activities:</b>						
Rental operations	50,788	8,679	27,795	-	(14,314)	(14,314)
Water and sewer	22,448,787	24,489,123	40,450	6,543,445	8,624,231	8,624,231
Golf course	2,056,395	1,574,674	-	-	(481,721)	(481,721)
Airport	2,042,753	843,707	818	316,944	(881,284)	(881,284)
Parking	4,634,473	4,686,233	91,294	168,601	311,655	311,655
Storm water	2,425,996	1,734,098	14,995	280,427	(396,476)	(396,476)
Total business-type activities	<u>33,659,192</u>	<u>33,336,514</u>	<u>175,352</u>	<u>7,309,417</u>	<u>7,162,091</u>	<u>7,162,091</u>
Total primary government	<u>\$ 107,067,963</u>	<u>\$ 40,067,931</u>	<u>\$ 4,285,132</u>	<u>\$ 10,916,798</u>	<u>(58,960,193)</u>	<u>(51,798,102)</u>
General revenues:						
Property taxes					48,901,253	48,901,253
Income taxes					6,796,948	6,796,948
Other taxes					405,339	405,339
Grants/contributions not restricted to specific programs					1,667,027	1,667,027
Interest earnings					107,835	107,835
Gain on sale of capital assets					20,515	20,515
Miscellaneous revenues					278,909	278,909
Transfers					1,724,528	1,724,528
Total general revenues and transfers					<u>59,902,354</u>	<u>59,902,354</u>
Change in net position					942,161	942,161
Net position - beginning as restated (Note 6)					80,510,601	80,510,601
Net position - ending					<u>\$ 81,452,762</u>	<u>\$ 81,452,762</u>
					<u>\$ 193,519,655</u>	<u>\$ 193,519,655</u>

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, 2013

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,095	\$ -	\$ 287,738	\$ 289,833
Investments	9,412	-	231,534	240,946
Equity in pooled cash/investments	21,565,825	9,645,970	436,472	31,648,267
Receivables (net of allowance for uncollectibles)	983,411	-	2,123,789	3,107,200
Inventories	528,725	-	-	528,725
Prepaid items	49,980	-	1,250	51,230
Advances to other funds	4,881,122	-	-	4,881,122
Cash - restricted	301,228	10,623,243	-	10,924,471
Intergovernmental receivable	601,971	39,600	-	641,571
Total assets	<u>\$ 28,923,769</u>	<u>\$ 20,308,813</u>	<u>\$ 3,080,783</u>	<u>\$ 52,313,365</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,174,495	\$ 233,896	\$ 82,124	\$ 1,490,515
Accrued liabilities	1,797,020	-	14,937	1,811,957
Deposits	954,032	221	44,608	998,861
Unearned revenue	151,066	-	-	151,066
Total liabilities	<u>4,076,613</u>	<u>234,117</u>	<u>141,669</u>	<u>4,452,399</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	212,547	-	-	212,547
Unavailable revenue - grants	218,118	30,000	-	248,118
Total deferred inflows of resources	<u>430,665</u>	<u>30,000</u>	<u>-</u>	<u>460,665</u>
<b>FUND BALANCES</b>				
Nonspendable	5,553,876	-	2,125,039	7,678,915
Restricted	195,938	12,421,146	120,188	12,737,272
Committed	1,192,444	214,717	-	1,407,161
Assigned	11,528,480	7,408,833	693,887	19,631,200
Unassigned	5,945,753	-	-	5,945,753
Total fund balances	<u>24,416,491</u>	<u>20,044,696</u>	<u>2,939,114</u>	<u>47,400,301</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 28,923,769</u>	<u>\$ 20,308,813</u>	<u>\$ 3,080,783</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the governmental funds.	123,660,625
Earned but unavailable revenue is not recorded in the governmental funds.	460,665
Accrued interest payable is not recorded in the governmental funds.	(791,451)
Net pension asset is not included in the governmental funds.	2,425,222
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 governmental funds.	(91,937,560)
Refunding charge is not included in the governmental funds	234,960
Net position of governmental activities	<u>\$ 81,452,762</u>

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, 2013

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 48,905,905	\$ -	\$ -	\$ 48,905,905
Payment in lieu of taxes	1,527	-	-	1,527
Income taxes	6,796,948	-	-	6,796,948
Business taxes	382,553	-	-	382,553
Gross receipts taxes	22,786	-	-	22,786
Discount allowance	(326,225)	-	-	(326,225)
Penalties/interest on delinquent taxes	424,791	-	-	424,791
Licenses and permits	2,317,125	-	-	2,317,125
Intergovernmental	3,551,092	1,223,755	236,440	5,011,287
Charges for services	1,701,921	-	905,598	2,607,519
Fines and forfeitures	1,260,664	-	47,291	1,307,955
Miscellaneous	1,678,527	1,282,778	709,377	3,670,682
Total revenues	<u>66,717,614</u>	<u>2,506,533</u>	<u>1,898,706</u>	<u>71,122,853</u>
<b>EXPENDITURES</b>				
Current:				
General government	9,031,999	-	-	9,031,999
Public safety	29,283,426	-	57,972	29,341,398
Public works	13,941,014	-	-	13,941,014
Recreation and parks	4,716,885	-	1,650,610	6,367,495
Community development	558,674	-	200,568	759,242
Economic opportunity	3,098,720	-	-	3,098,720
Debt service:				
Principal	4,621,888	-	-	4,621,888
Interest	2,374,364	-	-	2,374,364
Other fees	165,019	-	-	165,019
Capital projects	-	4,131,735	-	4,131,735
Total expenditures	<u>67,791,989</u>	<u>4,131,735</u>	<u>1,909,150</u>	<u>73,832,874</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,074,375)</u>	<u>(1,625,202)</u>	<u>(10,444)</u>	<u>(2,710,021)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,872,703	3,951,526	190,252	6,014,481
Transfers out	(4,264,750)	-	(25,203)	(4,289,953)
Bonds issued/reallocated	12,828,000	8,446,997	-	21,274,997
Premium on bonds issued/reallocated	2,522,610	7,699	-	2,530,309
Payment to refunded bond escrow agent	(15,197,506)	-	-	(15,197,506)
Insurance reimbursements	19,710	-	-	19,710
Capital asset disposition	20,515	-	-	20,515
Total other financing sources (uses)	<u>(2,198,718)</u>	<u>12,406,222</u>	<u>165,049</u>	<u>10,372,553</u>
Net change in fund balances	<u>(3,273,093)</u>	<u>10,781,020</u>	<u>154,605</u>	<u>7,662,532</u>
Fund balances - beginning	27,689,584	9,263,676	2,784,509	39,737,769
Fund balances - ending	<u>\$ 24,416,491</u>	<u>\$ 20,044,696</u>	<u>\$ 2,939,114</u>	<u>\$ 47,400,301</u>

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, 2013

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

Net change in fund balances - total governmental funds	\$ 7,662,532
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.	(2,754,523)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net position.	1,078,273
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 position. Also, governmental funds report the effect of, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,777,054)
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.	(1,380,440)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	113,373
Change in net position of governmental activities	<u>\$ 942,161</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 48,781,757	\$ 48,781,757	\$ 48,905,905	\$ 124,148
Payment in lieu of taxes	1,275	1,275	1,527	252
Income taxes	6,500,000	6,500,000	6,796,948	296,948
Business taxes	300,000	300,000	382,553	82,553
Gross receipts taxes	-	-	22,786	22,786
Discount allowance	(300,000)	(300,000)	(326,225)	(26,225)
Penalties/interest on delinquent taxes	350,000	350,000	424,791	74,791
Licenses and permits	2,291,868	2,295,068	2,317,125	22,057
Intergovernmental	3,402,508	3,662,710	3,551,092	(111,618)
Charges for services	1,591,330	1,588,130	1,701,921	113,791
Fines and forfeitures	1,337,050	1,337,050	1,260,664	(76,386)
Miscellaneous	1,339,396	1,383,396	1,678,527	295,131
Total revenues	<u>65,595,184</u>	<u>65,899,386</u>	<u>66,717,614</u>	<u>818,228</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Executive and legislative	1,078,560	1,083,435	1,002,051	81,384
Legal services	765,695	765,695	661,583	104,112
Registration and election	3,508	3,508	2,162	1,346
Finance and accounting	1,289,431	1,289,431	1,085,285	204,146
Purchasing	633,682	643,917	627,267	16,650
Information technology	886,742	886,742	820,804	65,938
Geographic information system	243,318	243,318	233,908	9,410
Audio visual	190,566	190,566	146,658	43,908
Human resources	715,159	735,159	610,279	124,880
Safety	209,394	201,746	199,148	2,598
Planning and zoning	1,114,001	1,114,001	1,072,520	41,481
Code enforcement	608,174	613,253	586,643	26,610
Facilities maintenance	890,079	890,079	870,090	19,989
Asset management	503,346	801,346	458,644	342,702
Municipal Annex	391,888	391,888	371,021	20,867
Community promotion	65,756	65,756	64,899	857
Special events	223,852	223,852	219,037	4,815
Total general government	<u>9,813,151</u>	<u>10,143,692</u>	<u>9,031,999</u>	<u>1,111,693</u>
Public safety:				
Police department	28,001,400	28,190,702	27,044,522	1,146,180
Fire and rescue services	335,143	335,143	331,366	3,777
Building inspection	1,043,721	1,124,387	1,094,894	29,493
Electrical inspection	303,350	347,539	341,964	5,575
Construction inspection	516,897	517,120	470,680	46,440
Total public safety	<u>30,200,511</u>	<u>30,514,891</u>	<u>29,283,426</u>	<u>1,231,465</u>
Public works:				
General administration	1,407,970	1,407,970	1,353,008	54,962
Machinery & equipment maintenance	1,101,668	1,101,668	978,614	123,054
Engineering	1,379,604	1,379,604	1,322,995	56,609
Waste collection and disposal	3,849,952	3,849,952	3,708,802	141,150
Streets, roadways and alleys	3,994,168	3,994,168	3,545,325	448,843
Snow removal	343,898	395,396	303,287	92,109
Street lighting	2,343,100	2,343,100	2,124,647	218,453
Traffic lines	611,373	611,373	574,169	37,204
Bus service	30,122	30,197	30,167	30
Total public works	<u>15,061,855</u>	<u>15,113,428</u>	<u>13,941,014</u>	<u>1,172,414</u>

(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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Recreation and parks:				
Municipal parks	3,253,793	3,292,793	2,929,999	362,794
Harry Grove stadium	178,951	178,951	150,173	28,778
Recreation centers	1,337,310	1,337,310	1,262,192	75,118
Burck Street Center	16,320	25,180	21,060	4,120
Recreation commission	117,554	117,554	92,928	24,626
Swimming pools	263,388	277,388	260,533	16,855
Total recreation and parks	<u>5,167,316</u>	<u>5,229,176</u>	<u>4,716,885</u>	<u>512,291</u>
Community development:				
Community development	60,437	60,437	60,433	4
Economic development	604,920	604,920	498,241	106,679
Total community development	<u>665,357</u>	<u>665,357</u>	<u>558,674</u>	<u>106,683</u>
Economic opportunity:				
Community Action Agency	3,207,445	3,278,345	3,098,720	179,625
Total economic opportunity	<u>3,207,445</u>	<u>3,278,345</u>	<u>3,098,720</u>	<u>179,625</u>
Miscellaneous	<u>100,000</u>	<u>15,465</u>	<u>-</u>	<u>15,465</u>
Debt service:				
Principal	4,463,889	4,621,889	4,621,888	1
Interest	2,616,231	2,374,389	2,374,364	25
Other fees	18,417	180,720	165,019	15,701
Total debt service	<u>7,098,537</u>	<u>7,176,998</u>	<u>7,161,271</u>	<u>15,727</u>
Total expenditures	<u>71,314,172</u>	<u>72,137,352</u>	<u>67,791,989</u>	<u>4,345,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,718,988)</u>	<u>(6,237,966)</u>	<u>(1,074,375)</u>	<u>5,163,591</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,847,500	1,847,500	1,872,703	25,203
Transfers out	(3,014,514)	(4,276,405)	(4,264,750)	11,655
Bonds issued	-	12,828,000	12,828,000	-
Premium on bonds issued	-	2,530,310	2,522,610	(7,700)
Payment to refunded bond escrow agent	-	(15,197,507)	(15,197,506)	1
Insurance reimbursements	5,000	-	19,710	19,710
Capital asset disposition	3,500	8,500	20,515	12,015
Total other financing sources (uses)	<u>(1,158,514)</u>	<u>(2,259,602)</u>	<u>(2,198,718)</u>	<u>60,884</u>
Net change in fund balances	<u>(6,877,502)</u>	<u>(8,497,568)</u>	<u>(3,273,093)</u>	<u>5,224,475</u>
Fund balance - beginning	15,685,490	17,305,556	27,689,584	10,384,028
Fund balance - ending	<u>\$ 8,807,988</u>	<u>\$ 8,807,988</u>	<u>\$ 24,416,491</u>	<u>\$ 15,608,503</u>

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

The City of Frederick, Maryland  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 42,860	\$ -	\$ 1,000	\$ 43,860
Investments	-	-	-	-	5,107	5,107
Equity in pooled cash/investments	34,545,589	353,729	4,155,861	4,038,547	59,363	43,153,089
Receivables (net of allowance of uncollectibles)	4,801,979	184,963	18,845	314,656	700	5,321,143
Inventories	372,007	-	-	-	92,582	464,589
Prepays	98,944	1,027	-	-	5,500	105,471
Total current assets	<u>39,818,519</u>	<u>539,719</u>	<u>4,217,566</u>	<u>4,353,203</u>	<u>164,252</u>	<u>49,093,259</u>
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	1,041,210	396,523	149,870	22	6	1,587,631
Long term receivables	393,723	-	-	-	-	393,723
Net pension asset	425,088	2,944	51,306	10,815	36,738	526,891
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	12,798,815	43,962,447	-	180,795	87,250,331
Improvements other than buildings	162,039,743	6,793,856	242,107	60,814,810	5,565,390	235,455,906
Machinery and equipment	6,692,310	902,999	1,980,568	925,682	878,717	11,380,276
Construction in progress	28,306,061	2,253,445	839,913	2,188	-	31,401,607
Less accumulated depreciation	(57,432,679)	(7,882,468)	(15,918,701)	(16,777,747)	(3,122,998)	(101,134,593)
Total noncurrent assets	<u>175,277,068</u>	<u>48,781,719</u>	<u>34,750,749</u>	<u>44,986,520</u>	<u>3,569,298</u>	<u>307,365,354</u>
Total assets	<u>215,095,587</u>	<u>49,321,438</u>	<u>38,968,315</u>	<u>49,339,723</u>	<u>3,733,550</u>	<u>356,458,613</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charge on refunding	<u>2,111,547</u>	<u>35,432</u>	<u>537,305</u>	<u>-</u>	<u>-</u>	<u>2,684,284</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	2,876,510	21,608	43,221	5,252	56,586	3,003,177
Accrued liabilities	1,597,972	100,699	400,399	29,262	48,356	2,176,688
Deposits	1,023	82,531	-	-	410	83,964
Unearned revenue	46,332	402,087	71,608	-	51,077	571,104
Advances from other funds	-	-	-	-	4,881,122	4,881,122
Compensated absences	292,627	16,766	24,938	13,801	32,795	380,927
Bonds, notes, and loans payable	4,979,732	957,381	1,379,482	45,833	23,167	7,385,595
Total current liabilities	<u>9,794,196</u>	<u>1,581,072</u>	<u>1,919,648</u>	<u>94,148</u>	<u>5,093,513</u>	<u>18,482,577</u>
Noncurrent liabilities:						
OPEB liabilities	2,981,159	109,045	213,821	296,923	335,216	3,936,164
Compensated absences	3,523	-	869	-	8,160	12,552
Bonds, notes, and loans payable	106,455,026	12,981,669	21,923,846	979,674	851,734	143,191,949
Total noncurrent liabilities	<u>109,439,708</u>	<u>13,090,714</u>	<u>22,138,536</u>	<u>1,276,597</u>	<u>1,195,110</u>	<u>147,140,665</u>
Total liabilities	<u>119,233,904</u>	<u>14,671,786</u>	<u>24,058,184</u>	<u>1,370,745</u>	<u>6,288,623</u>	<u>165,623,242</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	63,009,116	34,839,725	11,390,311	43,950,176	2,657,654	155,846,982
Restricted for:						
Other improvements	6,611,468	72,692	-	-	-	6,684,160
Debt service	14,383	-	5,804	22	5	20,214
Unrestricted	28,338,263	(227,333)	4,051,321	4,018,780	(5,212,732)	30,968,299
Total net position	<u>\$ 97,973,230</u>	<u>\$ 34,685,084</u>	<u>\$ 15,447,436</u>	<u>\$ 47,968,978</u>	<u>\$(2,555,073)</u>	<u>\$ 193,519,655</u>

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 Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Operating revenues:						
Charges for services:						
Water and sewer charges	\$ 22,793,513	\$ -	\$ -	\$ -	\$ -	\$ 22,793,513
Golf course fees	-	-	-	-	1,500,288	1,500,288
Airport fees	-	810,293	-	-	-	810,293
Parking fees	-	-	3,359,087	-	-	3,359,087
Stormwater management fees	-	-	-	1,732,117	-	1,732,117
Licenses and permits	287,122	-	131,204	-	-	418,326
Fines and forfeitures	34,829	-	706,452	-	-	741,281
Miscellaneous	266,365	28,693	366,007	561	81,858	743,484
Total operating revenues	<u>23,381,829</u>	<u>838,986</u>	<u>4,562,750</u>	<u>1,732,678</u>	<u>1,582,146</u>	<u>32,098,389</u>
Operating expenses:						
Finance	223,885	-	-	-	-	223,885
Plumbing inspection	330,735	-	-	-	-	330,735
Water service	2,220,381	-	-	-	-	2,220,381
Water chemicals	353,241	-	-	-	-	353,241
Water treatment	4,193,387	-	-	-	-	4,193,387
Sewage collection/disposal	3,107,942	-	-	-	-	3,107,942
Sewage maintenance/house connections	699,035	-	-	-	-	699,035
Inflow and infiltration	358,856	-	-	-	-	358,856
Plant maintenance	1,054,030	-	-	-	-	1,054,030
Public housing	-	-	-	-	35,578	35,578
Golf course maintenance	-	-	-	-	598,758	598,758
Golf course clubhouse	-	-	-	-	977,381	977,381
Golf course restaurant	-	-	-	-	244,754	244,754
Airport	-	588,541	-	-	-	588,541
Parking facilities	-	-	1,697,182	-	-	1,697,182
Stormwater management activities	-	-	-	768,363	-	768,363
Depreciation	5,359,733	821,811	1,628,308	1,608,272	211,069	9,629,193
Total operating expenses	<u>17,901,225</u>	<u>1,410,352</u>	<u>3,325,490</u>	<u>2,376,635</u>	<u>2,067,540</u>	<u>27,081,242</u>
Operating income/(loss)	<u>5,480,604</u>	<u>(571,366)</u>	<u>1,237,260</u>	<u>(643,957)</u>	<u>(485,394)</u>	<u>5,017,147</u>
Nonoperating revenues/(expenses)						
Intergovernmental	329,830	306,004	259,895	14,995	27,795	938,519
Interest income	99,707	6,181	10,275	9,361	192	125,716
Gain on disposal of capital assets	5,532	2,340	-	-	-	7,872
Insurance reimbursements	381,732	-	-	-	-	381,732
Other nonoperating revenues	143,611	-	-	-	-	143,611
Debt premium amortization	576,419	2,381	123,483	1,420	1,207	704,910
Interest expense	(3,896,626)	(577,247)	(1,168,567)	(49,352)	(39,635)	(5,731,427)
Loss on disposal of capital assets	(3,924)	-	-	-	-	(3,924)
Other nonoperating expenses	(647,012)	(55,154)	(140,416)	(9)	(8)	(842,599)
Total nonoperating revenue/(expenses)	<u>(3,010,731)</u>	<u>(315,495)</u>	<u>(915,330)</u>	<u>(23,585)</u>	<u>(10,449)</u>	<u>(4,275,590)</u>
Income/(loss) before contributions and transfers	2,469,873	(886,861)	321,930	(667,542)	(495,843)	741,557
Capital contributions	6,254,065	11,758	-	280,427	-	6,546,250
Transfers in	-	724,392	-	383,000	45,756	1,153,148
Transfers out	(2,680,176)	-	(150,000)	(47,500)	-	(2,877,676)
Change in net position	<u>6,043,762</u>	<u>(150,711)</u>	<u>171,930</u>	<u>(51,615)</u>	<u>(450,087)</u>	<u>5,563,279</u>
Total net position - beginning as previously reported	92,690,336	34,882,097	15,466,184	48,029,536	(2,097,815)	188,970,338
Cumulative effect of change in accounting principle	(760,868)	(46,302)	(190,678)	(8,943)	(7,171)	(1,013,962)
Total net position - beginning restated	<u>91,929,468</u>	<u>34,835,795</u>	<u>15,275,506</u>	<u>48,020,593</u>	<u>(2,104,986)</u>	<u>187,956,376</u>
Total net position - ending	<u>\$ 97,973,230</u>	<u>\$ 34,685,084</u>	<u>\$ 15,447,436</u>	<u>\$ 47,968,978</u>	<u>\$(2,555,073)</u>	<u>\$ 193,519,655</u>

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, 2013

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Cash flows from operating activities:						
Receipts from customers and users	\$ 22,691,886	\$ 842,672	\$ 4,591,767	\$ 1,710,842	\$ 1,589,452	\$ 31,426,619
Receipts from other sources	143,611	-	91,294	-	-	234,905
Payments to vendors	(8,540,516)	(378,169)	(1,225,328)	(390,440)	(1,138,434)	(11,672,887)
Payments to employees	(3,764,007)	(195,226)	(450,721)	(353,594)	(680,608)	(5,444,156)
Net cash provided (used) by operating activities	<u>10,530,974</u>	<u>269,277</u>	<u>3,007,012</u>	<u>966,808</u>	<u>(229,590)</u>	<u>14,544,481</u>
Cash flows from noncapital financing activities:						
Transfers out	(2,680,176)	-	(150,000)	(47,500)	-	(2,877,676)
Transfers in	-	724,392	-	-	-	724,392
Operating subsidy	-	-	-	-	27,795	27,795
Intergovernmental payments	40,450	818	-	-	-	41,268
Due to other funds	-	-	-	-	328,146	328,146
Net cash provided (used) by noncapital financing activities	<u>(2,639,726)</u>	<u>725,210</u>	<u>(150,000)</u>	<u>(47,500)</u>	<u>355,941</u>	<u>(1,756,075)</u>
Cash flows from capital and related financing activities:						
Capital contributions	6,405,475	163,832	168,601	295,421	-	7,033,329
Capital asset acquisitions	(9,498,066)	(629,940)	(634,940)	(279,127)	(91,512)	(11,133,585)
Transfer in/(out) for capital asset acquisition and financing	-	-	-	383,000	45,756	428,756
Proceeds sale of capital assets	5,863	2,340	-	-	-	8,203
Principal payments	(38,180,740)	(13,890,000)	(9,492,000)	(50,000)	(40,000)	(61,652,740)
Interest payments	(3,384,710)	(695,214)	(1,055,309)	(50,019)	(40,169)	(5,225,421)
Proceeds from insurance reimbursements	381,732	-	-	-	-	381,732
Proceeds from debt issue	38,543,092	11,600,000	8,254,214	-	-	58,397,306
Reallocation of prior debt proceeds	(8,343,000)	-	-	(85,792)	(18,204)	(8,446,996)
Debt issuance costs	(412,752)	(50,000)	(94,735)	-	-	(557,487)
Other debt related costs	(58,850)	(725)	(1,240)	(9)	(8)	(60,832)
Net cash provided (used) by capital and related financing activities	<u>(14,541,956)</u>	<u>(3,499,707)</u>	<u>(2,855,409)</u>	<u>213,474</u>	<u>(144,137)</u>	<u>(20,827,735)</u>
Cash flows from investing activities:						
Interest earned	100,561	6,296	10,306	9,367	193	126,723
Net cash provided by investing activities	<u>100,561</u>	<u>6,296</u>	<u>10,306</u>	<u>9,367</u>	<u>193</u>	<u>126,723</u>
Net increase (decrease) in cash equivalents	(6,550,147)	(2,498,924)	11,909	1,142,149	(17,593)	(7,912,606)
Cash equivalents - beginning	42,136,946	3,249,176	4,336,682	2,896,421	83,068	52,702,293
Cash equivalents - ending	<u>\$ 35,586,799</u>	<u>\$ 750,252</u>	<u>\$ 4,348,591</u>	<u>\$ 4,038,570</u>	<u>\$ 65,475</u>	<u>\$ 44,789,687</u>

(continued)

The City of Frederick, Maryland  
Statement of Cash Flows (continued)  
Proprietary Funds  
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Reconciliation of operating income to net cash provided by operating activities:						
Operating income/(loss)	<u>\$ 5,480,604</u>	<u>\$ (571,366)</u>	<u>\$ 1,237,260</u>	<u>\$ (643,957)</u>	<u>\$ (485,394)</u>	<u>\$ 5,017,147</u>
Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities.	<u>143,611</u>	<u>-</u>	<u>91,294</u>	<u>-</u>	<u>-</u>	<u>234,905</u>
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	5,359,733	821,811	1,628,308	1,608,272	211,069	9,629,193
(Increase)/decrease in accounts receivable	(602,458)	(2,459)	21,359	(21,836)	778	(604,616)
(Increase)/decrease in inventory	10,973	-	-	-	(3,763)	7,210
(Increase)/decrease in prepaids	(6,267)	(1,027)	-	-	(2,500)	(9,794)
Decrease in net pension asset	(29,162)	(833)	(5,953)	(2,308)	(4,863)	(43,119)
(Decrease)/increase in accounts payable	148,968	9,385	6,352	367	3,525	168,597
(Decrease)/increase in unearned revenue	(2,237)	3,651	7,658	-	6,528	15,600
(Decrease)/increase in deposits	(85,248)	2,494	-	-	-	(82,754)
(Decrease)/increase in OPEB liability	115,004	8,708	19,559	30,956	47,644	221,871
(Decrease)/increase in wages payable	3,204	(678)	2,306	(4,619)	4,027	4,240
(Decrease)/increase in compensated absences	(5,751)	(409)	(1,131)	(67)	(6,641)	(13,999)
Total adjustments	<u>4,906,759</u>	<u>840,643</u>	<u>1,678,458</u>	<u>1,610,765</u>	<u>255,804</u>	<u>9,292,429</u>
Net cash provided (used) by operating activities	<u>\$ 10,530,974</u>	<u>\$ 269,277</u>	<u>\$ 3,007,012</u>	<u>\$ 966,808</u>	<u>\$ (229,590)</u>	<u>\$ 14,544,481</u>

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

The City of Frederick, Maryland  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2013

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>
<b>ASSETS:</b>		
Cash and short-term investments	\$ 6,436,228	\$ 761,537
Receivables		
Accounts receivable - employee	<u>200,421</u>	<u>800</u>
Total receivables	<u>200,421</u>	<u>800</u>
Investments, at fair value:		
Equities	73,072,522	9,944,089
Fixed income	<u>26,423,245</u>	<u>4,825,648</u>
Total investments	<u>99,495,767</u>	<u>14,769,737</u>
Total assets	<u>106,132,416</u>	<u>15,532,074</u>
<b>LIABILITIES:</b>		
Benefits payable	<u>40,055</u>	<u>337,665</u>
Total liabilities	<u>40,055</u>	<u>337,665</u>
<b>NET POSITION</b>		
Held in trust for pension/other benefits	<u>\$ 106,092,361</u>	<u>\$ 15,194,409</u>

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 Position  
Fiduciary Funds  
For the Year Ended June 30, 2013

	Pension Trust Fund	OPEB Trust Fund
ADDITIONS:		
Contributions - employer	\$ 12,150,139	\$ 5,963,891
Contributions - employees	1,650,928	69,210
Interest	1,816,022	290,900
Net appreciation/(depreciation)	11,861,630	1,464,083
Total Additions	<u>27,478,719</u>	<u>7,788,084</u>
DEDUCTIONS:		
Pension/OPEB benefits	8,690,017	2,636,568
Service charges	622,613	414,674
Total Deductions	<u>9,312,630</u>	<u>3,051,242</u>
Change in net position	18,166,089	4,736,842
Net position - beginning	87,926,272	10,457,567
Net position - ending	<u>\$ 106,092,361</u>	<u>\$ 15,194,409</u>

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

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

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 position 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.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

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.

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, deferred outflows/inflows of resources and net position/fund balance

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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, 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.

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.

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:

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

1. Summary of Significant Accounting Policies (continued)

Deferred outflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge of refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Unearned 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 \$151,056 in unearned revenue and proprietary funds reported \$571,104.

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 position. Bond premiums and discounts 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.

Deferred inflows of resources

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

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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies (continued)

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.

Net position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position 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 position invested in capital assets, net of related debt excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 position.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. 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 \$123,660,625 difference are as follows:

Capital assets	\$ 211,934,741
Less: Accumulated depreciation	<u>(88,274,116)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ <u>123,660,625</u>

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 \$91,937,560 difference are as follows:

Bonds payable	\$ 69,619,446
Add: Issuance premium (to be amortized over life of debt)	2,882,035
Add: Other post-employment benefits	17,025,395
Add: Compensated absences	<u>2,410,683</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ <u>91,937,560</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

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

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 position 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 \$2,754,523 difference are as follows:

Capital outlay	\$ 4,151,275
Depreciation expense	<u>(6,905,798)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (2,754,523)</u>

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 position.” The details of this \$ 1,078,273 difference are as follows:

In the statement of activities, only the <i>gain/loss</i> 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 position differs from the change in fund balance by the remaining book value of the capital assets sold.	\$ (3,040)
Donation and/or transfer of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not capitalized.	<u>1,081,313</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 1,078,273</u>

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 position. 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 \$ 3,777,054 difference are as follows:

Principal repayments	\$ 4,621,888
Issuance of debt	(21,262,031)
Debt premium	(2,543,275)
Defeasance of debt	14,755,000
Amortization of bond premiums	299,234
Debt refunding charge	379,683
Amortization of debt refunding	<u>(27,553)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (3,777,054)</u>

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 \$ 1,380,440 difference are as follows:

Compensated absences	\$ 27,486
Pension expense resulting in a net pension asset reduction	(342,088)
Other post-employment benefits	1,734,433
Accrued interest	<u>(39,391)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 1,380,440</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

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.
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).

As of June 30, 2013 the amount of departmental encumbrances within the governmental funds are as follows;

General Fund -	\$ 1,587,222
CDS Program Fund -	13,728
Weinberg Center for the Arts -	8,040
Community Development -	920
General CIP fund -	589,110

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 2013, economic development exceeded its budget by \$9,756. This over-expenditure was covered with related departmental grant revenues received greater than budgeted.

The Weinberg Center exceeded their budget allotment. The primary reason for the over-expenditure was the rehabilitation of the interior and the cost of a speaker series at the center, all of which was covered by excess revenues generated by the Weinberg Center for the Arts

Budget amendments were made during fiscal year 2013 which resulted in a net increase in the amount of \$17,282,578 in the General Fund to account for a bond refunding (\$15,358,310), unanticipated revenue receipts (\$304,202) and additional use of fund balance (\$1,620,066).

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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

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 includes 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.

As of June 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	\$ 20,557,802
OPEB Fund investments	14,769,737
Pension Fund investments	<u>105,931,994</u>
Total fair value of investments	<u>\$ 141,259,533</u>

*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, 2013, 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 \$68,023,896, and the bank balance was \$69,555,308. As of June 30, 2013, 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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

4. Detailed notes on all funds (continued)

	<u>Pension Fund investments</u>	<u>OPEB Trust investments</u>
Equities		
Growth equities	\$ 24,374,502	\$ 2,562,523
Small cap equities	3,094,404	973,301
Mid cap equities	7,150,950	1,686,925
Large cap equities	28,184,674	2,446,153
International equities	<u>10,267,992</u>	<u>2,275,187</u>
Total equities	<u>\$ 73,072,522</u>	<u>\$ 9,944,089</u>
Core Fixed income	\$ 20,366,000	\$ -
Fixed income	2,773,041	4,825,648
Research Advantage Collective Trust	<u>3,284,204</u>	<u>-</u>
Total fixed income	<u>\$ 26,423,245</u>	<u>\$ 4,825,648</u>
Cash and short-term investments		
Cash management fund	\$ 5,037,446	\$ 761,537
Disbursement payment account	<u>1,398,782</u>	<u>-</u>
Total cash and short-term investments	<u>\$ 6,436,228</u>	<u>\$ 761,537</u>
Total	<u>\$ 105,931,995</u>	<u>\$ 15,531,274</u>

The average quality of the core fixed income investments in the pension fund is AA2, with yield to maturity of 2.79% and an effective duration of 5.16 years. 60.4% of the portfolio is rated AAA, 5.0% AA, 12.0% A, and 21.7% BBB.

Petty cash amounts at June 30, 2013 totaled \$46,855.

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:

	<u>General</u>	<u>CIP</u>	<u>Water &amp; Sewer</u>	<u>Airport</u>	<u>Parking</u>	<u>Storm Water Management</u>	<u>Non-major Funds</u>	<u>Total</u>
Taxes	\$ 461,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 461,724
Loans/notes	94,050	-	396,784	-	-	-	2,123,789	2,614,623
Intergovernmental	601,971	39,600	14,486	149,386	18,835	42	544	824,864
Interest	136	-	586	32	10	5	1	770
Other	<u>558,625</u>	<u>-</u>	<u>4,872,310</u>	<u>36,819</u>	<u>-</u>	<u>314,609</u>	<u>8,066</u>	<u>5,790,429</u>
Gross receivables	1,716,506	39,600	5,284,166	186,237	18,845	314,656	2,132,400	9,692,410
Less: allowance for un-collectibles	<u>(131,124)</u>	<u>-</u>	<u>(88,464)</u>	<u>(1,274)</u>	<u>-</u>	<u>-</u>	<u>(7,910)</u>	<u>(228,772)</u>
Net receivables	<u>\$ 1,585,382</u>	<u>\$ 39,600</u>	<u>\$ 5,195,702</u>	<u>\$ 184,963</u>	<u>\$ 18,845</u>	<u>\$ 314,656</u>	<u>\$ 2,124,490</u>	<u>\$ 9,463,638</u>

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2013 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 49,044,196	\$ -	\$ -	\$ -	\$ 49,044,196
Construction in progress	<u>9,898,609</u>	<u>396,774</u>	<u>-</u>	<u>(6,760,419)</u>	<u>3,534,964</u>
Total capital assets, not being depreciated	<u>58,942,805</u>	<u>396,774</u>	<u>-</u>	<u>(6,760,419)</u>	<u>52,579,160</u>
Capital assets, being depreciated:					
Buildings	29,027,492	-	-	-	29,027,492
Other improvements	31,358,205	70,887	-	7,032	31,436,124
Infrastructure	65,598,579	3,588,653	-	6,753,387	75,940,619
Machinery and equipment	<u>22,114,156</u>	<u>1,176,274</u>	<u>321,322</u>	<u>(17,762)</u>	<u>22,951,346</u>
Total capital assets, being depreciated	<u>148,098,432</u>	<u>4,835,814</u>	<u>321,322</u>	<u>6,742,657</u>	<u>159,355,581</u>
Less accumulated depreciation for:					
Buildings	18,237,594	955,045	-	-	19,192,639
Other improvements	11,725,216	1,426,094	-	-	13,151,310
Infrastructure	33,668,466	3,066,357	-	-	36,734,823
Machinery and equipment	<u>18,073,086</u>	<u>1,458,302</u>	<u>318,282</u>	<u>(17,762)</u>	<u>19,195,344</u>
Total accumulated depreciation	<u>81,704,362</u>	<u>6,905,798</u>	<u>318,282</u>	<u>(17,762)</u>	<u>88,274,116</u>
Total capital assets, being depreciated, net	<u>66,394,070</u>	<u>(2,069,984)</u>	<u>3,040</u>	<u>6,760,419</u>	<u>71,081,465</u>
Governmental activities capital assets, net	<u>\$ 125,336,875</u>	<u>\$ (1,673,210)</u>	<u>\$ 3,040</u>	<u>\$ -</u>	<u>\$ 123,660,625</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 40,503,582	\$ -	\$ -	\$ -	\$ 40,503,582
Construction in progress	<u>34,054,391</u>	<u>7,946,341</u>	<u>-</u>	<u>(10,599,125)</u>	<u>31,401,607</u>
Total capital assets, not being depreciated	<u>74,557,973</u>	<u>7,946,341</u>	<u>-</u>	<u>(10,599,125)</u>	<u>71,905,189</u>
Capital assets, being depreciated:					
Buildings	82,288,199	632,292	-	4,329,840	87,250,331
Other improvements	226,974,152	2,212,469	-	6,269,285	235,455,906
Machinery and equipment	<u>10,777,557</u>	<u>757,568</u>	<u>172,610</u>	<u>17,762</u>	<u>11,380,277</u>
Total capital assets, being depreciated	<u>320,039,908</u>	<u>3,602,329</u>	<u>172,610</u>	<u>10,616,887</u>	<u>334,086,514</u>
Less accumulated depreciation for:					
Buildings	30,832,321	2,490,708	-	-	33,323,029
Other improvements	52,815,650	6,258,783	-	-	59,074,433
Machinery and equipment	<u>8,008,023</u>	<u>879,702</u>	<u>168,355</u>	<u>17,762</u>	<u>8,737,132</u>
Total accumulated depreciation	<u>91,655,994</u>	<u>9,629,193</u>	<u>168,355</u>	<u>17,762</u>	<u>101,134,594</u>
Total capital assets, being depreciated, net	<u>228,383,914</u>	<u>(6,026,864)</u>	<u>4,255</u>	<u>10,599,125</u>	<u>232,951,920</u>
Business-type activities capital assets, net	<u>\$ 302,941,887</u>	<u>\$ 1,919,477</u>	<u>\$ 4,255</u>	<u>\$ -</u>	<u>\$ 304,857,109</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	\$ 291,973
Public safety	391,725
Public works	3,923,715
Recreation and parks	2,228,796
Economic opportunity	<u>69,589</u>
Total depreciation expense – governmental activities	<u>\$ 6,905,798</u>
Business-type activities:	
Rental operations	\$ 15,210
Water and sewer	5,359,733
Golf course	195,859
Airport	821,811
Parking	1,628,308
Storm water	<u>1,608,272</u>
Total depreciation expense – business-type activities	<u>\$ 9,629,193</u>

Construction commitments

The City has active construction projects as of June 30, 2013. At year end the City's commitments with contractors for major projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Ballenger-McKinney Wastewater Treatment Plant	\$ 12,093,535	\$ 3,787,511
Wastewater Treatment Plant Solids Process Rehab	3,305,771	5,088,799
ENR Upgrade Waste Water Treatment Plant	383,370	2,387,136

The Ballenger-McKinney Wastewater Treatment Plant is primarily debt funded. The Wastewater Treatment Plant Solids Process Rehab and ENR Upgrade to the Waste Water Treatment Plant are funded with a combination of state grants and debt.

Inter-fund receivables, payables and transfers

The composition of inter-fund balances as of June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Golf Course	\$ 4,881,122

The \$4,881,122 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:

	<u>Transfers In:</u>						<u>Total</u>
	<u>General Fund</u>	<u>CIP Fund</u>	<u>Non-major Governmental</u>	<u>Airport Fund</u>	<u>Storm Water Fund</u>	<u>Non-major Proprietary</u>	
Transfer out:							
General fund	\$ -	\$3,350,106	\$ 190,252	\$ 724,392	\$ -	\$ -	\$ 4,264,750
Non-major governmental fund	25,203	-	-	-	-	-	25,203
Water and sewer fund	1,650,000	601,420	-	-	383,000	45,756	2,680,176
Parking fund	150,000	-	-	-	-	-	150,000
Storm water management fund	<u>47,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,500</u>
Total transfers out	<u>\$1,872,703</u>	<u>\$3,951,526</u>	<u>\$ 190,252</u>	<u>\$ 724,392</u>	<u>\$ 383,000</u>	<u>\$ 45,756</u>	<u>\$ 7,167,629</u>

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

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

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 \$190,252 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.

\$724,392 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, 2013 is as follows.

	<u>General</u>	<u>General CIP</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ 528,725	\$ -	\$ -	\$ 528,725
Prepaid items	49,980	-	1,250	51,230
Loans	94,049	-	2,123,789	2,217,838
Advances to other funds	4,881,122	-	-	4,881,122
Restricted for:				
Streets/roadways	-	765,371	-	765,371
Parks/recreation	-	9,500,000	-	9,500,000
Harry Grove Stadium	-	357,871	-	357,871
Parks impact fees	-	1,797,904	-	1,797,904
Weinberg Center	-	-	120,188	120,188
Debt service reserve	189,283	-	-	189,283
Other purposes	6,655	-	-	6,655
Committed to:				
General government	370,894	100,260	-	471,154
Public safety	13,589	-	-	13,589
Public works	12,721	-	-	12,721
Streets/roadways	711,116	215	-	711,331
Street lights/signals/sidewalks	3,784	95,621	-	99,405
Pathways	-	18,620	-	18,620
Parks/recreation	30,340	-	-	30,340
Economic development	50,000	-	-	50,000
Assigned:				
General government	147,020	-	-	147,020
Municipal facilities	-	203,004	-	203,004
Public safety	204,380	-	13,728	218,108
Public works	174,051	-	-	174,051
Streets/roadways	-	2,619,280	-	2,619,280
Street lights/signals/sidewalks	-	946,513	-	946,513
Pathways	-	159,136	-	159,136
Parks/recreations	146,902	1,462,338	-	1,609,240
Harry Grove Stadium	-	49,275	-	49,275
Weinberg Center	-	11,000	8,040	19,040
Community development	-	-	921	921
Economic development	66,435	-	-	66,435
Community action	78,477	-	-	78,477
Subsequent years budget	10,711,215	-	258,462	10,969,677
Other purposes	-	1,958,288	412,736	2,371,024
Unassigned:	<u>5,945,753</u>	<u>-</u>	<u>-</u>	<u>5,945,753</u>
Total fund balances	<u>\$ 24,416,491</u>	<u>\$ 20,044,696</u>	<u>\$ 2,939,114</u>	<u>\$ 47,400,301</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

5. Fund balances (continued)

Rainy Day Reserve Policy

The City has adopted a rainy day reserve policy which states that the City will maintain a general fund balance equal to 12% of general fund revenues (excluding the use of fund balance) to provide for adequate working capital and to meet unforeseen emergencies. The Board of Aldermen has the discretion to determine whether circumstances or events constitute an emergency. Following use of the reserve, the City must restore the reserve to the 12% level within a two year period.

At June 30th, the City had insufficient unassigned General Fund fund balance to meet the Rainy Day Reserve Requirement in the approximate amount of \$2,300,000. It was determined that this shortage was the result of planning to use fund balance in the following year's budget for one-time capital purchases and projects. It is anticipated that budget amendments to the fiscal year 2014 budget will be presented to bring the City into compliance with this policy.

6. Restatement of beginning net position

The City applied GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2013. Under the new guidance, debt issuance costs are no longer presented as an asset to be amortized over the life of the debt, but are to be expensed in the year in which incurred. The following adjustments to the net positions as of June 30, 2012 represent previously reported unamortized bond issuance costs in the various funds.

	<u>Governmental Activities</u>		
Net assets as of June 30, 2012, as previously reported	\$ 81,114,870		
Cumulative effect of change in accounting principle	<u>(604,269)</u>		
Net position as of June 30, 2012 as restated	<u>\$ 80,510,601</u>		
	<u>Business-type Activities</u>		
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Parking Facilities</u>
Net assets as of June 30, 2012, as previously reported	\$ 92,690,336	\$ 34,882,097	\$ 15,466,184
Cumulative effect of change in accounting principle	<u>(760,868)</u>	<u>(46,302)</u>	<u>(190,678)</u>
Net position as of June 30, 2012 as restated	<u>\$ 91,929,468</u>	<u>\$ 34,835,795</u>	<u>\$ 15,275,506</u>
	<u>Storm Water Mgmt</u>	<u>Non-major</u>	<u>Total</u>
Net assets as of June 30, 2012, as previously reported	\$ 48,029,536	(\$ 2,097,815)	\$ 188,970,338
Cumulative effect of change in accounting principle	<u>(8,943)</u>	<u>(7,171)</u>	<u>(1,013,962)</u>
Net position as of June 30, 2012 as restated	<u>\$ 48,020,593</u>	<u>\$ 2,104,986</u>	<u>\$ 187,956,376</u>

THE CITY OF FREDERICK, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

7. 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 7/1/2012	Transfers/ Additions FY '13	Reductions FY '13	Outstanding 6/30/2013	Due Within One Year
<b>Governmental Activities:</b>								
<b>Bonds and Notes Payable:</b>								
General Purpose	09/19/02	09/01/22	2.50-5.0%	\$ 15,899,000	\$ -	\$ (15,899,000)	\$ -	\$ -
General Purpose	03/26/09	03/01/29	3.0 - 5.0%	42,280,000	8,434,031	(1,835,000)	48,879,031	2,459,031
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	7,752,000	-	(1,361,000)	6,391,000	1,380,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	-	12,828,000	(158,000)	12,670,000	990,000
MILA Loan - Trading Lane	06/95	06/22	5.93%	101,896	-	(7,708)	94,188	8,175
CELP Loan	12/21/05	06/01/14	2.0%	34,508	-	(17,082)	17,426	17,425
Tax Increment Financing	12/99	06/24	5.95%	1,666,899	-	(99,098)	1,567,801	104,994
Subtotal				67,734,303	21,262,031	(19,376,888)	69,619,446	4,959,625
Add remaining premium				637,994	2,543,275	(299,234)	2,882,035	294,917
Total bonds and notes payable				68,372,297	23,805,306	(19,676,122)	72,501,481	5,254,542
<b>Other Obligations:</b>								
Compensated Absences				2,383,198	2,094,217	(2,066,732)	2,410,683	1,851,857
OPEB Liabilities				15,290,962	6,621,262	(4,886,828)	17,025,396	-
Total Governmental Activity Long-term Obligations				\$ 86,046,457	\$ 32,520,785	\$ (26,629,682)	\$ 91,937,560	\$ 7,106,399
<b>Business-type activities:</b>								
<b>General Obligation Bonds:</b>								
Water and Sewer	09/19/02	09/01/22	2.50-5.0%	\$ 1,196,000	\$ -	\$ (1,196,000)	\$ -	\$ -
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	42,339,000	-	(34,745,000)	7,594,000	2,444,000
Water and Sewer	03/26/09	03/01/34	3.0 - 5.0%	49,630,000	(8,330,431)	(620,000)	40,679,569	174,569
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	3,485,000	-	(525,000)	2,960,000	535,000
Refunding Bonds Series B	12/28/11	12/01/28	2.0 - 4.0%	7,675,000	-	(350,000)	7,325,000	360,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	-	32,615,000	(479,000)	32,136,000	75,000
Total General Obligation Bonds				104,325,000	24,284,569	(37,915,000)	90,694,569	3,588,569
State Loan Fund - BNR	08/23/01	02/01/22	2.30%	2,950,007	-	(265,740)	2,684,267	271,852
State Loan Fund - ENR	03/23/12	02/01/33	0.80%	7,369,031	3,341,942	-	10,710,973	495,981
State Loan Fund - Series 2012A	10/19/12	02/01/33	0.80%	-	1,033,643	-	1,033,643	47,864
State Loan Fund - Series 2012B	10/19/12	02/01/33	0.00%	-	274,765	-	274,765	-
Total Water & Sewer Debt				114,644,038	28,934,919	(38,180,740)	105,398,217	4,404,266
Golf Course Facilities Bonds	03/26/09	03/01/29	3.0 - 5.0%	915,000	(18,028)	(40,000)	856,972	21,972
Total Golf Course Obligations				915,000	(18,028)	(40,000)	856,972	21,972
Airport Impvt. BANs - Taxable	03/26/09	03/01/13	4.52%	13,655,000	-	(13,655,000)	-	-
Refunding Bonds 2011	12/28/11	12/01/21	2.0 - 2.5%	2,555,000	-	(235,000)	2,320,000	240,000
Taxable Refunding Bond of 2013	01/23/13	09/01/23	2.28%	-	11,600,000	-	11,600,000	715,000
Total Airport Debt				16,210,000	11,600,000	(13,890,000)	13,920,000	955,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	10,741,000	-	(8,775,000)	1,966,000	636,000
Parking Facilities - Taxable	03/26/09	03/01/29	3.264-6.933%	10,850,000	-	(395,000)	10,455,000	410,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	1,988,000	-	(204,000)	1,784,000	210,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	-	7,972,000	(118,000)	7,854,000	-
Total Parking Facilities				23,579,000	7,972,000	(9,492,000)	22,059,000	1,256,000
Stormwater Facilities	03/26/09	03/01/29	3.0 - 5.0%	1,140,000	(85,572)	(50,000)	1,004,428	44,428
Total Stormwater Facilities				1,140,000	(85,572)	(50,000)	1,004,428	44,428
Total business-type activities debt				156,488,038	48,403,319	(61,652,740)	143,238,617	6,681,666
<b>Other Obligations:</b>								
Add remaining premium				2,890,771	6,519,173	(2,071,015)	7,338,929	703,930
Compensated Absences				407,476	409,672	(423,669)	393,479	380,927
OPEB liabilities				3,714,294	1,298,933	(1,077,062)	3,936,165	-
Total business-type activities obligations				\$ 163,500,579	\$ 56,631,097	\$ (65,224,486)	\$ 154,907,190	\$ 7,766,523

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.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

7. Long term obligations (continued)

Current Refunding

During fiscal year 2013, the City refunded \$15,865,000 of General Improvements Bonds, Series 2002. This refunding was undertaken to reduce total debt service payments and resulted in a reduced cash flow of \$2,230,414 and a net present value savings of \$2,081,033.

Advance Refunding

The City also advance refunded \$40,540,000 of the \$50,100,000 outstanding Public Improvements Bonds, 2005 Series. This refunding was undertaken to reduce total debt service payments and resulted in a reduced cash flow of \$4,418,606 with a net present value savings of \$4,052,111.

Both of the refundings were included in the Public Improvements Refunding Bonds of 2013.

In fiscal year 2012, the City entered into a loan agreement with the Maryland Water Quality Financing Administration to assist in financing the City's share of the County's Ballenger/McKinney Waste Water Treatment Plant. The proceeds of the loan are forwarded to the City as work on the project progresses. In fiscal year 2013, the City received \$3,341,942 bringing the total received through June 30, 2013 to \$10,710,973. The total amount of the loan agreement is \$14,874,000.

In fiscal year 2013, the City entered into loan agreements with the Maryland Water Quality Financing Administration to assist in financing the Gas House Pike Waste Water Treatment Plant ENR Upgrade – Solids Processing Rehabilitation Design-Build Project. The Series 2012A loan was for \$4,146,000 and is paid to the City in installments as the work progresses. The interest rate on this loan is 0.80% and is to be repaid over a period of twenty years. As of June 30, 2013, the City has received \$1,033,643 of this loan.

The Series 2012B loan was for \$1,116,000. The Administration shall forgive repayment of the principal amount of the loan and the interest payable thereon so long as the City performs all of the obligations under the loan agreement. At any time prior to October 19, 2022, the principal advanced under the loan agreement shall be payable in full on demand by the Administration in accordance with the loan agreement together with interest at a rate of 3.52% per annum accruing from the date on which such demand is made by the Administration. As of June 30, 2013, the City has received \$274,765 under this agreement.

The current obligation of \$274,765 under the Series 2012B loan is reflected in the preceding schedule of long-term obligations; however, there is no allowance for repayment included in the following amortization schedule for this obligation since it is anticipated that this loan will be fully forgiven.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

7. Long term obligations (continued)

The annual requirements to amortize all general long term debt, exclusive of the Maryland Water Quality Financing Administration 2012B Series, as of June 30, 2013, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	\$ 4,854,632	\$ 2,688,613	\$ 6,681,666	\$ 5,607,094	\$ 11,536,298	\$ 8,295,707	\$ 19,832,005
2015	4,981,671	2,669,464	6,928,301	5,242,202	11,909,972	7,911,666	19,821,638
2016	4,243,196	2,506,218	7,143,083	4,986,148	11,386,279	7,492,366	18,878,645
2017	4,261,754	2,359,123	7,241,047	4,718,573	11,502,801	7,077,696	18,580,497
2018	4,431,345	2,185,407	7,533,197	4,437,543	11,964,542	6,622,950	18,587,492
2019 - 2023	23,869,047	8,125,273	46,625,419	17,366,846	70,494,466	25,492,119	95,986,585
2024 - 2028	17,470,000	3,523,476	39,262,259	8,928,907	56,732,259	12,452,383	69,184,642
2029 - 2033	3,940,000	192,075	18,363,880	3,077,191	22,303,880	3,269,266	25,573,146
2034	-	-	3,185,000	159,250	3,185,000	159,250	3,344,250
Totals	\$ <u>68,051,645</u>	\$ <u>24,249,649</u>	\$ <u>142,963,852</u>	\$ <u>54,523,754</u>	\$ <u>211,015,497</u>	\$ <u>78,773,403</u>	\$ <u>289,788,900</u>

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2013 are as follows:

Fiscal Year	Tax Incremental Financing Bonds		
	Principal	Interest	Total
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	132,302	25,359	157,661
2019 - 2023	789,388	77,643	867,031
2024	<u>187,143</u>	<u>4,280</u>	<u>191,423</u>
Totals	\$ <u>1,567,801</u>	\$ <u>235,717</u>	\$ <u>1,803,518</u>

Computation of Legal Debt Margin:

Assessed value	\$6,436,438,423
Debt limit (8% of assessed value per City Charter)	\$ 514,915,074
Amount of debt applicable to debt limit:	
Total bonded debt	\$198,042,801
Other debt	<u>14,815,262</u>
	\$212,858,063
Less: Water and sewer debt	105,398,217
Total amount of debt applicable to debt limit	<u>107,459,846</u>
Legal debt margin	\$ <u>407,455,228</u>

Schedule of Intended Source of Funds for Debt Retirement:

	Debt Amount
General revenue	\$ 68,051,645
Water and sewer charges	105,398,217
Airport charges	13,920,000
Parking charges and fines	22,059,000
Storm water charges	1,004,428
Cash flow from golf course operations	856,972
Incremental tax revenue	<u>1,567,801</u>
	\$ <u>212,858,063</u>

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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

7. Long term obligations (continued)

Computation of Direct and Overlapping Debt:

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
The City of Frederick	\$ 212,858,063	100.00%	\$ 212,858,063
Frederick County	<u>691,230,809</u>	24.37%	<u>168,452,948</u>
Total	<u>\$ 904,088,872</u>		<u>\$ 381,311,011</u>

8. 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.

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, 2013	94
Vested terminated employees	98
Active employees - vested 100%	120
Active employees – non-vested	51

Eligibility: All covered employees (who do not participate in the 22 and 25 year plan) become participants on the first day of the month following the date all the requirements below are met:

One year of continuous service, age 21 and agree in writing to make required contributions

Effective March 17, 2011, the following requirements are to be met:

Later of April 30, 2011 and Employee's Employment or Reemployment date, age 18, agree in writing to make required contributions and participate in the 30 year plan

Normal Retirement Age: Employees hired prior to July 1, 2012:

Age 62 with 5 years of service,  
 age 63 with 4 years of service,  
 age 64 with 3 years of service,  
 age 65 with 2 years of service,  
 or if earlier, when the participant has reached 30 years of service.

Employees hired on or after July 1, 2012:

Date on which the combined age and eligibility service of the participant equals 90.

Early Retirement Age: Employees hired prior to July 1, 2012:

Age 55 and the completion of 15 years of service

Employees hired on or after July 1, 2012:

Age 60 and the completion of 15 years of eligibility service

Normal Form of Benefit: Monthly life annuity with modified cash refund.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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8. Pension Plans (continued)

Cost of Living Increase: Retiree benefits are adjusted each July 1. The revised benefit amount is the lesser of:  
 a. Prior year benefit plus base benefit multiplied increase/decrease in the current CPI from CPI of prior year, or  
 b. Benefit increased by 3% for Employees hired prior to July 1, 2012; or  
 c. Benefit increased by 2.5% for Employees hired after June 30, 2012.

Employee Contributions: Employees hired prior to July 1, 2012:  
 Participants contribute 5% of compensation in excess of the Social Security wage base.  
 Employees hired after June 30, 2012:  
 Participants contribute 1.0% of compensation, in addition participants will contribute 5% of compensation in excess of the Social Security wage base.

Compensation: Total compensation, excluding compensation from which the participant did not make required contributions.

Final Average Earnings: Employees hired prior to July 1, 2012:  
 The average of the highest 3 years of the last 10 years compensation.  
 Employees hired after June 30, 2012:  
 The average of the highest 5 plan years of the last 10 plan years of compensation.

Normal Retirement Benefit Formula: Employees hired prior to July 1, 2012:  
 1.2% of Final Average Earnings for each year of credited service.  
 Employees hired after June 30, 2012:  
 1.0% of Final Average Earnings for each year of credited service.

Early Retirement Benefit Formula: Normal retirement benefit reduced by 0.5% for each month that benefit commencement precedes 62 for hires prior to July 1, 2012, and age 65 for hires after June 30, 2012.

Termination Prior to Retirement: Employees hired prior to July 1, 2012:  
*Less than 5 years of service:* Return of employee contributions with 5% interest.  
*5 years of service or more:* At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.

*Less than 10 years of service:* Employees hired after June 30, 2012:  
 Return of employee contributions with 5% interest.  
*10 years of service or more:* At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.

Disability: Must be totally and permanently disabled.  
*Accidental Disability:* The sum of the annuity equivalent of the employee's accumulated contributions and 66 2/3% of final average earnings, payable immediately, unreduced, but not greater than 100% of final average earnings.

*Ordinary Disability:* Employees hired prior to July 1, 2012:  
 Five years of service are required to receive non-duty disability benefits. The benefit equals the normal retirement benefit calculated as if the participant earned level future pay and service to age 62; with service being limited to 30 years.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Employees hired after June 30, 2012:

Ten years of eligibility service is required to receive non duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 65, earning years of credited service between the date of disability and the participant's 65<sup>th</sup> birthday, payable immediately, unreduced.

Pre-Retirement Spouse's Benefit:

Married, eligible for early retirement (or dies within 10 years of Normal Retirement) and actively employed at date of death:

The participant's surviving spouse will receive a monthly benefit equal to the accrued benefit, reduced actuarially for early commencement and the joint and 100% survivor form.

Other Pre Retirement Death Benefits:

With 1 year of eligibility service

The greater of return of employee contributions with 5.0% interest or a lump sum equal to the participant's annual base salary at time of death.

With less than 1 year of eligibility service

Refund of employee contributions with 5.0% interest.

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

Funding Method: For funding and GASB reporting: Entry Age Normal Actuarial Cost Method. The contribution equals the sum of the normal cost and the amount necessary to amortize the unfunded actuarial liability over thirty years as level dollar amount.

Asset Method: Asset smoothing method. Spreading the investment gains or losses in excess of the assumed return over a 5-year period.

Interest Rates: 7.5% compounded annually.

COLA Increases: 2.5% compounded annually

Taxable Wage Base: Assumed to increase 4% per year.

Salary Increases: 4.5% per year.

Mortality: Healthy: RP2000 Combined Mortality Table for males and females.  
 Disabled: RP2000 Combined +6 Mortality Tables.

Disability: Sample rates are:

<u>Age</u>	<u>Rate</u>
25	.006%
35	.089%
45	.306%
55	.804%

All disablement is assumed to be ordinary.

Turnover: Table T-6 from the Actuary's Pension Handbook adjusted for years of service. Sample T-6 rates are:

<u>Age</u>	<u>Rate</u>
25	7.72%
35	6.86%
45	5.16%
55	1.37%

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Retirement: All active participants (hired prior to July 1, 2012) are assumed to retire 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.

All active participants (hired after June 30, 2012) are assumed to retire on the date on which their combined age and years of eligibility service equals 90.

Expenses: None assumed paid from plan assets.

Percent Married: 95% of participants are assumed to be married. Female spouses are assumed to be one year younger than their male spouse.

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

Annual required contribution	\$ 1,701,812
Interest on net pension assets	(18,977)
Adjustment to annual required contribution	<u>20,344</u>
Annual pension cost	1,703,179
Contributions made	<u>(1,754,139)</u>
Increase in net pension assets	(50,960)
Net pension assets beginning of year	<u>(237,214)</u>
Net pension assets end of year	<u>\$ (288,174)</u>

Three-Year Trend Information

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage <u>Contributed</u>	Net Pension <u>Asset</u>
2011	1,519,820	99.91%	(238,589)
2012	1,687,988	99.92%	(237,214)
2013	1,703,179	102.99%	(288,174)

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, 2013	183
Vested terminated employees	73
Active employees - vested 100%	154
Active employees – non-vested	76

Eligibility: All employees, including Aldermen but excluding police officers, who work at least 20 hours per week, become participants on the first day of the month following the date all the requirements below are met:

One year of continuous service, age 21 and agree in writing to make required contributions

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Effective March 17, 2011, the following requirements are to be met:

Later of April 30, 2011 and Employee's Employment or Reemployment date, age 18, agree in writing to make required contributions and participate in the 25 year plan

- Normal Retirement Age: Employees hired prior to July 1, 2012:  
Age 62 with 5 years of service,  
age 63 with 4 years of service,  
age 64 with 3 years of service,  
age 65 with 2 years of service,  
or if earlier, when the participant has reached 25 years of service.
- Employees hired on or after July 1, 2012:  
Date on which the combined age and eligibility service of the participant equals 90.
- Early Retirement Age: Employees hired prior to July 1, 2012:  
Age 55 and the completion of 15 years of service
- Employees hired on or after July 1, 2012:  
Age 60 and the completion of 15 years of eligibility service
- Normal Form of Benefit: Monthly life annuity with modified cash refund.
- Cost of Living Increase: Retiree benefits are adjusted each July 1. The revised benefit amount is the lesser of:  
a. Prior year benefit plus base benefit multiplied increase/decrease in the current CPI from CPI of prior year, or  
b. Benefit increased by 3% for Employees hired prior to July 1, 2012; or  
c. Benefit increased by 2.5% for Employees hired after June 30, 2012.
- Employee Contributions: Employees hired prior to July 1, 2012:  
Participants contribute 7.0% of compensation.  
5.0% of compensation for participants hired prior to February 18, 1987.  
Employees hired after June 30, 2012:  
Participants contribute 7.5% of compensation.
- Compensation: Total compensation, excluding compensation from which the participant did not make required contributions.
- Final Average Earnings: Employees hired prior to July 1, 2012:  
The average of the highest 3 years of the last 10 years compensation.  
Employees hired after June 30, 2012:  
The average of the highest 5 plan years of the last 10 plan years of compensation.
- Normal Retirement Benefit Formula: Employees hired prior to July 1, 2012:  
2.0% of Final Average Earnings for each year of credited service.  
Employees hired after June 30, 2012:  
1.5% of Final Average Earnings for each year of credited service.
- Early Retirement Benefit Formula: Normal retirement benefit reduced by 0.5% for each month that benefit commencement precedes 62 for hires prior to July 1, 2012, and age 65 for hires after June 30, 2012.
- Termination Prior to Retirement: Employees hired prior to July 1, 2012:  
*Less than 5 years of service:* Return of employee contributions with 5% interest.  
*5 years of service or more:* At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Employees hired after June 30, 2012:

<i>Less than 10 years of service:</i>	Return of employee contributions with 5% interest.
<i>10 years of service or more:</i>	At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.

Disability: Must be totally and permanently disabled.

*Accidental Disability:* The sum of the annuity equivalent of the employee's accumulated contributions and 66 2/3% of final average earnings, payable immediately, unreduced, but not greater than 100% of final average earnings.

*Ordinary Disability:* Employees hired prior to July 1, 2012:

Five years of service are required to receive non-duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 62; with service being limited to 25 years, payable immediately, unreduced.

Employees hired after June 30, 2012:

Ten years of eligibility service is required to receive non duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 65, earning years of credited service between the date of disability and the participant's 65<sup>th</sup> birthday, payable immediately, unreduced.

Pre-Retirement Spouse's Benefit:

Married, eligible for early retirement (or within 10 years of Normal Retirement) and actively employed at date of death:	The participant's surviving spouse will receive a monthly benefit equal to the accrued benefit, reduced actuarially for early commencement and the joint and 100% survivor form.
--	--

Other Pre Retirement Death Benefits:

With 1 year of eligibility service	The greater of return of employee contributions with 5.0% interest or a lump sum equal to the participant's annual base salary at time of death.
------------------------------------	--

With less than 1 year of eligibility service	Refund of employee contributions with 5.0% interest.
--	--

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

Funding Method: For funding and GASB reporting: Entry Age Normal Actuarial Cost Method. The contribution equals the sum of the normal cost and the amount necessary to amortize the unfunded actuarial liability over thirty years as level dollar amount.

Asset Method: Asset smoothing method. Spreading the investment gains or losses in excess of the assumed return over a 5-year period.

Interest Rates: 7.5% compounded annually.

COLA Increases: 2.5% compounded annually

Salary Increases: 4.5% per year.

Mortality: Healthy: RP2000 Combined Mortality Table for males and females.  
 Disabled: RP2000 Combined +6 Mortality Tables.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Disability: Sample rates are:

<u>Age</u>	<u>Rate</u>
25	.006%
35	.089%
45	.306%
55	.804%

All disablement is assumed to be ordinary.

Turnover: Table T-6 from the Actuary's Pension Handbook adjusted for years of service. Sample T-6 rates are:

<u>Age</u>	<u>Rate</u>
25	7.72%
35	6.86%
45	5.16%
55	1.37%

Retirement: All active participants (hired prior to July 1, 2012) are assumed to retire 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.

All active participants (hired after June 30, 2012) are assumed to retire on the date on which their combined age and years of eligibility service equals 90.

Expenses: None assumed paid from plan assets.

Percent Married: 95% of participants are assumed to be married. Female spouses are assumed to be one year younger than their male spouse.

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

Annual required contribution	\$ 4,290,877
Interest on net pension assets	(120,937)
Adjustment to annual required contribution	<u>129,649</u>
Annual pension cost	4,299,589
Contributions made	<u>(4,408,803)</u>
Increase in net pension assets	(109,214)
Net pension assets beginning of year	<u>(1,511,707)</u>
Net pension assets end of year	<u><u>\$(1,620,921)</u></u>

Three-Year Trend Information

<u>Year Ended</u> <u>June 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net Pension</u> <u>Asset</u>
2011	3,863,587	99.77%	(1,520,470)
2012	4,228,561	99.79%	(1,511,707)
2013	4,299,589	102.54%	(1,620,921)

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

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, 2013	71
Vested terminated employees	23
Active employees - vested 100%	99
Active employees – non-vested	37

Normal Retirement Age: Age 62 with 5 years of service,  
 age 63 with 4 years of service,  
 age 64 with 3 years of service,  
 age 65 with 2 years of service,  
 or if earlier, when the participant has reached 22 years of service.

Early Retirement Age: Age 55 and the completion of 15 years of service

Normal Form of Benefit: Monthly life annuity with modified cash refund.

Cost of Living Increase: Retiree benefits are adjusted each July 1. The revised benefit amount is the lesser of:  
 a. Prior year benefit plus base benefit multiplied increase/decrease in the current CPI from CPI of prior year, or  
 b. Benefit increased by 3%.

Employee Contributions: Participants contribute 8.0% of compensation. The city credits an additional \$400 plus 8 times the participant's hourly rate on July 1 of each year.

Compensation: Total compensation, excluding compensation from which the participant did not make required contributions.

Final Average Earnings: The average of the highest 3 years of the last 10 years compensation.

Normal Retirement Benefit Formula: 60.0% of Final Average Earnings for 22 years of service, plus 1.5% of Final Average Earnings times service in excess of 22 years.

Early Retirement Benefit Formula: Normal retirement benefit reduced by 0.5% for each month that benefit commencement precedes 62.

Termination Prior to Retirement:  
*Less than 5 years of service:* Return of employee contributions with 5% interest.  
*5 years of service or more:* At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.

Disability: Must be totally and permanently disabled.  
*Accidental Disability:* The greater of the accrued benefit or 66 2/3% of final average earnings, payable immediately, unreduced.

*Ordinary Disability:* Five years of service are required to receive non-duty disability benefits. The benefit is 66 2/3% of final earnings, payable immediately, unreduced.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Pre-Retirement Spouse's Benefit:

Married, eligible for early retirement  
 and actively employed at date of death:

The participant's surviving spouse will receive a monthly benefit equal to the accrued benefit, reduced actuarially for early commencement and the joint and 100% survivor form.

Other Pre Retirement Death Benefits:

Refund of employee contributions with 5.0% interest plus a lump sum of one year's earnings.

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

Funding Method: For funding and GASB reporting: Entry Age Normal Actuarial Cost Method. The contribution equals the sum of the normal cost and the amount necessary to amortize the unfunded actuarial liability over thirty years as level dollar amount.

Asset Method: Asset smoothing method. Spreading the investment gains or losses in excess of the assumed return over a 5-year period.

Interest Rates: 7.5% compounded annually.

COLA Increases: 2.5% compounded annually

Salary Increases: 4.5% per year.

Mortality: Healthy: RP2000 Blue Collar Mortality Table for males and females.  
 Disabled: RP2000 Blue Collar +6 Mortality Tables.

Disability: Sample rates are:

<u>Age</u>	<u>Rate</u>
25	.09%
35	.13%
45	.46%
55	1.21%

All disablement is assumed to be ordinary.

Turnover: Table T-4 from the Actuary's Pension Handbook adjusted for years of service. Sample T-4 rates are:

<u>Age</u>	<u>Rate</u>
25	5.29%
35	4.70%
45	3.54%
55	0.94%

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

<u>Years of Service</u>	<u>Percentage of T-4 Rates</u>
Less than 5	150%
5 – 9	100%
10 – 14	40%
15 – 19	15%
20 or more	10%
(not retirement eligible)	

Retirement: All active participants are assumed to retire 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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

8. Pension Plans (continued)

Expenses: None assumed paid from plan assets.

Percent Married: 95% of participants are assumed to be married. Female spouses are assumed to be one year younger than their male spouse.

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

Annual required contribution	\$ 5,757,450
Interest on net pension assets	(65,439)
Adjustment to annual required contribution	<u>70,153</u>
Annual pension cost	5,762,164
Contributions made	<u>(5,987,197)</u>
Increase in net pension assets	(225,033)
Net pension assets beginning of year	<u>(817,986)</u>
Net pension assets end of year	<u><u>\$ (1,043,019)</u></u>

Year Ended <u>June 30,</u>	<u>Three-Year Trend Information</u>		Net Pension Asset
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	
2011	4,957,227	99.90%	(822,728)
2012	5,221,273	99.91%	(817,986)
2013	5,762,164	103.91%	(1,043,019)

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

	<u>30-Year Plan</u>	<u>25-Year Plan</u>	<u>22-Year Plan</u>
Valuation date	7/1/13	7/1/13	7/1/13
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 -	13,177,559	35,974,408	50,599,871
Actuarial accrued liability -	26,156,495	82,165,494	89,259,400
Total unfunded actuarial accrued liability -	12,978,936	46,191,086	38,659,529
Actuarial value of assets as a percentage of actuarial accrued liability (funded ratio) -	50.38%	43.78%	56.69%
Annual covered payroll -	8,210,675	10,660,897	9,686,182
Ratio of the unfunded actuarial liability to annual covered payroll -	158.07%	433.28%	399.12%

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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8. Pension Plans (continued)

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 Position

	Pension Trust Fund			2013 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
<b>ASSETS:</b>				
Cash and short-term investments	\$ 850,566	\$ 2,319,882	\$ 3,265,780	\$ 6,436,228
Receivables				
Accounts receivable – employee	17,022	90,918	92,481	200,421
Total receivables	17,022	90,918	92,481	200,421
Investments, at fair value:				
Equities	9,656,748	26,338,349	37,077,425	73,072,522
Fixed income	3,491,909	9,524,027	13,407,309	26,423,245
Total investments	13,148,657	35,862,376	50,484,734	99,495,767
Total assets	14,016,245	38,273,176	53,842,995	106,132,416
<b>LIABILITIES:</b>				
Benefits payable	280	34,228	5,547	40,055
<b>NET POSITION:</b>				
Held in trust for pension benefits	\$ 14,015,965	\$ 38,238,948	\$ 53,837,448	\$ 106,092,361

Statement of Changes in Fiduciary Net Position

	Pension Trust Fund			2013 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
<b>ADDITIONS:</b>				
Contributions – employer	\$ 1,754,139	\$ 4,408,803	\$ 5,987,197	\$ 12,150,139
Contributions – employee	19,600	788,533	842,795	1,650,928
Interest	239,993	654,569	921,460	1,816,022
Net appreciation/(depreciation)	1,567,548	4,275,421	6,018,661	11,861,630
Total additions	3,581,280	10,127,326	13,770,113	27,478,719
<b>DEDUCTIONS:</b>				
Pension benefits	799,151	4,189,365	3,701,501	8,690,017
Service charges	82,280	224,415	315,918	622,613
Total deductions	881,431	4,413,780	4,017,419	9,312,630
Change in net position	2,699,849	5,713,546	9,752,694	18,166,089
Net position – beginning	11,316,116	32,525,402	44,084,754	87,926,272
Net position – ending	\$ 14,015,965	\$ 38,238,948	\$ 53,837,448	\$ 106,092,361

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

9. 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. Two hundred fifty nine (259) retirees are eligible for life insurance coverage. Four hundred and fifty three (453) retirees and dependents are currently enrolled in the City's Group Health Insurance and the Medicare Advantage Plans. The City provides two open access plans and a health savings account 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 2013, those costs totaled approximately \$ 2,637,000.

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).

Once an employee becomes Medicare entitled, either by age or disability, they are no longer eligible to participate in the City's Group Health Insurance Plan, but may enroll in a Medicare insurance program offered by the City, which involves a monthly cost share.

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 \$50 per month per participant.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

9. 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 ARC consisted of the normal cost of \$3,966,469, the amortization of unfunded accrued liability of \$4,520,381 and interest of \$509,211. The City contributed \$6,913,055 for the year ended June 30, 2013 for current health care and life insurance premiums. This includes an estimated \$949,164 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	\$ 8,996,061
Interest on net OPEB obligation	1,140,315
Adjustment to annual required contribution	<u>(1,267,017)</u>
Annual OPEB cost	8,869,359
Contributions made	<u>(6,913,055)</u>
Increase in net OPEB obligation	1,956,304
Net OPEB obligation beginning of year	<u>19,005,256</u>
Net OPEB obligation end of year	<u>\$ 20,961,561</u>

Three-Year Trend Information

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 11,024,157	\$ 11,598,116	105.21%	\$ 13,859,114
2012	11,028,221	5,882,079	53.34%	19,005,256
2013	8,869,359	6,913,055	77.94%	20,961,561

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%

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

9. 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-ratio 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 –

<u>Medical and Prescription Drug</u>	<u>Base</u>
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 –	<u>Age</u>	<u>22-Year Plan</u>	<u>25-Year Plan</u>	<u>30-Year Plan</u>
	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%

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2013

9. Post-Employment Health Care Benefits (continued)

Turnover assumptions –	<u>Age</u>	<u>22-Year Plan</u>	<u>25-Year Plan</u>	<u>30-Year Plan</u>
	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:

<u>Years of Service</u>	<u>Percentage of Annual Termination Rate</u>
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

10. 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, 2013, 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 – 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.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

11. 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, 2013 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.

12. 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.

13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2013 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 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*.

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.

GASB Statement Number 69, *Government Combinations and Disposals of Government Operations*, will be effective for the City with its year ending June 30, 2015. This Statement establishes account and financial reporting standards related to government combinations and disposals of government operations.

GASB Statement number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will be effective for the City with its fiscal year ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

14. Subsequent Events

The City evaluated subsequent events through October 29, 2013, which represents the dates the financial statements were available to be issued.

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# 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)
07/01/04	\$ 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%
07/01/13	13,177,559	26,156,495	12,978,936	50.38%	8,210,675	158.07%

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)
07/01/04	\$ 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%
07/01/13	35,974,408	82,165,494	46,191,086	43.78%	10,660,897	433.28%

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)
07/01/04	\$ 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%
07/01/13	50,599,871	89,259,400	38,659,529	56.69%	9,686,182	399.12%

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)
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)
2013	1,701,812	1,754,139	103.07%	(288,174)

The City of Frederick Twenty-Five Year Pension System

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net Pension (Asset)
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)
2013	4,290,877	4,408,803	102.75%	(1,620,921)

The City of Frederick Twenty-Two Year Pension System

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net Pension (Asset)
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)
2013	5,757,450	5,987,197	103.99%	(1,043,019)

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
2013	8,996,061	6,913,055	76.85%	20,961,561

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OTHER SUPPLEMENTARY  
INFORMATION

# 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, 2013

	Special Revenue Funds			Total Nonmajor Governmental Funds
	CDS Program	Weinberg Center	Community Development	
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 287,738	\$ -	\$ 287,738
Equity in pooled cash/investments	152,750	102,198	181,524	436,472
Investments	-	231,534	-	231,534
Receivables (net of allowance for uncollectibles)	-	-	2,123,789	2,123,789
Prepaid items	-	1,250	-	1,250
<b>Total assets</b>	<b>\$ 152,750</b>	<b>\$ 622,720</b>	<b>\$ 2,305,313</b>	<b>\$ 3,080,783</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 54	\$ 81,924	\$ 146	\$ 82,124
Accrued liabilities	-	12,852	2,085	14,937
Deposits	44,326	282	-	44,608
<b>Total liabilities</b>	<b>44,380</b>	<b>95,058</b>	<b>2,231</b>	<b>141,669</b>
<b>Fund balances:</b>				
Nonspendable	-	1,250	2,123,789	2,125,039
Restricted	-	120,188	-	120,188
Committed	-	-	-	-
Assigned	108,370	406,224	179,293	693,887
<b>Total fund balances</b>	<b>108,370</b>	<b>527,662</b>	<b>2,303,082</b>	<b>2,939,114</b>
<b>Total liabilities and fund balances</b>	<b>\$ 152,750</b>	<b>\$ 622,720</b>	<b>\$ 2,305,313</b>	<b>\$ 3,080,783</b>

The City of Frederick, Maryland  
Combining Statement of Revenues, Expenditures, and Change in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>CDS Program</u>	<u>Weinberg Center</u>	<u>Community Development</u>	
REVENUES:				
Intergovernmental	\$ -	\$ 46,063	\$ 190,377	\$ 236,440
Charges for services	-	905,598	-	905,598
Fines and forfeitures	47,291	-	-	47,291
Miscellaneous	455	708,438	484	709,377
Total revenues	<u>47,746</u>	<u>1,660,099</u>	<u>190,861</u>	<u>1,898,706</u>
EXPENDITURES:				
Current:				
Public safety	57,972	-	-	57,972
Recreation and parks	-	1,650,610	-	1,650,610
Community development	-	-	200,568	200,568
Total expenditures	<u>57,972</u>	<u>1,650,610</u>	<u>200,568</u>	<u>1,909,150</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(10,226)</u>	<u>9,489</u>	<u>(9,707)</u>	<u>(10,444)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	190,252	-	190,252
Transfers out	-	-	(25,203)	(25,203)
Total Other Financing Sources (Uses)	<u>-</u>	<u>190,252</u>	<u>(25,203)</u>	<u>165,049</u>
Net Change in Fund Balances	(10,226)	199,741	(34,910)	154,605
Fund Balance - beginning	118,596	327,921	2,337,992	2,784,509
Fund Balance - ending	<u>\$ 108,370</u>	<u>\$ 527,662</u>	<u>\$ 2,303,082</u>	<u>\$ 2,939,114</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Fines and forfeitures	\$ 25,000	\$ 25,000	\$ 47,291	\$ 22,291
Miscellaneous	-	-	455	455
Total Revenues	<u>25,000</u>	<u>25,000</u>	<u>47,746</u>	<u>22,746</u>
<b>EXPENDITURES:</b>				
CDS Enforcement	<u>95,969</u>	<u>95,969</u>	<u>57,972</u>	<u>37,997</u>
Total Expenditures	<u>95,969</u>	<u>95,969</u>	<u>57,972</u>	<u>37,997</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(70,969)</u>	<u>(70,969)</u>	<u>(10,226)</u>	<u>60,743</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	<u>(70,969)</u>	<u>(70,969)</u>	<u>(10,226)</u>	<u>60,743</u>
Budgetary Fund Balance - beginning	<u>70,969</u>	<u>70,969</u>	<u>118,596</u>	<u>47,627</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,370</u>	<u>\$ 108,370</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 46,063	\$ 6,063
Charges for services	801,089	801,089	905,598	104,509
Miscellaneous	476,250	476,250	708,438	232,188
Total Revenues	<u>1,317,339</u>	<u>1,317,339</u>	<u>1,660,099</u>	<u>342,760</u>
<b>EXPENDITURES:</b>				
Weinberg Center	<u>1,457,093</u>	<u>1,457,093</u>	<u>1,650,610</u>	<u>(193,517)</u>
Total Expenditures	<u>1,457,093</u>	<u>1,457,093</u>	<u>1,650,610</u>	<u>(193,517)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(139,754)</u>	<u>(139,754)</u>	<u>9,489</u>	<u>149,243</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	<u>136,082</u>	<u>136,082</u>	<u>190,252</u>	<u>54,170</u>
Total Other Financing Sources (Uses)	<u>136,082</u>	<u>136,082</u>	<u>190,252</u>	<u>54,170</u>
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	<u>(3,672)</u>	<u>(3,672)</u>	<u>199,741</u>	<u>203,413</u>
Budgetary Fund Balance - beginning	<u>3,672</u>	<u>3,672</u>	<u>327,921</u>	<u>324,249</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,662</u>	<u>\$ 527,662</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 309,645	\$ 309,645	\$ 190,377	\$ (119,268)
Miscellaneous	-	-	484	484
Total Revenues	<u>309,645</u>	<u>309,645</u>	<u>190,861</u>	<u>(118,784)</u>
<b>EXPENDITURES:</b>				
Community development	<u>310,179</u>	<u>310,179</u>	<u>200,568</u>	<u>109,611</u>
Total Expenditures	<u>310,179</u>	<u>310,179</u>	<u>200,568</u>	<u>109,611</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(534)</u>	<u>(534)</u>	<u>(9,707)</u>	<u>(9,173)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>-</u>	<u>-</u>	<u>(25,203)</u>	<u>(25,203)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(25,203)</u>	<u>(25,203)</u>
Net Change in Fund Balance	(534)	(534)	(34,910)	(34,376)
Budgetary Fund Balance - beginning	<u>534</u>	<u>534</u>	<u>2,337,992</u>	<u>2,337,458</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,303,082</u>	<u>\$ 2,303,082</u>

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# Nonmajor Proprietary Funds

## Proprietary Funds

Proprietary funds focus on the determination of operating income, changes in net position, 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 Position  
Nonmajor Proprietary Funds  
June 30, 2013

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,000	\$ -	\$ 1,000
Investments	-	5,107	5,107
Equity in pooled cash/investments	-	59,363	59,363
Receivables (net of allowance of uncollectibles)	544	156	700
Inventories	92,582	-	92,582
Prepays	5,500	-	5,500
Total current assets	<u>99,626</u>	<u>64,626</u>	<u>164,252</u>
Noncurrent assets:			
Temporarily restricted assets:			
Cash and cash equivalents	6	-	6
Net pension asset	36,738	-	36,738
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	787,851	90,866	878,717
Less accumulated depreciation	<u>(2,914,434)</u>	<u>(208,564)</u>	<u>(3,122,998)</u>
Total noncurrent assets	<u>3,475,551</u>	<u>93,747</u>	<u>3,569,298</u>
Total assets	<u>3,575,177</u>	<u>158,373</u>	<u>3,733,550</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	56,574	12	56,586
Accrued liabilities	47,524	832	48,356
Deposits	-	410	410
Unearned revenue	51,077	-	51,077
Advances from other funds	4,881,122	-	4,881,122
Compensated absences	32,795	-	32,795
Bonds, notes, and loans payable	<u>23,167</u>	<u>-</u>	<u>23,167</u>
Total current liabilities	<u>5,092,259</u>	<u>1,254</u>	<u>5,093,513</u>
Noncurrent liabilities:			
OPEB Liabilities	335,216	-	335,216
Compensated absences	8,160	-	8,160
Bonds, notes, and loans payable	<u>851,734</u>	<u>-</u>	<u>851,734</u>
Total noncurrent liabilities	<u>1,195,110</u>	<u>-</u>	<u>1,195,110</u>
Total liabilities	<u>6,287,369</u>	<u>1,254</u>	<u>6,288,623</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	2,563,907	93,747	2,657,654
Restricted for:			
Debt service	5	-	5
Unrestricted	<u>(5,276,104)</u>	<u>63,372</u>	<u>(5,212,732)</u>
Total net position	<u><u>\$(2,712,192)</u></u>	<u><u>\$ 157,119</u></u>	<u><u>\$(2,555,073)</u></u>

The City of Frederick, Maryland  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	\$ 1,500,288	\$ -	\$ 1,500,288
Miscellaneous	73,179	8,679	81,858
Total operating revenues	<u>1,573,467</u>	<u>8,679</u>	<u>1,582,146</u>
Operating expenses:			
Public housing	-	35,578	35,578
Golf course maintenance	598,758	-	598,758
Golf course clubhouse	977,381	-	977,381
Golf course restaurant	244,754	-	244,754
Depreciation	195,859	15,210	211,069
Total operating expenses	<u>2,016,752</u>	<u>50,788</u>	<u>2,067,540</u>
Operating income/(loss)	<u>(443,285)</u>	<u>(42,109)</u>	<u>(485,394)</u>
Nonoperating revenues/(expenses)			
Intergovernmental	-	27,795	27,795
Interest income	22	170	192
Debt premium amortization	1,207	-	1,207
Interest expense	(39,635)	-	(39,635)
Other nonoperating expenses	(8)	-	(8)
Total nonoperating revenue/(expenses)	<u>(38,414)</u>	<u>27,965</u>	<u>(10,449)</u>
Income/(loss) before transfers	(481,699)	(14,144)	(495,843)
Transfers In	45,756	-	45,756
Change in net position	(435,943)	(14,144)	(450,087)
Total net position - beginning	(2,269,078)	171,263	(2,097,815)
Cumulative effect of change in accounting principle	(7,171)	-	(7,171)
Total net position - beginning restated	<u>(2,276,249)</u>	<u>171,263</u>	<u>(2,104,986)</u>
Total net position - ending	<u><u>\$(2,712,192)</u></u>	<u><u>\$ 157,119</u></u>	<u><u>\$(2,555,073)</u></u>

The City of Frederick, Maryland  
Combining Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,580,761	\$ 8,691	\$ 1,589,452
Payments to vendors	(1,120,217)	(18,217)	(1,138,434)
Payments to employees	(662,781)	(17,827)	(680,608)
Net cash provided (used) by operating activities	<u>(202,237)</u>	<u>(27,353)</u>	<u>(229,590)</u>
Cash flows from noncapital financing activities:			
Operating subsidy	-	27,795	27,795
Due to other funds	328,146	-	328,146
Net cash provided (used) by noncapital financing activities	<u>328,146</u>	<u>27,795</u>	<u>355,941</u>
Cash flows from capital and related financing activities:			
Principal payments	(40,000)	-	(40,000)
Debt proceeds reallocated	(18,204)	-	(18,204)
Interest payments	(40,169)	-	(40,169)
Other debt related costs	(8)	-	(8)
Capital asset acquisition	(91,512)	-	(91,512)
Transfer in for capital items	45,756	-	45,756
Net cash (used) by capital and related financing activities	<u>(144,137)</u>	<u>-</u>	<u>(144,137)</u>
Cash flows from investing activities:			
Interest earned	23	170	193
Net cash provided by investing activities	<u>23</u>	<u>170</u>	<u>193</u>
Net increase (decrease) in cash equivalents	(18,205)	612	(17,593)
Cash equivalents - beginning	19,210	63,858	83,068
Cash equivalents - ending	<u>\$ 1,005</u>	<u>\$ 64,470</u>	<u>\$ 65,475</u>

(continued)

The City of Frederick, Maryland  
Combining Statement of Cash Flows (continued)  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	<u>\$ (443,285)</u>	<u>\$ (42,109)</u>	<u>\$ (485,394)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	195,859	15,210	211,069
(Increase)/decrease in accounts receivable	766	12	778
(Increase)/decrease in inventory	(3,763)	-	(3,763)
(Increase)/decrease om prepaids	(2,500)	-	(2,500)
Decrease in net pension asset	(4,863)	-	(4,863)
(Decrease)/increase in accounts payable	3,945	(420)	3,525
(Decrease)/increase in deferred revenue	6,528	-	6,528
(Decrease)/increase in OPEB liability	47,644	-	47,644
(Decrease)/increase in wages payable	4,073	(46)	4,027
(Decrease)/increase in compensated absences	(6,641)	-	(6,641)
Total adjustments	<u>241,048</u>	<u>14,756</u>	<u>255,804</u>
Net cash provided (used) by operating activities	<u>\$ (202,237)</u>	<u>\$ (27,353)</u>	<u>\$ (229,590)</u>

# 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 POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 61,782,387
Restricted	113,014	820,341	795,991	1,190,033	1,873,394	2,649,212	1,547,698	1,818,497	1,741,456	2,114,030
Unrestricted	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	17,556,345
<b>Total governmental activities net position</b>	<b>\$ 113,458,215</b>	<b>\$ 63,516,239</b>	<b>\$ 76,832,672</b>	<b>\$ 80,855,877</b>	<b>\$ 86,901,546</b>	<b>\$ 86,568,483</b>	<b>\$ 82,016,959</b>	<b>\$ 82,376,643</b>	<b>\$ 81,114,870</b>	<b>\$ 81,452,762</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 155,846,982
Restricted	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	6,704,374
Unrestricted	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	30,968,299
<b>Total business-type activities net position</b>	<b>\$ 113,605,184</b>	<b>\$ 169,565,887</b>	<b>\$ 175,932,868</b>	<b>\$ 186,873,950</b>	<b>\$ 189,293,085</b>	<b>\$ 181,856,059</b>	<b>\$ 178,513,000</b>	<b>\$ 186,123,449</b>	<b>\$ 188,970,338</b>	<b>\$ 193,519,655</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 217,629,369
Restricted	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	8,818,404
Unrestricted	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	48,524,644
<b>Total primary government net position</b>	<b>\$ 227,063,399</b>	<b>\$ 233,082,126</b>	<b>\$ 252,765,540</b>	<b>\$ 267,729,827</b>	<b>\$ 276,194,631</b>	<b>\$ 268,424,542</b>	<b>\$ 260,529,959</b>	<b>\$ 268,500,092</b>	<b>\$ 270,085,208</b>	<b>\$ 274,972,417</b>

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	\$ 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	\$ 10,551,754
Public safety	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	29,614,505
Public works	12,977,426	12,666,210	13,955,935	14,025,384	14,258,037	16,085,179	17,920,281	16,782,556	16,913,488	18,022,285
Recreation and parks	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	8,672,576
Community development	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	657,361
Economic opportunity	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	3,327,477
Interest on long-term debt	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	2,562,813
Miscellaneous	59,002	61,126	15,216	-	-	-	-	-	-	-
<b>Total governmental activities expenses</b>	<b>49,088,274</b>	<b>50,415,847</b>	<b>52,012,230</b>	<b>56,650,403</b>	<b>61,782,120</b>	<b>72,142,535</b>	<b>74,921,749</b>	<b>71,448,332</b>	<b>72,480,688</b>	<b>73,408,771</b>
<b>Business-type activities:</b>										
Rental operations	33,412	63,547	22,433	36,695	47,628	46,580	51,008	57,746	50,991	50,788
Water and sewer	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	22,448,787
Golf course	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	2,056,395
Airport	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	2,042,753
Parking	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	4,634,473
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	2,425,996
<b>Total business-type activities expenses</b>	<b>15,954,723</b>	<b>21,513,756</b>	<b>23,818,308</b>	<b>25,024,602</b>	<b>24,652,707</b>	<b>30,764,214</b>	<b>30,198,770</b>	<b>29,578,357</b>	<b>34,304,672</b>	<b>33,659,192</b>
<b>Total primary government expenses</b>	<b>\$ 65,042,997</b>	<b>\$ 71,929,603</b>	<b>\$ 75,830,538</b>	<b>\$ 81,675,005</b>	<b>\$ 86,434,827</b>	<b>\$ 102,906,749</b>	<b>\$ 105,120,519</b>	<b>\$ 101,026,689</b>	<b>\$ 106,785,360</b>	<b>\$ 107,067,963</b>
<b>Program Revenues</b>										
<b>Government activities:</b>										
Charges for services:										
Public safety	\$ 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	\$ 2,833,586
Recreation and parks	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	2,921,182
Other activities	1,310,454	1,985,858	1,616,970	899,633	1,021,607	909,424	646,804	793,407	867,871	976,649
Operating grants and contributions	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	4,109,780
Capital grants and contributions	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	3,607,571
<b>Total governmental activities program revenues</b>	<b>10,415,337</b>	<b>14,306,763</b>	<b>15,184,384</b>	<b>15,234,235</b>	<b>14,040,730</b>	<b>15,884,894</b>	<b>13,549,932</b>	<b>11,164,581</b>	<b>12,622,912</b>	<b>14,448,578</b>
<b>Business-type activities:</b>										
Charges for services:										
Water and sewer	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	24,489,123
Golf course	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	1,574,674
Airport	995,699	1,138,627	1,045,308	1,116,295	1,164,930	1,135,860	943,969	864,021	818,464	843,707
Parking	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	4,686,233
Other activities	14,086	817,109	818,503	955,642	1,100,508	1,340,575	1,510,399	1,740,966	1,746,214	1,742,777
Operating grants and contributions	99,610	109,830	103,762	177,585	166,747	131,486	136,640	141,820	638,020	175,352
Capital grants and contributions	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	7,309,417
<b>Total business-type activities program revenues</b>	<b>26,871,127</b>	<b>24,951,724</b>	<b>34,097,218</b>	<b>30,857,082</b>	<b>27,208,986</b>	<b>24,660,689</b>	<b>28,399,604</b>	<b>38,440,056</b>	<b>38,111,540</b>	<b>40,821,283</b>
<b>Total primary government revenues</b>	<b>\$ 37,286,464</b>	<b>\$ 39,258,487</b>	<b>\$ 49,281,602</b>	<b>\$ 46,091,317</b>	<b>\$ 41,249,716</b>	<b>\$ 40,545,583</b>	<b>\$ 41,949,536</b>	<b>\$ 49,604,637</b>	<b>\$ 50,734,452</b>	<b>\$ 55,269,861</b>
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (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)	\$ (58,960,193)
Business-type activities	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	7,162,091
<b>Total primary government net expense</b>	<b>\$ (27,756,533)</b>	<b>\$ (32,671,116)</b>	<b>\$ (26,548,936)</b>	<b>\$ (35,583,688)</b>	<b>\$ (45,185,111)</b>	<b>\$ (62,361,166)</b>	<b>\$ (63,170,983)</b>	<b>\$ (51,422,052)</b>	<b>\$ (56,050,908)</b>	<b>\$ (51,798,102)</b>

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Property taxes	\$ 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	\$ 48,901,253
Income taxes	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	6,796,948
Other taxes	575,344	387,408	389,999	402,365	431,408	346,904	305,873	317,816	401,280	405,339
Unrestricted grants and contributions	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	1,667,027
Interest earnings	352,445	506,950	886,927	1,201,986	1,129,019	526,778	274,691	191,738	157,056	107,835
Gain/(loss) on sale of capital assets	264,778	1,036,837	1,221,775	5,857	232,107	361,697	23,614	39,538	258,914	20,515
Miscellaneous	74,783	58,991	56,199	49,751	52,893	41,093	41,622	36,819	1,181,437	278,909
Transfers	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	1,724,528
Transfer of capital assets	-	(53,375,524)	-	-	-	-	-	-	-	-
Total governmental activities	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	59,902,354
Business-type activities:										
Interest earnings	467,727	666,132	3,356,010	3,487,354	2,601,009	1,082,434	366,255	196,979	138,264	125,716
Transfers	(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)	(1,724,528)
Transfer of capital assets	-	53,375,524	-	-	-	-	-	-	-	-
Total business-type activities	(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)	(1,598,812)
Total primary government	\$ 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	\$ 58,303,542
<b>Change in Net Position</b>										
Governmental activities	\$ (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)	\$ 942,161
Business-type activities	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	5,563,279
Total primary government	\$ 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	\$ 6,505,440

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General fund										
Reserved	\$ 5,290,273	\$ 4,956,617	\$ 5,288,664	\$ 5,793,698	\$ 10,213,220	\$ 5,906,069	\$ 5,802,406	\$ -	\$ -	\$ -
Unreserved:										
Designated	1,630,579	1,910,579	3,047,463	2,042,750	4,946,108	2,752,110	926,039	-	-	-
Undesignated	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	5,553,876
Restricted	-	-	-	-	-	-	-	197,938	197,674	195,938
Committed	-	-	-	-	-	-	-	524,324	522,177	1,192,444
Assigned	-	-	-	-	-	-	-	2,781,723	6,446,946	11,528,480
Unassigned	-	-	-	-	-	-	-	17,048,404	15,252,943	5,945,753
Total general fund	\$ 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	\$ 24,416,491
All other governmental funds										
Reserved	\$ 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	(55,409)	30,209	140,431	161,639	326,626	542,145	891,196	-	-	-
Capital projects funds	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	2,125,039
Restricted	-	-	-	-	-	-	-	4,107,321	3,668,132	12,541,334
Committed	-	-	-	-	-	-	-	2,885,570	2,186,365	214,717
Assigned	-	-	-	-	-	-	-	3,319,297	4,023,980	8,102,720
Total all other governmental funds	\$ 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	\$ 22,983,870

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)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes:										
Property taxes	\$ 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	\$ 49,005,998
Income taxes	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	6,796,948
Other taxes	464,247	387,408	389,999	402,365	431,408	346,904	305,873	317,816	401,280	405,339
Licenses and permits	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	2,317,125
Intergovernmental	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	5,011,287
Charges for services	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	2,607,519
Fines and forfeitures	71,864	116,690	444,404	577,893	485,832	624,082	577,466	532,398	1,705,111	1,307,955
Miscellaneous	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	3,670,682
Total revenues	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	71,122,853
Expenditures										
General government	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	9,031,999
Public safety	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	29,341,398
Public works	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	13,941,014
Recreation and parks	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	6,367,495
Urban development and housing	793,812	1,437,530	776,877	1,321,871	793,394	1,005,062	1,170,722	1,010,691	1,024,771	759,242
Economic opportunity	1,982,795	2,152,705	2,231,192	2,324,480	2,765,476	2,638,573	3,260,161	2,995,984	2,924,599	3,098,720
Miscellaneous	59,002	61,126	3,931	77,889	59,477	-	-	-	-	-
Capital projects	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	4,131,735
Debt service:										
Principal	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	4,621,888
Interest	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	2,374,364
Other charges	40,159	25,268	19,166	22,837	18,567	407,157	8,762	9,054	159,596	165,019
Total expenditures	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	73,832,874
Excess (deficiency) of revenues over expenditures	(9,817,475)	(7,838,900)	(8,729,481)	288,361	(1,334,730)	(36,908,582)	(5,365,240)	716,845	(757,487)	(2,710,021)
Other financing sources (uses)										
Capital asset disposition	420,803	3,347,897	1,588,366	5,857	1,102,369	682,309	282,909	27,290	246,114	20,515
Insurance reimbursements	-	-	67,774	81,407	99,734	110,633	48,190	14,982	24,527	19,710
Debt proceeds	1,270,000	1,398,945	1,194,043	-	99,255	44,043,053	-	-	8,367,000	21,274,997
Premium on bonds issued	-	-	-	-	-	-	-	-	127,312	2,530,309
Transfers in	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	6,014,481
Transfers out	(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)	(4,289,953)
Payment to refunded bond escrow	-	-	-	-	-	-	-	-	(7,723,685)	(15,197,506)
Total other financing sources (uses)	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	10,372,553
Net change in fund balances	\$ (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	\$ 7,662,532
Debt service as a percentage of noncapital expenditures	11.5%	12.2%	11.6%	10.7%	10.8%	9.6%	10.4%	10.8%	10.9%	10.4%

THE CITY OF FREDERICK, MARYLAND  
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 TEN-YEAR SUMMARY

For the years ended June 30,

Fiscal Year	REAL PROPERTY			PERSONAL PROPERTY			TOTAL			Ratio of Total Assessed to Total Estimated Actual Value
	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value		
2004	\$3,500,070,576	\$3,500,070,576	\$ 0.640	\$ 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	0.690	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	0.690	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	0.690	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	0.670	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	0.650	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	0.650	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	0.650	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	0.650	592,379,348	222,142,255	1.55	6,751,148,203	6,380,911,110	94.52%	
2013	6,213,988,112	6,213,988,112	0.732	593,200,830	222,450,311	1.55	6,807,188,942	6,436,438,423	94.55%	

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		(Note 1) Applicable to Prior Years	(Note 2) Amount	Percent
		In Year of Levy Amount	Percent			
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%	193,336	27,663,199	100.0%
2006	31,023,926	30,834,951	99.4%	188,031	31,022,982	100.0%
2007	34,716,468	34,454,566	99.2%	250,341	34,704,907	100.0%
2008	37,890,393	37,663,481	99.4%	224,404	37,887,885	100.0%
2009	40,600,977	40,412,247	99.5%	156,240	40,568,487	99.9%
2010	43,488,738	43,351,084	99.7%	89,861	43,440,945	99.9%
2011	46,395,466	46,264,937	99.7%	78,503	46,343,440	99.9%
2012	43,475,202	43,013,544	98.9%	337,999	43,351,543	99.7%
2013	48,934,372	48,752,446	99.6%	-	48,752,446	99.6%

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			County		State		Total	
	Property Tax Rate		Levy	Rate	Levy	Rate	Levy	Rate	Levy
	Real	Personal							
2004	\$ 0.640	\$ 1.55	\$24,936,205	\$ 1.135	\$39,725,801	\$ 0.132	\$4,620,093	\$ 1.907	\$69,282,099
2005	0.690	1.55	27,663,408	1.135	41,365,817	0.132	4,810,826	1.957	73,840,051
2006	0.690	1.55	31,023,926	1.135	46,973,493	0.132	5,462,997	1.957	83,460,416
2007	0.690	1.55	34,716,468	1.064	49,748,293	0.112	5,236,662	1.866	89,701,423
2008	0.670	1.55	37,890,393	1.064	56,386,345	0.112	5,935,405	1.846	100,212,143
2009	0.650	1.55	40,600,977	1.064	62,536,305	0.112	6,582,769	1.826	109,720,051
2010	0.650	1.55	43,488,738	1.064	67,289,402	0.112	7,083,095	1.826	117,861,235
2011	0.650	1.55	46,395,466	1.064	71,950,929	0.112	7,573,782	1.826	125,920,177
2012	0.650	1.55	43,475,202	1.064	65,529,301	0.112	6,897,821	1.826	115,902,324
2013	0.732	1.55	48,934,372	0.941	58,473,628	0.112	6,959,667	1.785	114,367,667

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:

Taxpayer	2013			2004		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
RIV 402 LLC	\$ 95,725,000	1	1.54%	-	-	-
MedImmune, Inc.	51,825,900	2	0.83%	-	-	-
River X, LLC	46,370,467	3	0.75%	-	-	-
State Farm Mutual Auto Insurance	38,407,100	4	0.62%	38,845,866	1	1.11%
I&G Direct Real Estate 23 LP	31,198,300	5	0.50%	-	-	-
Aldi, Inc.	30,575,600	6	0.49%	-	-	-
FCP Crystal Park, LLC	28,317,133	7	0.46%	19,992,066	4	0.57%
ASN Sunset LLC	28,277,567	8	0.46%	-	-	-
Frederick Shopping Center LLC	27,120,600	9	0.44%	15,707,632	6	0.45%
Saul Holdings Limited Partnership	22,635,000	10	0.36%	-	-	-
Fredericktowne Mall Assoc.	-	-	-	27,753,200	2	0.79%
First Real Estate Investment Trust	-	-	-	27,217,210	3	0.78%
Brightseat LLC	-	-	-	19,677,166	5	0.56%
Homewood Retirement Centers	-	-	-	15,449,700	7	0.44%
Waverly Limited Partnership	-	-	-	14,115,000	8	0.40%
Washington Real Estate Inv. Trust	-	-	-	13,638,300	9	0.39%
Frederick Commons, LLC	-	-	-	13,322,100	10	0.38%
	<u>\$ 400,452,667</u>		<u>6.44%</u>	<u>\$ 205,718,240</u>		<u>5.88%</u>

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

Taxpayer	2013			2004		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	\$ 66,725,200	1	30.00%	\$ 4,865,210	2	2.97%
Randall Family LLC	4,019,780	2	1.81%	-	-	-
United Healthcare Services Inc.	3,099,860	3	1.39%	-	-	-
Morningstar Foods, LLC	2,400,740	4	1.08%	3,326,400	3	2.03%
Maryland Grocery Store Company	2,162,220	5	0.97%	-	-	-
State Farm Mutual Automobile Insurance Co.	1,795,140	6	0.81%	2,725,250	5	1.66%
Comcast	1,662,350	7	0.75%	-	-	-
Experient Inc.	1,544,730	8	0.69%	-	-	-
BP Solar International LLC	1,467,530	9	0.66%	-	-	-
Fairchild Controls Corp.	1,356,280	10	0.61%	-	-	-
Mid Atlantic Medical Services, Inc.	-	-	-	5,707,700	1	3.48%
GA Cable, LLC	-	-	-	2,892,420	4	1.76%
United Rentals (North America), Inc.	-	-	-	2,261,450	6	1.38%
Lafarge Mid-Atlantic, Inc.	-	-	-	2,244,630	7	1.37%
Hydro Conduit Corporation	-	-	-	1,853,430	8	1.13%
Valley Rental Company, Inc.	-	-	-	1,782,180	9	1.09%
The Farmers & Mechanics National Bank	-	-	-	1,782,180	10	1.09%
	<u>\$ 86,233,830</u>		<u>38.77%</u>	<u>\$ 29,440,850</u>		<u>17.96%</u>

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

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Leases	Government			
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	8.87%	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	8.05%	3,623.03	
2011	69,348,000	1,760,431	160,417	-	152,029,199	3,209,772	-	226,507,819	7.42%	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	
2013	67,940,031	1,567,801	111,614	-	128,534,969	14,703,648	-	212,858,063	N/A	3,218.93	

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		Total General Bonded Debt Per Capita
	General Obligation Bonds	Tax Increment Financing Bonds	Total General Bonded Debt	Assessed Value of Taxable Property	Property	Population	Property	Population			
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				
2013	67,940,031	1,567,801	69,507,832	6,436,438,423	1.08%	66,127	1,051.13				

THE CITY OF FREDERICK, MARYLAND  
 DIRECT AND OVERLAPPING DEBT  
 as of June 30, 2013

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Frederick County	\$ 691,230,809	24.37%	\$ 168,452,948
The City of Frederick direct debt			69,619,446
			<u>\$ 238,072,394</u>

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
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%
2013	514,915,074	107,459,846	407,455,228	20.87%

THE CITY OF FREDERICK, MARYLAND  
 COMPUTATION OF LEGAL DEBT MARGIN  
 June 30, 2013

Assessed valuations		\$ 6,436,438,423
Debt limit (8% of assessed value per City Charter)		\$ 514,915,074
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 198,042,801	
Other debt	14,815,262	
	\$ 212,858,063	
Less: Water and sewer debt	105,398,217	
Total amount of debt applicable to debt limit		107,459,846
Legal debt margin		\$ 407,455,228

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
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%
2013	4,621,888	2,374,364	6,996,252	66,717,614	10.49%

THE CITY OF FREDERICK, MARYLAND  
 PLEDGED-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			
2004	\$ 124,781	\$ 110,000	\$ 234,781	\$ 58,905	\$ 139,391	\$ 6,470	\$ 204,766	114.66%		
2005	167,679	-	167,679	62,410	135,839	2,356	200,605	83.59%		
2006	195,074	-	195,074	66,124	56,668	5,866	128,658	151.62%		
2007	240,421	-	240,421	70,058	79,938	9,924	159,920	150.34%		
2008	746,100	-	746,100	74,226	77,340	6,069	157,635	473.31%		
2009	865,402	-	865,402	78,643	74,586	6,955	160,184	540.25%		
2010	942,403	-	942,403	83,322	57,927	7,156	148,405	635.02%		
2011	1,022,905	-	1,022,905	88,280	42,280	7,549	138,109	740.65%		
2012	914,466	-	914,466	93,532	40,261	9,860	143,653	636.58%		
2013	1,034,874	-	1,034,874	99,098	38,122	8,675	145,895	709.33%		

THE CITY OF FREDERICK, MARYLAND  
 SELECTED DEMOGRAPHIC STATISTICS  
 June 30, 2013  
 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
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	44,539	2,771,083	40,155	7.30%
2010	65,239	45,017	2,936,864	40,210	7.40%
2011	65,519	46,610	3,053,841	40,255	7.20%
2012	65,833	N/A	N/A	40,360	6.60%
2013	66,127	N/A	N/A	40,501	6.90%

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  
 2004 - 2006, 2008 - 2009, 2011 - 2013 - The City of Frederick Planning Department  
 2010 - U.S. Census Bureau
  - (2) Regional Economic Information System, Bureau of Economic Analysis, April 2013  
 (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

Employer	2013			2004		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Fort Detrick	10,000	1	N/A	7,300	1	N/A
Frederick County Board of Education	5,538	2	N/A	4,800	2	N/A
Frederick Memorial Healthcare System	2,800	3	N/A	2,270	4	N/A
Frederick County Government	2,130	4	N/A	2,526	3	N/A
Wells Fargo Home Mortgage	1,881	6	N/A	1,700	5	N/A
SAIC - Frederick	1,800	5	N/A	-	-	-
Frederick Community College	899	7	N/A	1,137	7	N/A
Frederick City Government	852	8	N/A	709	10	N/A
United Health Care	832	9	N/A	-	-	-
State Farm Insurance Company	793	10	N/A	1,000	8	N/A
Mid Atlantic Medical Services Inc.	-	-	-	1,565	6	N/A
F & M Bancorp	-	-	-	753	9	N/A

Frederick County Economic and Community Development Commission 2004  
 Frederick County Business Development and Retention Division 2013  
 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

Function:	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government	80.93	80.27	77.30	81.18	81.68	88.18	84.69	77.14	75.01	77.33
Public safety	197.30	197.40	194.24	203.15	203.84	212.70	211.3	207.75	195.15	199.94
Public works	90.52	89.35	84.77	86.59	85.38	93.78	96.33	93.69	90.15	89.22
Recreation and parks	69.34	64.52	60.44	58.73	60.56	58.78	61.46	57.98	53.83	55.60
Community development	6.00	6.00	6.00	6.00	6.00	6.00	6	5	4.4	4.00
Economic opportunity	37.84	41.56	38.27	41.34	39.17	36.95	46.04	43.81	39.88	42.65
Rental operations	0.00	0.35	0.50	0.50	0.40	0.50	0.5	0.5	0.5	0.50
Water and sewer	68.54	75.58	76.83	76.34	72.60	77.29	75.65	74.81	75.54	75.55
Golf course	22.37	22.08	21.01	20.80	20.69	22.17	19.77	19.85	15.64	15.94
Airport	3.13	3.50	3.50	3.50	3.50	3.50	2.86	2.5	2.5	2.50
Parking	13.05	15.73	15.74	16.60	17.04	13.09	16.26	17.03	16.14	18.07
Storm water	4.82	7.15	7.00	7.40	7.23	7.10	7.07	7.05	7.55	7.55
Total	593.84	603.49	585.60	602.13	598.09	620.04	627.93	607.11	576.29	588.85

Source: The City of Frederick Finance Department

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

Function:	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public safety										
Police:										
Stations	2	2	2	2	1	1	1	1	1	1
Public works:										
Miles of paved streets (road miles)	180	183	184	250	257	275	278	280	282	284
Miles of sidewalks	344	350	350	500	530	544	552	562	565	569
Number of street lights	7,790	7,959	8,131	8,213	7,459	9,050	9,135	9,216	9,256	9,411
Number of traffic signals	71	72	71	72	71	71	74	74	75	77
Recreation and parks:										
Number of parks	63	63	59	57	57	55	55	61	61	61
Parks acreage	465	443	464	400	435	583	603	603	603	603
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	32	25	26	26	26	23	23	23	23	23
Number of municipal 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	4	3
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Water and sewer:										
Miles of water main	250	255	215	220	220	220	220	260	260	262
Number of fire hydrants	2,600	2,675	2,500	2,520	2,520	2,520	2,750	2,750	2,750	2,850
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	3	3	3	3	3	3
Miles of sanitary sewer	157	162	161	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	9	9	10	11	11	10
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	2
Parking:										
Number of parking areas	5	3	3	3	3	3	3	4	5	5
Number of parking area spaces	250	156	156	156	164	158	143	231	265	265
Number of parking garages	3	3	3	4	4	4	5	5	5	5
Number of parking garage spaces	1,469	1,469	1,470	2,112	2,116	2,116	2,477	2,477	2,474	2,474
On street parking spaces	N/A	N/A	N/A	N/A	2,500	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	744	856	856
Stormwater:										
Miles of storm drain	N/A	N/A	210	211	211	210	210	210	210	210
Number of storm water pump stations	N/A	N/A	N/A	N/A	4	4	5	5	6	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									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Function:										
Public safety										
Police:										
Calls for service	58,396	64,876	65,227	70,606	74,906	83,164	80,349	74,607	79,000	81,019
Physical arrests	3,442	3,693	2,897	4,161	3,229	4,359	4,116	2,225	1,908	3,724
Traffic violations	9,819	12,684	8,750	10,425	11,682	14,292	10,679	10,189	9,617	8,223
Water and sewer:										
Number of water service connections	16,600	17,100	17,587	17,814	17,939	18,092	18,246	18,342	18,502	18,620
Avg. daily water consumption (thousands of gallons)	6,412	6,500	5,780	5,989	6,300	5,533	5,509	5,437	5,612	5,371
Number of sewer service connections	14,300	14,729	14,713	14,845	14,934	14,987	15,030	15,050	15,088	15,114
Avg. daily sewage treatment (thousands of gallons)	6,610	7,000	6,450	6,690	6,900	6,200	6,890	6,005	6,228	6,143
Golf course:										
Number of rounds of golf	34,816	33,979	35,260	33,758	33,672	29,780	29,258	29,579	30,382	28,649
Airport:										
Number of Operations	159,562	150,441	154,107	160,657	151,088	130,284	132,803	131,500	131,500	110,000
Parking:										
Number of parking violations	40,816	48,094	30,272	38,177	42,354	39,213	25,320	29,996	28,995	30,714

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

# SINGLE AUDIT SECTION



**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 29, 2013. Our report also contains an emphasis of matter paragraph stating that the City early adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**Internal Control over Financial Reporting**

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

**Purpose of this Report**

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

*McGladrey LLP*

Frederick, Maryland  
October 29, 2013



**Independent Auditor's Report On Compliance For Each  
Major Federal Program And Report On Internal Control Over  
Compliance Requirement by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

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 City's major federal programs for the year ended June 30, 2013. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of 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, 2013.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

*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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*McGladrey LLP*

Frederick, Maryland  
October 29, 2013

THE CITY OF FREDERICK, MARYLAND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Expenditures July 1, 2012 - June 30, 2013
<b><u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>				
Direct Programs:				
Community Development Block Grant - Entitlement Program	B-11-MC-240013	14.218	\$ 351,775	\$ 187,377
Community Development Block Plus Program Income				130,944
Total Program				318,321
Supportive Housing Program Grant	MD06B709004	14.235	135,536	135,536
Supportive Housing Program Grant	MD06B709005	14.235	65,896	65,895
Total Program				201,431
HUD Housing Counseling Grant		14.169	38,441	20,324
Passed Through Maryland Department of Housing and Community Development:				
Emergency Solutions Grant	13ESGFC-2012		25,313	25,313
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				<b>\$ 565,389</b>
<b><u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
Passed Through Maryland State Department of Housing & Community Development:				
Community Services Block Grant	CAN 2012G994002	93.569	\$ 265,235	\$ 62,193
Community Services Block Grant	CAN 2013G994002	93.569	265,235	178,602
Total Program				240,795
Passed Through Healthcare for the Homeless, Inc.:				
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	47,606
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	57,309
Total Program				104,915
Passed Through Maryland State Department of Health and Mental Hygiene:				
McKinney PATH Grant	MH-263-OTH	93.150	77,400	77,400
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				<b>\$ 423,110</b>
<b><u>DEPARTMENT OF ENERGY</u></b>				
Passed Through Maryland Department of Housing and Community Development:				
ARRA - Weatherization Assistance Program		81.042	1,168,005	\$ 154,922
Maryland Energy Assistance Program		81.042	150,000	76,345
<b>TOTAL DEPARTMENT OF ENERGY</b>				<b>\$ 231,267</b>
<b><u>DEPARTMENT OF JUSTICE</u></b>				
Direct Programs				
2011 Justice Assistance Grant	2011-DJ-BX-2584	16.738	\$ 66,513	\$ 5,720
2012 Justice Assistance Grant	2012-DJ-BX-1217	16.738	54,272	53,653
Total Program				59,373
Bulletproof Vest Partnership Program	Regular Grant	16.607		7,086
<b>TOTAL DEPARTMENT OF JUSTICE</b>				<b>\$ 66,459</b>

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, 2013

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2012 - June 30, 2013
<b><u>DEPARTMENT OF TRANSPORTATION</u></b>				
Direct Program:				
Airport Traffic Control Tower - ARRA	DTFA-WA-10-A-80026	20.999	\$ 5,332,462	\$ 153,112
Airport Development Aid Program	3-24-0017-035	20.106	144,697	9,461
Airport Development Aid Program	3-24-0017-036	20.106	21,277	2,697
Airport Development Aid Program Income		20.106		61,444
<b>TOTAL DEPARTMENT OF TRANSPORTATION</b>				<b>\$ 226,714</b>
<b><u>DEPARTMENT OF AGRICULTURE</u></b>				
Passed Through Maryland State Dept. of Education				
Summer Food Service Program		10.559	(A)	\$ 63,078
Child/Adult Care Food Program		10.558	(A)	573
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>				<b>\$ 63,651</b>
<b><u>DEPARTMENT OF THE INTERIOR</u></b>				
Direct Program:				
National Parks Service Preserve America Grant	24-07-PA-3064	15.929	150,000	\$ 13,394
Passed Through Maryland State Dept. of Planning				
Frederick Historic District Survey	24-11-31927	15.904	\$ 25,000	25,000
<b>TOTAL DEPARTMENT OF INTERIOR</b>				<b>\$ 38,394</b>
<b><u>DEPARTMENT OF HOMELAND SECURITY</u></b>				
Passed Through Frederick County				
FFY 10 SHSP G21741	2010-SS-TO-0025	97.073	\$ 120,000	\$ 104,694
FFY 11 SHSP G2174A	EMW-2011-SS-00044-S01-SHS	97.073	29,190	28,853
Total Passed Through Frederick County				133,547
Passed Through Maryland Emergency Management				
Hurricane Sandy	FEMA 4091 DR MD JIY0003	97.036		240,243
Hurricane Sandy	FEMA 4091 DR MD JIY0004	97.036		29,512
Total Passes Through MEMA				269,755
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>				<b>\$ 403,302</b>
<b><u>CONGRESSIONAL ACTION</u></b>				
Passed Through Maryland State Department of Housing and Community Development				
Foreclosure Mitigation Grant	PL 110-161:95X1350	99.999	\$ 95,400	\$ 35,006
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b>\$ 2,053,292</b>

(A) 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, 2013

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, 2013.

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.

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs  
Year Ended June 30, 2013

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Section I – Summary Of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

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   None reported

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   None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

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

*Identification of Major Programs:*

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
20.106 / 20.999	Non-ARRA Airport Improvements and ARRA Airport Traffic Control Tower
81.042	ARRA and Non-ARRA Weatherization Assistance Program
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**The City Of Frederick, Maryland**

**Schedule Of Findings And Questioned Costs  
Year Ended June 30, 2013**

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**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*

No matters were reported.

**The City Of Frederick, Maryland**

**Summary Schedule Of Prior Audit Findings  
Year Ended June 30, 2013**

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**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.

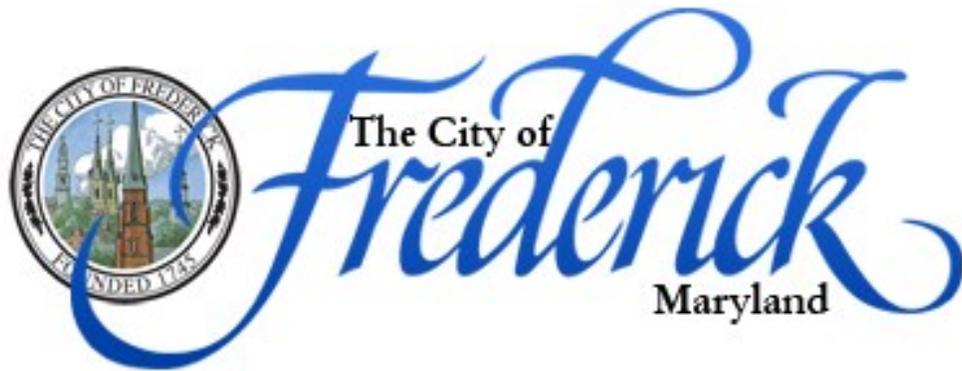
Compliance

**Finding 2012-01: Reporting of Federal Expenditures**

Audit Finding: The Schedule of Expenditures of Federal Awards that was presented to us at the start of the audit did not include \$32,901 of federal weatherization expenditures and therefore, the Schedule of Expenditures of Federal Awards was understated by this amount.

Corrective action taken: Corrective action was taken.

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**RANDY A. McCLEMENT, MAYOR**

**ALDERMEN**

**KAREN LEWIS YOUNG, *PRES. PRO TEM***

**MICHAEL C. O'CONNOR**

**SHELLEY M. ALOI**

**CAROL L. KRIMM**

**KELLY M. RUSSELL**

**[WWW.CITYOFFREDERICK.COM](http://WWW.CITYOFFREDERICK.COM)**