

THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by the Department of Finance

John D. Leisenring
Chief Financial Officer

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, 2005

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Jennifer P. Dougherty
Mayor



Aldermen
William G. Hall
President Pro Tem
Donna Kuzemchak Ramsburg
Joseph W. Baldi
Marcia A. Hall
David G. Lenhart

October 31, 2005

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, 2005. 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 the City's financial statements in conformity with 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 & Pullen, 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, 2005, 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, 2005, 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 20.86 square miles and serves a population of 57,100. 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 on a non-partisan basis. Board members serve 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 and airport 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 prior to March 15th. The mayor uses these requests as the starting point for developing a proposed budget. The mayor presents the proposed budget prior to May 30th. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29th. The budget is prepared by fund, function and department. The Mayor may make transfers or appropriations within a department. Transfers between departments require the special approval of the board. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 26 and 27 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 61.

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 population of approximately 57,100, coupled with an additional 50,000 residents who live in surrounding neighborhoods, represents fifty percent of Frederick County's total population. Closely equal in gender, more than 60% of Frederick's population falls between the ages of 18 and 64. More than 60% of Frederick's working population is employed in professional and managerial positions. One-third of our highly-skilled labor force invests 30-90 minutes a day commuting to Washington, DC, Baltimore, and along the I-270 Technology Corridor.

Abundant, diverse housing is a primary attraction among new residents moving to Frederick. The City includes 20,891 households, a third of all those located in Frederick County. In 2005, the average resale price of a single-family home in Frederick County was \$354,500, boasting housing costs that are lower than other Washington, D.C. suburban counties.

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

general aviation reliever airport for Reagan National, Baltimore-Washington International and Washington Dulles International airports. Its close proximity to urban areas along with the available transportation systems make the City a logical location for growth and progress.

Long-term financial planning

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

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

The East Street Extension project will provide direct access to Frederick's downtown business district from Interstate 70 via Carroll Creek Park. The immediate access provided by this highway will result in its becoming the City's major southern portal and dramatically increase Carroll Creek Park's commercial appeal. The first phase of the East Street Extension, spanning East Patrick Street to East South Street through Carroll Creek Park is completed. Construction of the final connection to I-70 will occur in the next several years

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

The Hill Street Regional Park will provide a world-class skateboard facility, competitive inline hockey facility and a water park. It is anticipated that admission fees from these activities will provide adequate revenues to offset operation and maintenance costs of the park.

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. These short-term tax credits provide needed incentives for private sector capital reinvestment and revitalization in the properties of the area.

Cash management policies and practices

Cash temporarily idle during the year was invested in various instruments. The pension trust fund's investment portfolio included investments in fixed income securities, equities, money market funds and real estate. Total investment earnings for this fund for the year were \$1,433,144 with realized gains of \$3,005,445 and unrealized losses of \$114,957.

Funds received by the City through day-to-day operations were invested daily in demand deposits, certificates of deposits, or repurchase agreements. These investments are normally invested for periods no longer than one year and are either insured or collateralized. The rate of return for the year on these investments was approximately 2.02%, with total investment interest of \$570,141.

The City also invested unspent bond proceeds during the fiscal year. The average rate for these investments was 1.98%. Total investment interest earnings on these proceeds for the fiscal year was \$602,898.

Total interest on all investments for fiscal year 2005 was \$2,606,183.

Risk Management

The City currently utilizes the services of an insurance company to manage risks. Coverage includes buildings, contents, flood, fire, multi-peril, comprehensive general liability, property damage and motor vehicles. The Director of Budget and Purchasing has responsibility for overseeing the City's risk management.

Additional information on the City's risk management activity can be found in Note 11 of the notes to the financial statements.

Pension and other post-employment benefits

The City sponsors three single-employer defined benefit pension plans for its employees. Each year, an independent actuary calculates the amount of the annual contribution that the City must make to the pension plans to ensure that the plans will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary.

The City of Frederick also provides postretirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 330 retirees and beneficiaries eligible for health benefits, which are financed on a pay-as-you-go basis. Current GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's pension arrangements and post-employment benefits can be found in notes 7 and 8 in the notes to the financial statements.

Awards and Acknowledgements

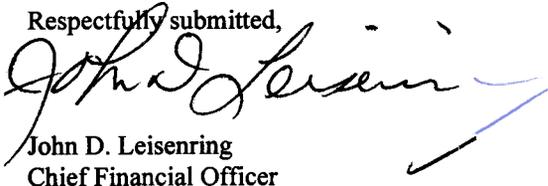
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty second consecutive year the City has received this award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR 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 officers, 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 & Pullen, LLP, as well as our financial software consultants, Sungard HTE Inc., for their cooperation in our efforts to effect a better accounting and reporting responsibility..

Respectfully submitted,



John D. Leisenring
Chief Financial Officer

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, 2004

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



Nancy L. Zjella

President

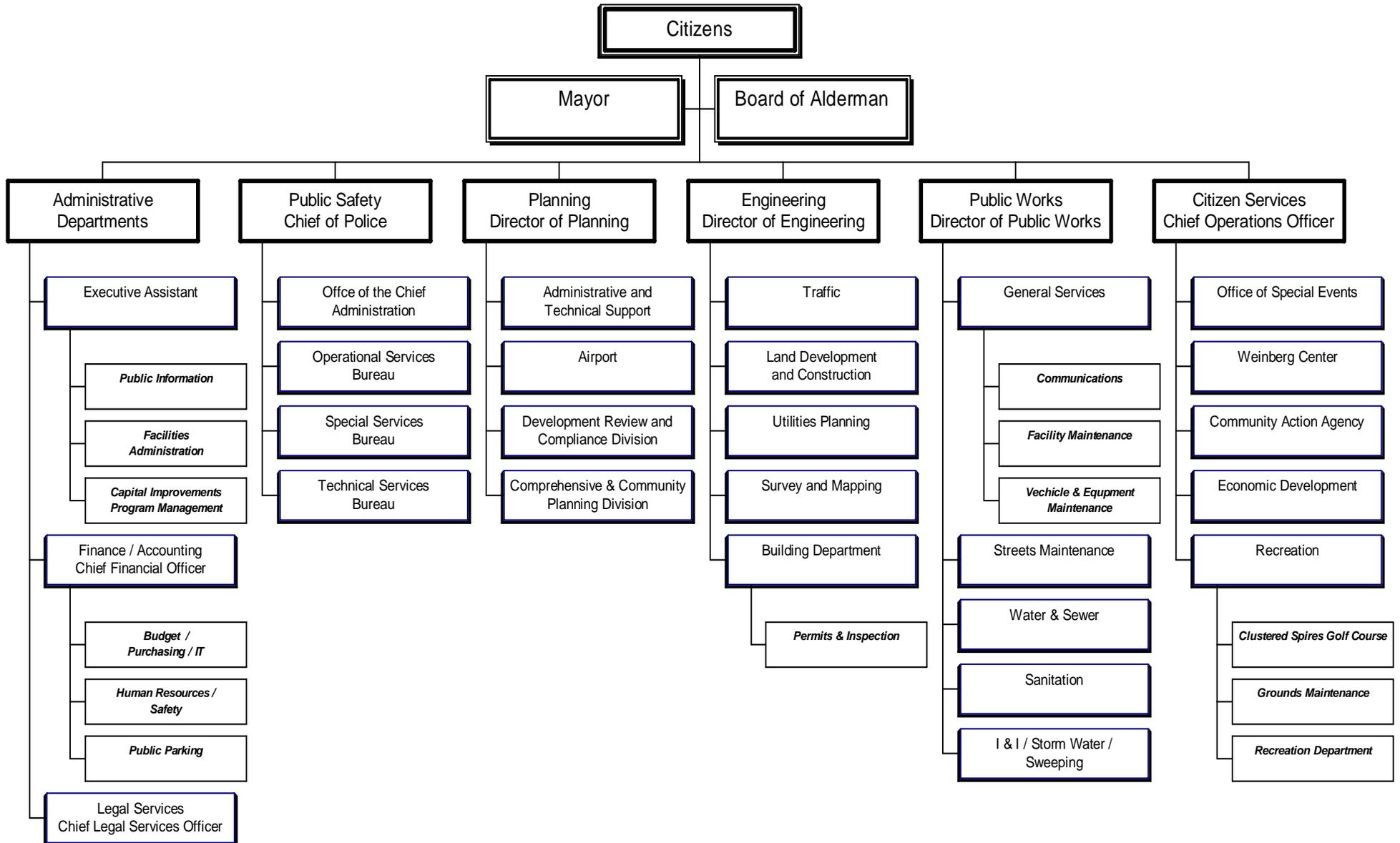
Jeffrey R. Emer

Executive Director

The City of Frederick

Organizational Chart

June 30, 2005



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2005

MAYOR

Jennifer P. Dougherty

BOARD OF ALDERMEN

William G. Hall
President Pro Tem

Donna Kuzemchak Ramsburg
Joseph W. Baldi
Marcia A. Hall
David G. Lenhart

APPOINTED OFFICIALS

Acting Chief Legal Services Officer
Chief Financial Officer
Chief Operations Officer
Chief Public Safety Officer

Sandra A. Nickols
John D. Leisenring
Vincent P. Hughes III
Colonel Kim C. Dine

Comptroller
Director of Budget and Purchasing
Director of Community Action
Director of Economic Development
Director of Engineering
Director of Human Resources
Director of Planning and Community Development
Director of Public Works
Director of Recreation
Executive Assistant

Gerald D. Kolbfleisch
Jonathan M. Angel
Michael R. Spurrier
Richard G. Griffin
Paul H. Lee
S. Jeanne Rockenbaugh
Charles W. Boyd
Fred L. Eisenhart
Roelkey I. Myers
Stephanie E. Davis

FINANCIAL SECTION

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The "Management's Discussion and Analysis" on pages 12 through 20 and "Schedule of Funding Progress – Pension Plans" on page 58 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Frederick, Maryland
September 9, 2005

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, 2005. 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 3 –7 of this report, and the City's financial statements.

Financial Highlights

The assets of The City of Frederick exceeded its liabilities at the close of the most recent fiscal year by \$233,082,126 (net assets). Of this amount, \$24,733,819 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$6,018,727, or 2.65%. The governmental net assets decreased by \$49,941,976 and the business-type net assets increased by \$55,960,703. At the beginning of the year, \$53,375,524 of capital assets were transferred from governmental net assets to the business-type assets due to the creation of the Storm Water Management Fund. Excluding this transaction, the governmental net assets increased by \$3,433,548 and the business-type net assets increased by \$2,585,179.

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 \$26,011,063, a decrease of \$1,573,137 in comparison to the prior year. Capital improvement program expenditures reduced the fund balance by \$3,743,890. An increase of \$184,977 in the fund balance was attributable to non-major governmental funds and the remaining increase of \$1,985,776 was attributable to the general fund.

At June 30, 2005, the total governmental fund unreserved fund balance was \$9,666,264. The unreserved fund balance for the general fund was \$4,771,476, or 10.0% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 21 and 22 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 23 - 25 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, golf course, airport, parking, storm water management 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, golf course, airport, parking and storm water management, all of which are considered to be major funds of the City. The rental operations fund is considered to be a non-major fund. However; since there are no other non-major funds, individual fund data is also presented for rental operations in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 28 - 31 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 32 - 33 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 34 - 57 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 benefits to its employees. Required supplementary information can be found on page 58 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 59 - 63 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$233,082,126 at the close of the most recent fiscal year.

The City of Frederick's Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 34,906,256 | \$ 35,787,762 | \$ 30,687,092 | \$ 38,735,746 | \$ 65,593,348 | \$ 74,523,508 |
| Capital assets | 88,949,157 | 139,920,110 | 169,470,593 | 107,490,190 | 258,419,750 | 247,410,300 |
| Total assets | <u>123,855,413</u> | <u>175,707,872</u> | <u>200,157,685</u> | <u>146,225,936</u> | <u>324,013,098</u> | <u>321,933,808</u> |
| Long-term liabilities outstanding | 53,742,123 | 56,416,550 | 26,938,625 | 30,366,876 | 80,680,748 | 86,783,426 |
| Other liabilities | 6,597,051 | 5,833,107 | 3,653,173 | 2,253,876 | 10,250,224 | 8,086,983 |
| Total liabilities | <u>60,339,174</u> | <u>62,249,657</u> | <u>30,591,798</u> | <u>32,620,752</u> | <u>90,930,972</u> | <u>94,870,409</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 54,856,404 | 104,435,028 | 143,574,323 | 86,625,237 | 198,430,727 | 191,060,265 |
| Restricted | 2,944,632 | 2,253,250 | 6,972,948 | 3,738,277 | 9,917,580 | 5,991,527 |
| Unrestricted | <u>5,715,203</u> | <u>6,769,937</u> | <u>19,018,616</u> | <u>23,241,670</u> | <u>24,733,819</u> | <u>30,011,607</u> |
| Total net assets | <u>\$ 63,516,239</u> | <u>\$ 113,458,215</u> | <u>\$ 169,565,887</u> | <u>\$ 113,605,184</u> | <u>\$ 233,082,126</u> | <u>\$ 227,063,399</u> |

By far the largest portion of the City's net assets (85 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of net assets (\$9,917,580) represents resources that are restricted on how they may be used. The remaining balance of net assets (\$24,733,819) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. The golf course business-type activity had negative unrestricted net assets in the amount of \$2,199,574.

The City's net assets increased by \$6,018,727 during the current fiscal year.

Governmental activities. Governmental activities decreased the City's net assets by \$49,941,976 in the current fiscal year. Included in this figure is a transfer of capital assets into the newly created Storm Water Management Fund, which is recorded as a proprietary fund and is a part of business-type activities, in the amount of \$53,375,524. Excluding this transaction, governmental activities increased the City's net assets by \$3,433,548.

Total revenues increased by \$8,120,835. The largest increase was in property taxes with an increase of \$2,910,749. Charges for services increased by \$1,261,065. Fees related to development activities such as building, electrical, fire protection permits, fire code plan reviews, filing fees and development inspections increased approximately \$745,000 during the current year. Cable television fees and recreation center membership fees increased by \$103,570 and \$193,343, respectively. Operating grants and contributions increased by \$1,615,175 with significant increases in

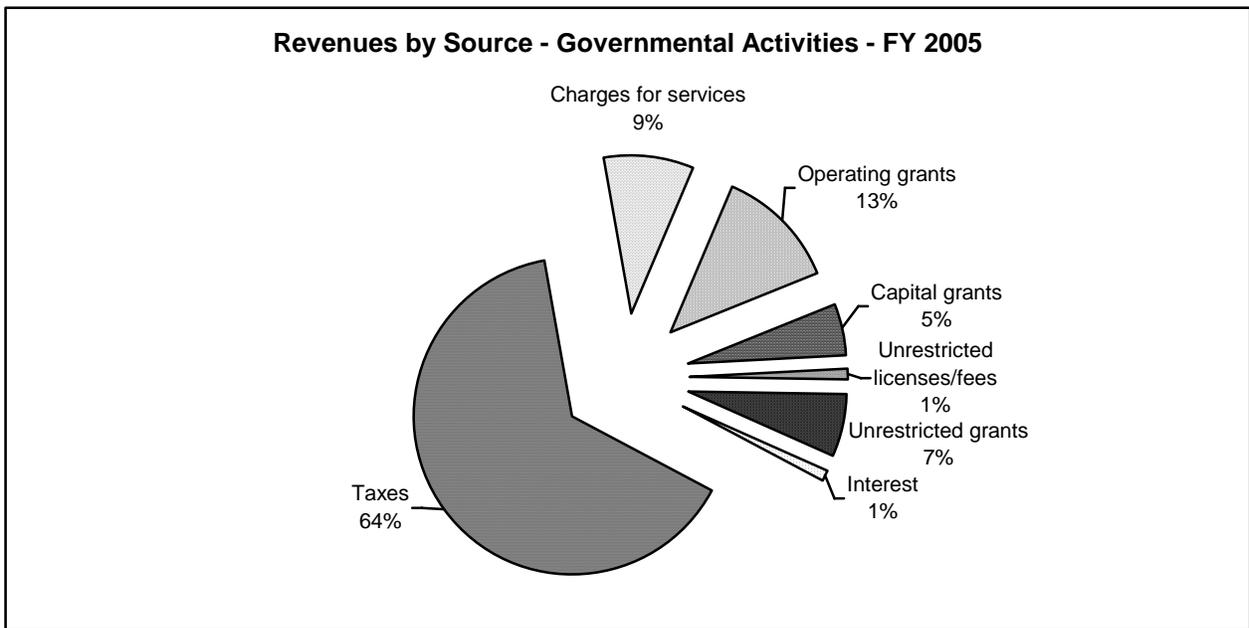
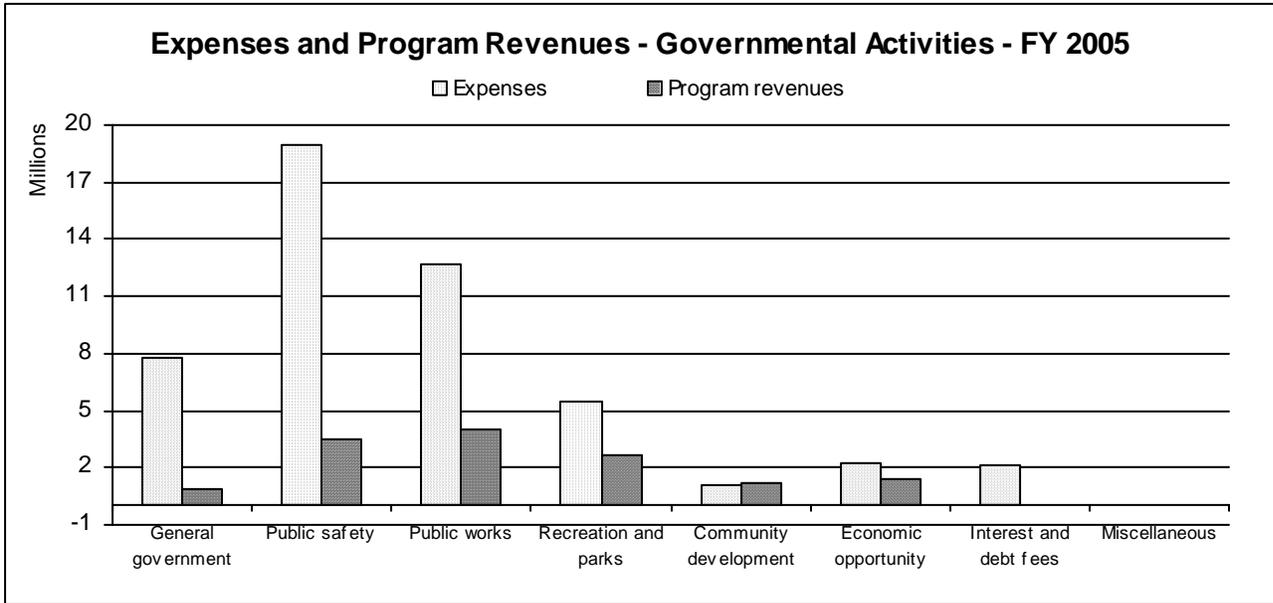
highway users revenue of \$797,282 and community development block grant funds of \$540,320. Capital grants and contributions increased by \$826,676 and was due primarily to donated capital assets.

Total expenses increased by \$1,327,573 in fiscal year 2005. Salaries and personnel benefits increased by approximately \$1,394,000. Other charges increased by \$1,184,306. Depreciation expense decreased by \$1,253,709 due to the transfer of capital assets related to storm water management into the Storm Water Management fund.

Net transfer from business-type activities to the governmental activities totaled \$1,518,921. The majority of the transfers were to reimburse the governmental funds for administrative services they provide to the business-type funds and for capital outlay in the governmental funds that benefit the City.

The City of Frederick's Changes in Net Assets

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | <u>Totals</u> | |
|-------------------------------------|--------------------------------|-----------------------|---------------------------------|-----------------------|-----------------------|-----------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 4,663,266 | \$ 3,402,201 | \$ 17,495,880 | \$ 14,863,975 | \$ 22,159,146 | \$ 18,266,176 |
| Operating grants/contributions | 6,409,566 | 4,794,391 | 109,830 | 99,610 | 6,519,396 | 4,894,001 |
| Capital grants/contributions | 2,678,857 | 1,852,181 | 7,346,014 | 11,907,542 | 10,024,871 | 13,759,723 |
| General revenues: | | | | | | |
| Taxes | 33,079,349 | 30,010,145 | - | - | 33,079,349 | 30,010,145 |
| Non-restricted grants/contributions | 3,341,584 | 3,092,151 | - | - | 3,341,584 | 3,092,151 |
| Other | <u>2,157,852</u> | <u>1,058,570</u> | <u>666,132</u> | <u>514,922</u> | <u>2,823,984</u> | <u>1,573,492</u> |
| Total revenues | <u>52,330,474</u> | <u>44,209,639</u> | <u>25,617,856</u> | <u>27,386,049</u> | <u>77,948,330</u> | <u>71,595,688</u> |
| Expenses: | | | | | | |
| General government | 7,811,588 | 7,857,792 | - | - | 7,811,588 | 7,857,792 |
| Public safety | 18,969,032 | 17,670,546 | - | - | 18,969,032 | 17,670,546 |
| Public works | 12,666,210 | 12,977,426 | - | - | 12,666,210 | 12,977,426 |
| Recreation and parks | 5,513,056 | 5,585,375 | - | - | 5,513,056 | 5,585,375 |
| Community development | 1,102,406 | 787,758 | - | - | 1,102,406 | 787,758 |
| Economic opportunity | 2,194,580 | 1,964,282 | - | - | 2,194,580 | 1,964,282 |
| Interest and long-term debt | 2,097,849 | 2,186,093 | - | - | 2,097,849 | 2,186,093 |
| Miscellaneous | 61,126 | 59,002 | - | - | 61,126 | 59,002 |
| Rental operations | - | - | 63,547 | 33,412 | 63,547 | 33,412 |
| Water and sewer | - | - | 14,262,777 | 10,991,769 | 14,262,777 | 10,991,769 |
| Golf course | - | - | 1,660,229 | 1,629,269 | 1,660,229 | 1,629,269 |
| Airport | - | - | 1,685,136 | 1,711,743 | 1,685,136 | 1,711,743 |
| Parking | - | - | 1,899,409 | 1,635,725 | 1,899,409 | 1,635,725 |
| Storm water | - | - | <u>1,942,658</u> | - | <u>1,942,658</u> | - |
| Total expenses | <u>50,415,847</u> | <u>49,088,274</u> | <u>21,513,756</u> | <u>16,001,918</u> | <u>71,929,603</u> | <u>65,090,192</u> |
| Increase/(decrease) in net assets | | | | | | |
| before transfers | 1,914,627 | (4,878,635) | 4,104,100 | 11,384,131 | 6,018,727 | 6,505,496 |
| Transfers | <u>(51,856,603)</u> | <u>1,870,044</u> | <u>51,856,603</u> | <u>(1,870,044)</u> | - | - |
| Increase/(decrease) in net assets | (49,941,976) | (3,008,591) | 55,960,703 | 9,514,087 | 6,018,727 | 6,505,496 |
| Net assets, July 1 | <u>113,458,215</u> | <u>116,466,806</u> | <u>113,605,184</u> | <u>104,091,097</u> | <u>227,063,399</u> | <u>220,557,903</u> |
| Net assets, June 30 | \$ <u>63,516,239</u> | \$ <u>113,458,215</u> | \$ <u>169,565,887</u> | \$ <u>113,605,184</u> | \$ <u>233,082,126</u> | \$ <u>227,063,399</u> |

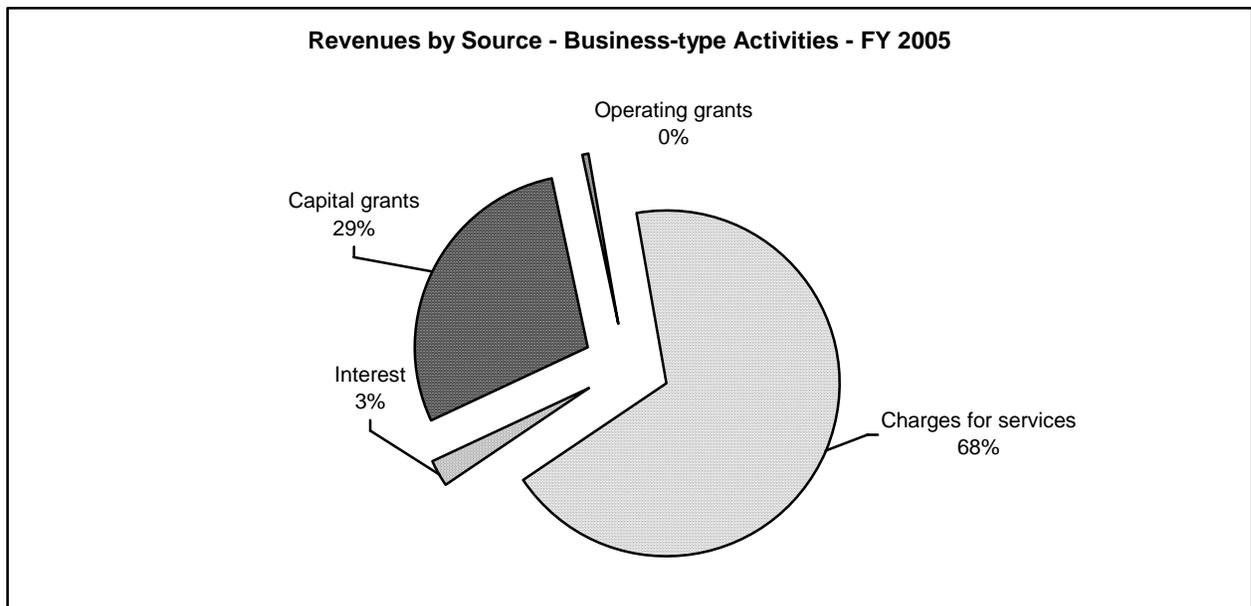
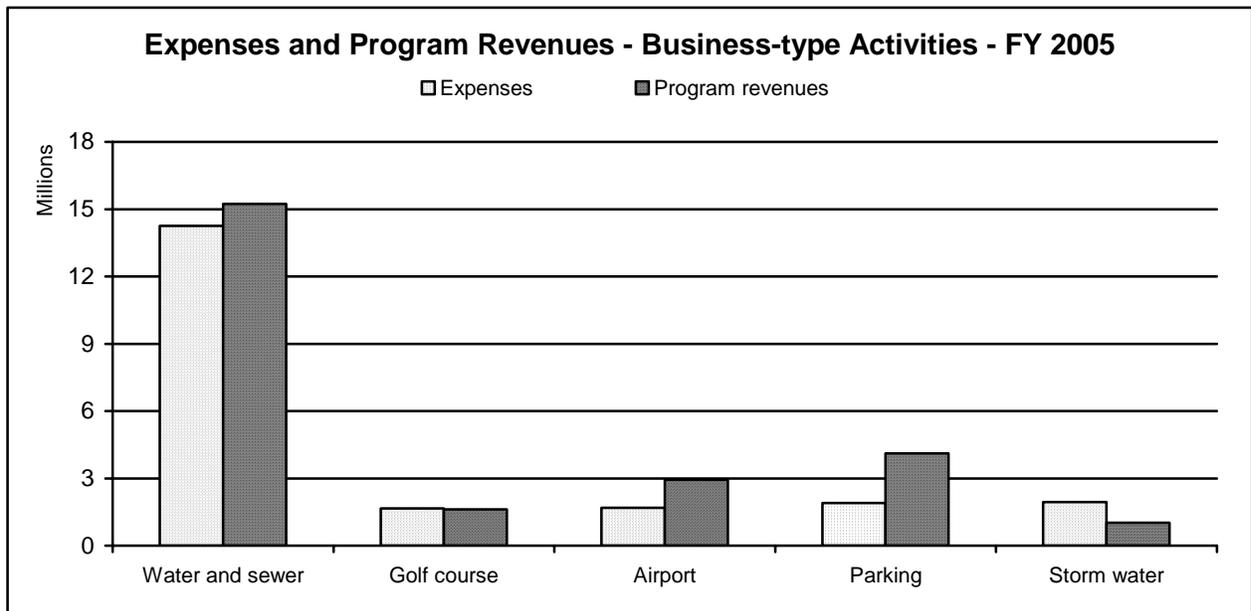


Business-type activities. Business-type activities increased the City's net assets by \$55,960,703 in the current fiscal year. As noted earlier, \$53,375,524 of this increase was due to the creation of the Storm Water Management fund and the transfer of capital assets that are involved in that function. \$2,585,179 of the net asset increase was due to operations throughout the year.

Total revenues decreased by \$1,768,193. Of this amount, approximately \$4,560,000 is due to decreased capital grants and contributions. Capital grants and contributions for water and sewer, parking and the newly formed storm water funds increased \$654,781, \$1,069,856 and \$225,350 respectively, while airport grants decreased by approximately \$6,512,000. Charges for services increased by approximately \$2,630,000 and investment earnings decreased by nearly \$200,000. Service charges increased for water and sewer by \$840,277, for the airport by \$142,928 and for parking by \$823,623. Storm water service charges were initiated during this fiscal year and totaled \$797,997.

Total expenses increased by \$5,511,838 in fiscal year 2005. Salaries and personnel benefits increased by approximately \$1,005,123, other services and charges increased by approximately \$2,584,372, depreciation expense increased approximately \$2,010,275 and debt service related expenses decreased by approximately \$88,000. Of the total increase, \$1,942,658 was attributable to the new Storm Water Management fund.

Business-type activities transferred \$1,836,646 into governmental activities in FY 2005 and received a transfer of \$317,725 from governmental activities for a net amount of \$1,518,921. \$1,336,646 of the transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities while the remaining \$500,000 represents a transfer of net assets from the parking fund to the general fund. The \$317,725 received from the general CIP fund is an amount that was designated for storm water projects and was transferred because of the creation of the Storm Water Management fund.



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved 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, 2005, the City's governmental funds reported combined ending fund balances of \$26,011,063, a decrease of \$1,573,137 over the prior fiscal year. Revenues increased by 12.08% in the current year with all categories except payment in lieu of taxes and business taxes showing increases over the prior year. Expenditures and other uses increased by \$3,764,651, or 6.73% over the preceding year. Approximately 27% of this increase was due to increased capital project spending. Salaries and benefits accounted for 40% and debt service 17% of the increase. Supplies and other charges and transfers out increased spending by 6% and 10% respectively.

Of the ending fund balance, \$6,666,264 is unreserved and available for the City's use. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been 1) committed to liquidate encumbrances (\$11,585,686). 2) loaned to other entities or funds (\$4,099,056), or 3) used to purchase inventory or other prepaid items (\$660,057).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,771,476, while total fund balance was \$9,728,208. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.0 percent of total general fund expenditures, while total fund balance represents 20.4 percent of that same amount.

The fund balance of the City's general fund increased by \$1,985,776 during the current fiscal year. Revenues increased by 14.23 percent and expenditures increased by 4.89 percent.

The general capital improvements project fund has a total fund balance of \$15,194,143, all of which will be used for general capital improvements within the City.

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 differences between the original budget and the final amended budget was \$191,502 and is summarized as follows:

| | |
|---|-------------------|
| Increase in general government activities | \$ 227,430 |
| Increase in public safety | 190,090 |
| Increase in recreation and parks | 20,500 |
| Increase in community development | 33,600 |
| Increase in economic opportunity activities | 46,412 |
| Decrease in miscellaneous activities | (404,646) |
| Increase in debt service | 2,500 |
| Increase in transfers out | <u>75,616</u> |
| Total change in budget | <u>\$ 191,502</u> |

Of this increase, \$182,907 was to be funded by an increase in intergovernmental revenue and the remaining \$8,595 was to be funded from private donations. The budget increase in the general government budget was due to increased legal fees (\$80,000), salaries and fringe benefits (\$90,000), computer equipment (\$57,546) and donations (\$500). During fiscal year 2005 the police department was able to acquire grant funds for various police equipment and services in the amount of \$145,090, which resulted in budget amendments. An additional budget transfer of \$45,000 in public safety was to cover health care costs. The department of Youth Services also obtained additional grant

funding during the fiscal year in the amount of \$46,412 to assist in their program objectives. The additional budget adjustments were due to minor departmental initiatives.

During the year actual revenues fell short of the amended budget by \$707,113. Taxes and intergovernmental revenues were the primary factors in this shortfall. Taxes were \$634,392 less than estimated and intergovernmental revenues were \$485,341 less than budgeted. The primary reasons for the variance in intergovernmental revenues was a \$300,000 lead paint reduction grant that did not materialize and a weatherization grant that was budgeted for \$381,000 but only used \$140,000. Investment earnings were approximately \$262,000 greater than budgeted.

Expenditures were less than the final budgetary estimates by \$4,133,098. Of this amount, \$1,036,291 was encumbered at year end. Significant departmental variance, after encumbrances, occurred in the community action agency which expended \$446,322 less than budgeted. The main reason for this variance is the lead paint reduction grant which was budget in the amount of \$300,000 and did not occur, and the weatherization program that spent approximately \$240,000 less than anticipated. The remaining budget savings occurred throughout all general fund departments in response to the administration's request.

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, 2005, amounts to \$258,419,750 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 4.4 percent. In fiscal year 2005, the City created the Storm Water Management Fund which resulted in \$53,375,524 of capital assets being transferred from governmental activities to business type activities. Excluding this transaction, capital assets for governmental activities increased by 2.8 percent and 8.0 percent for business type activities.

Major capital asset events during the current fiscal year include:

- 1) Developer provided improvements of streets, curbs, sidewalks, streetlights and storm drains totaled approximately \$1,303,000.
- 2) Expenditures for the Carroll Creek Linear Park totaled approximately \$ 3,070,000 during the fiscal year.
- 3) Expenditures for the Church Street water line totaled \$1,767,345 in FY 2005.
- 4) Expenditures for the water distribution project for FY 2005 totaled \$1,810,198.
- 5) Expenditures for the portable water plant totaled \$1,240,335 in FY 2005.
- 6) Parking deck #4 expenditures in FY 2005 totaled \$4,243,478
- 5) Airport improvements, to include land acquisition and construction, totaled \$1,758,345.

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

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|--------------------------|--------------------------------|---------------------------------|-----------------------|
| Land | \$ 22,469,911 | \$ 20,495,413 | \$ 42,965,324 |
| Buildings | 15,871,469 | 30,866,063 | 46,737,532 |
| Other improvements | 5,119,992 | 109,339,774 | 114,459,766 |
| Infrastructure | 32,418,623 | - | 32,418,623 |
| Machinery and equipment | 4,517,446 | 2,911,464 | 7,428,910 |
| Construction in progress | <u>8,551,716</u> | <u>5,857,879</u> | <u>14,409,595</u> |
| Total | <u>\$ 88,949,157</u> | <u>\$ 169,470,593</u> | <u>\$ 258,419,750</u> |

Additional information on the City's capital assets can be found in note 4 on pages 41 - 44 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$77,552,308. Of this amount, \$75,331,224 carried the full faith, credit and taxing power of the City. The remaining \$2,221,084 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties, will be assessed as an additional fee to cover any shortfall.

The City of Frederick's Outstanding Long-term Obligations

| | Governmental <u>Activities</u> | Business-type <u>Activities</u> | <u>Total</u> |
|------------------------------|-----------------------------------|------------------------------------|----------------------|
| General obligation debt | \$ 48,530,513 | \$ 26,555,407 | \$ 75,085,920 |
| Tax increment financing debt | 2,221,084 | - | 2,221,084 |
| Capital leases | 1,019,450 | - | 1,019,450 |
| Compensated absences | 1,971,076 | 383,218 | 2,354,294 |
| Total | <u>\$ 53,742,123</u> | <u>\$ 26,938,625</u> | <u>\$ 80,680,748</u> |

The City issued \$2,568,013 in refunding bonds during FY 2005 to refinance debt at the golf course. Interest is payable at a rate of 2.84 percent with a final maturity date of October 1, 2010. The City also reallocated remaining proceeds from the City's 2001 and 2002 bond issues. \$993,026 of parking proceeds and \$400,557 of water and sewer proceeds from the 2001 bond issue were reallocated to the general capital improvements program (CIP). \$5,363 of water and sewer proceeds from the 2002 bond issued was also reallocated to the general CIP.

The City maintains a "Aa3" rating from Moody's and a "AA-" rating from Standard & Poor's.

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 \$304,798,625 and the legal debt margin of the City is \$243,398,608.

Additional information on the City's long-term debt can be found in note 6 on pages 45 - 48 of this report.

Economic Factors and Next Year's Budgets and Rates

When preparing the City's budget for the 2006 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. The unemployment rate for the City for June 2005 was 4.9 percent, which is a slight decrease from June 2004. The state's rate for June 2005 was 4.3 percent and the national rate was 5.2 percent.

The fiscal year 2006 budget calls for maintaining the same level of key services. To be able to fund these services, the City maintained the real estate tax rate of \$.69 per \$100 of assessed value. However, the Board of Aldermen established the Homestead Property Tax Credit limit at 5 percent, a reduction from the previous level of 10 percent. The Homestead Property Tax Credit serves to limit the increase in taxable assessments each year to a fixed percentage to aid homeowners deal with large assessment increases. Water and sewer rates were also increased by 10 percent and stormwater management rates were increased by 12 percent.

The general fund unreserved fund balance at June 30, 2005 was \$4,771,476. The City has appropriated \$1,900,000 of this amount for spending in the FY 2006 budget.

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 Chief Financial Officer, The City of Frederick, 101 North Court Street, Frederick, Maryland 21701.

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Assets
June 30, 2005

| | Primary Government | | |
|---|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 23,892 | \$ 1,360 | \$ 25,252 |
| Investments | 2,759 | 1,030 | 3,789 |
| Equity in pooled cash/investments | 7,910,868 | 19,988,806 | 27,899,674 |
| Receivables (net of allowance of uncollectibles) | 3,945,018 | 4,004,191 | 7,949,209 |
| Inventories | 496,631 | 474,554 | 971,185 |
| Prepays | 163,426 | 108,737 | 272,163 |
| Deposit for asset acquisition | - | 386,176 | 386,176 |
| Deferred charges | 578,820 | 179,094 | 757,914 |
| Internal balances | 2,134,740 | (2,134,740) | - |
| Temporarily restricted assets: | | | |
| Cash and cash equivalents | 17,525,811 | 7,195,515 | 24,721,326 |
| Net pension asset | 2,124,291 | 482,369 | 2,606,660 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 22,469,911 | 20,495,413 | 42,965,324 |
| Buildings and systems | 15,871,469 | 30,866,063 | 46,737,532 |
| Improvements other than buildings | 5,119,992 | 109,339,774 | 114,459,766 |
| Infrastructure | 32,418,623 | - | 32,418,623 |
| Machinery and equipment | 4,517,446 | 2,911,464 | 7,428,910 |
| Construction in progress | 8,551,716 | 5,857,879 | 14,409,595 |
| Total assets | <u>123,855,413</u> | <u>200,157,685</u> | <u>324,013,098</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 2,936,606 | 3,090,142 | 6,026,748 |
| Accrued liabilities | 1,347,914 | 362,056 | 1,709,970 |
| Deposits | 1,680,540 | 67,369 | 1,747,909 |
| Unearned revenue | 631,991 | 133,606 | 765,597 |
| Noncurrent liabilities: | | | |
| Due within one year | 5,564,809 | 2,442,212 | 8,007,021 |
| Due in more than one year | 48,177,314 | 24,496,413 | 72,673,727 |
| Total liabilities | <u>60,339,174</u> | <u>30,591,798</u> | <u>90,930,972</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 54,856,404 | 143,574,323 | 198,430,727 |
| Restricted for: | | | |
| Net pension asset | 2,124,291 | 482,369 | 2,606,660 |
| Water/sewer improvements | - | 6,490,579 | 6,490,579 |
| Parks improvements | 699,835 | - | 699,835 |
| Debt service | 120,506 | - | 120,506 |
| Unrestricted | 5,715,203 | 19,018,616 | 24,733,819 |
| Total net assets | <u>\$ 63,516,239</u> | <u>\$ 169,565,887</u> | <u>\$ 233,082,126</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, 2005

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 7,811,588 | \$ 853,033 | \$ 39,086 | \$ - | \$ (6,919,469) | \$ - | \$ (6,919,469) |
| Public safety | 18,969,032 | 1,966,838 | 1,576,409 | - | (15,425,785) | - | (15,425,785) |
| Public works | 12,666,210 | 131,299 | 2,578,480 | 1,291,997 | (8,664,434) | - | (8,664,434) |
| Recreation and parks | 5,513,056 | 1,265,644 | 50,000 | 1,386,860 | (2,810,552) | - | (2,810,552) |
| Community development | 1,102,406 | 444,690 | 760,260 | - | 102,544 | - | 102,544 |
| Economic opportunity | 2,194,580 | 1,762 | 1,405,331 | - | (787,487) | - | (787,487) |
| Interest and long-term debt | 2,097,849 | - | - | - | (2,097,849) | - | (2,097,849) |
| Miscellaneous | 61,126 | - | - | - | (61,126) | - | (61,126) |
| Total governmental activities | 50,415,847 | 4,663,266 | 6,409,566 | 2,678,857 | (36,664,158) | - | (36,664,158) |
| Business-type activities: | | | | | | | |
| Rental operations | 63,547 | 19,112 | 16,746 | - | - | (27,689) | (27,689) |
| Water and sewer | 14,258,643 | 10,937,738 | - | 4,292,551 | - | 971,646 | 971,646 |
| Golf course | 1,660,229 | 1,615,152 | - | - | - | (45,077) | (45,077) |
| Airport | 1,685,136 | 1,138,627 | 49,500 | 1,750,688 | - | 1,253,679 | 1,253,679 |
| Parking | 1,899,409 | 2,987,254 | 43,584 | 1,077,425 | - | 2,208,854 | 2,208,854 |
| Storm water | 1,942,658 | 797,997 | - | 225,350 | - | (919,311) | (919,311) |
| Total business-type activities | 21,509,622 | 17,495,880 | 109,830 | 7,346,014 | - | 3,442,102 | 3,442,102 |
| Total primary government | \$ 71,925,469 | \$ 22,159,146 | \$ 6,519,396 | \$ 10,024,871 | (36,664,158) | 3,442,102 | (33,222,056) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 27,784,135 | - | 27,784,135 |
| Income taxes | | | | | 4,907,806 | - | 4,907,806 |
| Other taxes | | | | | 387,408 | - | 387,408 |
| Licenses/fees not restricted to/generated by specific programs | | | | | 555,074 | - | 555,074 |
| Grants/contributions not restricted to specific programs | | | | | 3,341,584 | - | 3,341,584 |
| Interest earnings | | | | | 506,950 | 666,132 | 1,173,082 |
| Gain/(loss) on sale of capital assets | | | | | 1,036,837 | (4,134) | 1,032,703 |
| Miscellaneous revenues | | | | | 58,991 | - | 58,991 |
| Transfers | | | | | 1,518,921 | (1,518,921) | - |
| Total general revenues and transfers | | | | | 40,097,706 | (856,923) | 39,240,783 |
| Transfer of capital assets | | | | | (53,375,524) | 53,375,524 | - |
| Change in net assets | | | | | (49,941,976) | 55,960,703 | 6,018,727 |
| Net assets - beginning | | | | | 113,458,215 | 113,605,184 | 227,063,399 |
| Net assets - ending | | | | | \$ 63,516,239 | \$ 169,565,887 | \$ 233,082,126 |

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, 2005

| | General | General CIP | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-----------------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,684 | \$ - | \$ 22,208 | \$ 23,892 |
| Investments | 2,759 | - | - | 2,759 |
| Equity in pooled cash/investments | 7,520,699 | - | 390,169 | 7,910,868 |
| Receivables (net of allowance for uncollectibles) | 1,678,258 | 865 | 840,133 | 2,519,256 |
| Inventories | 496,631 | - | - | 496,631 |
| Prepaid items | 163,176 | - | 250 | 163,426 |
| Advances to other funds | 2,648,860 | - | - | 2,648,860 |
| Cash - restricted | 120,506 | 17,405,305 | - | 17,525,811 |
| Intergovernmental receivable | 971,514 | 429,798 | 24,450 | 1,425,762 |
| Total assets | <u>\$ 13,604,087</u> | <u>\$ 17,835,968</u> | <u>\$ 1,277,210</u> | <u>\$ 32,717,265</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 723,308 | \$ 2,116,450 | \$ 96,848 | \$ 2,936,606 |
| Accrued liabilities | 920,650 | 10,168 | 12,127 | 942,945 |
| Deposits | 1,599,930 | 1,087 | 79,523 | 1,680,540 |
| Unearned revenue | 631,991 | - | - | 631,991 |
| Advances from other funds | - | 514,120 | - | 514,120 |
| Total liabilities | <u>3,875,879</u> | <u>2,641,825</u> | <u>188,498</u> | <u>6,706,202</u> |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 1,036,291 | 10,329,564 | 219,831 | 11,585,686 |
| Inventory | 496,631 | - | - | 496,631 |
| Prepaid items | 163,176 | - | 250 | 163,426 |
| Loans | 3,260,634 | - | 838,422 | 4,099,056 |
| Unreserved, reported in: | | | | |
| General fund | 4,771,476 | - | - | 4,771,476 |
| Special revenue funds | - | - | 30,209 | 30,209 |
| Capital projects funds | - | 4,864,579 | - | 4,864,579 |
| Total fund balances | <u>9,728,208</u> | <u>15,194,143</u> | <u>1,088,712</u> | <u>26,011,063</u> |
| Total liabilities and fund balances | <u>\$ 13,604,087</u> | <u>\$ 17,835,968</u> | <u>\$ 1,277,210</u> | |

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

| | |
|--|-----------------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. | 88,949,157 |
| Accrued interest payable is not recorded in the funds. | (404,969) |
| Net pension asset is not included in the governmental funds. | 2,124,291 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (53,163,303) |
| Net assets of governmental activities | <u>\$ 63,516,239</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, 2005

| | <u>General</u> | <u>General CIP</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------|--|---|
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 27,826,825 | \$ - | \$ - | \$ 27,826,825 |
| Payment in lieu of taxes | 1,171 | - | - | 1,171 |
| Income taxes | 4,907,806 | - | - | 4,907,806 |
| Business taxes | 387,408 | - | - | 387,408 |
| Discount allowance | (284,272) | - | - | (284,272) |
| Penalties/interest on delinquent taxes | 240,411 | - | - | 240,411 |
| Licenses and permits | 1,965,138 | - | - | 1,965,138 |
| Intergovernmental | 8,879,457 | 938,897 | 809,260 | 10,627,614 |
| Charges for services | 1,513,747 | - | 260,322 | 1,774,069 |
| Fines and forfeitures | 34,326 | - | 82,364 | 116,690 |
| Miscellaneous | 1,043,214 | 894,581 | 298,655 | 2,236,450 |
| Total revenues | <u>46,515,231</u> | <u>1,833,478</u> | <u>1,450,601</u> | <u>49,799,310</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 7,544,954 | - | - | 7,544,954 |
| Public safety | 18,415,456 | - | 53,610 | 18,469,066 |
| Public works | 9,146,013 | - | - | 9,146,013 |
| Recreation and parks | 3,865,177 | - | 805,990 | 4,671,167 |
| Community development | 393,048 | - | 1,044,482 | 1,437,530 |
| Economic opportunity | 2,152,705 | - | - | 2,152,705 |
| Miscellaneous | 61,126 | - | - | 61,126 |
| Debt service: | | | | |
| Principal | 4,042,885 | - | - | 4,042,885 |
| Interest | 2,016,215 | - | - | 2,016,215 |
| Other fees | 25,268 | - | - | 25,268 |
| Capital projects | - | 8,071,281 | - | 8,071,281 |
| Total expenditures | <u>47,662,847</u> | <u>8,071,281</u> | <u>1,904,082</u> | <u>57,638,210</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,147,616)</u> | <u>(6,237,803)</u> | <u>(453,481)</u> | <u>(7,838,900)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 1,932,850 | 1,412,693 | 264,662 | 3,610,205 |
| Transfers out | (1,677,355) | (317,725) | (96,204) | (2,091,284) |
| Bond proceeds reallocation | - | 1,398,945 | - | 1,398,945 |
| Capital asset disposition | 2,877,897 | - | 470,000 | 3,347,897 |
| Total other financing sources (uses) | <u>3,133,392</u> | <u>2,493,913</u> | <u>638,458</u> | <u>6,265,763</u> |
| Net change in fund balances | 1,985,776 | (3,743,890) | 184,977 | (1,573,137) |
| Fund balances - beginning | 7,742,432 | 18,938,033 | 903,735 | 27,584,200 |
| Fund balances - ending | <u>\$ 9,728,208</u> | <u>\$ 15,194,143</u> | <u>\$ 1,088,712</u> | <u>\$ 26,011,063</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, 2005

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

| | |
|---|------------------------|
| Net change in fund balances - total governmental funds | \$ (1,573,137) |
| 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 capital outlays exceeded depreciation in the current period. | 3,379,048 |
| Transfer of capital assets in the statement of activities do not use current financial resources are not reported in the funds. | (53,375,524) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets. | (974,478) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 6,072 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 2,643,939 |
| 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. | (47,896) |
| Change in net assets of governmental activities | <u>\$ (49,941,976)</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, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 28,431,335 | \$ 28,431,335 | \$ 27,826,825 | \$ (604,510) |
| Payment in lieu of taxes | 106,000 | 106,000 | 1,171 | (104,829) |
| Income taxes | 4,600,000 | 4,600,000 | 4,907,806 | 307,806 |
| Business taxes | 550,000 | 550,000 | 387,408 | (162,592) |
| Discount allowance | (184,844) | (184,844) | (284,272) | (99,428) |
| Penalties/interest on delinquent taxes | 211,250 | 211,250 | 240,411 | 29,161 |
| Licenses and permits | 1,741,963 | 1,741,963 | 1,965,138 | 223,175 |
| Intergovernmental | 9,181,892 | 9,364,799 | 8,879,457 | (485,342) |
| Charges for services | 1,408,141 | 1,408,141 | 1,513,747 | 105,606 |
| Fines and forfeitures | 226,025 | 226,025 | 34,326 | (191,699) |
| Miscellaneous | 759,080 | 767,675 | 1,043,214 | 275,539 |
| Total revenues | <u>47,030,842</u> | <u>47,222,344</u> | <u>46,515,231</u> | <u>(707,113)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Executive and legislative | 1,006,994 | 1,086,378 | 984,671 | 101,707 |
| Legal services | 725,209 | 725,209 | 665,594 | 59,615 |
| Registration and election | 8,496 | 8,496 | 1,422 | 7,074 |
| Finance and accounting | 905,095 | 905,095 | 846,952 | 58,143 |
| Purchasing | 528,613 | 528,613 | 508,225 | 20,388 |
| Information technology | 834,394 | 891,940 | 763,979 | 127,961 |
| Human resources | 653,420 | 653,420 | 558,714 | 94,706 |
| Safety | 137,653 | 137,653 | 125,493 | 12,160 |
| Planning and zoning | 1,274,360 | 1,274,360 | 1,194,476 | 79,884 |
| Code enforcement | 415,344 | 415,344 | 232,445 | 182,899 |
| Facilities maintenance | 573,678 | 663,678 | 640,938 | 22,740 |
| Asset management | 896,459 | 896,459 | 568,749 | 327,710 |
| Community promotion | 260,438 | 260,938 | 253,234 | 7,704 |
| Special events | 209,542 | 209,542 | 200,062 | 9,480 |
| Total general government | <u>8,429,695</u> | <u>8,657,125</u> | <u>7,544,954</u> | <u>1,112,171</u> |
| Public safety: | | | | |
| Police department | 17,240,066 | 17,385,156 | 16,793,267 | 591,889 |
| Fire and rescue services | 248,457 | 253,457 | 250,612 | 2,845 |
| Building inspection | 922,661 | 962,661 | 912,687 | 49,974 |
| Electrical inspection | 222,175 | 222,175 | 212,033 | 10,142 |
| Construction inspection | 328,140 | 328,140 | 246,857 | 81,283 |
| Total public safety | <u>18,961,499</u> | <u>19,151,589</u> | <u>18,415,456</u> | <u>736,133</u> |
| Public works: | | | | |
| General administration | 1,052,170 | 1,052,170 | 935,572 | 116,598 |
| Machinery & equipment maintenance | 727,655 | 727,655 | 655,792 | 71,863 |
| Engineering | 1,149,153 | 1,149,153 | 1,076,515 | 72,638 |
| Waste collection and disposal | 3,105,850 | 3,105,850 | 2,789,954 | 315,896 |
| Streets, roadways and alleys | 1,925,584 | 1,925,584 | 1,589,432 | 336,152 |
| Snow removal | 320,119 | 320,119 | 296,086 | 24,033 |
| Street lighting | 1,443,989 | 1,443,989 | 1,386,228 | 57,761 |
| Traffic lines | 401,903 | 401,903 | 379,242 | 22,661 |
| Bus service | 37,209 | 37,209 | 37,192 | 17 |
| Total public works | <u>10,163,632</u> | <u>10,163,632</u> | <u>9,146,013</u> | <u>1,017,619</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, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Recreation and parks: | | | | |
| Municipal parks | 2,362,018 | 2,382,518 | 2,178,017 | 204,501 |
| Harry Grove stadium | 281,409 | 281,409 | 257,607 | 23,802 |
| Recreation centers | 1,158,460 | 1,158,460 | 1,103,282 | 55,178 |
| Recreation commission | 135,667 | 135,667 | 108,853 | 26,814 |
| Swimming pools | 242,229 | 242,229 | 217,418 | 24,811 |
| Total recreation and parks | <u>4,179,783</u> | <u>4,200,283</u> | <u>3,865,177</u> | <u>335,106</u> |
| Community development: | | | | |
| Community development | 55,079 | 55,079 | 58,271 | (3,192) |
| Economic development | 312,305 | 345,905 | 334,777 | 11,128 |
| Total community development | <u>367,384</u> | <u>400,984</u> | <u>393,048</u> | <u>7,936</u> |
| Economic opportunity: | | | | |
| Community Action Agency | 2,352,812 | 2,352,812 | 1,789,993 | 562,819 |
| Youth Services | 460,145 | 506,557 | 362,712 | 143,845 |
| Total economic opportunity | <u>2,812,957</u> | <u>2,859,369</u> | <u>2,152,705</u> | <u>706,664</u> |
| Miscellaneous | <u>566,030</u> | <u>161,384</u> | <u>61,126</u> | <u>100,258</u> |
| Debt service: | | | | |
| Principal | 4,039,526 | 4,042,889 | 4,042,885 | 4 |
| Interest | 2,124,938 | 2,121,575 | 2,016,215 | 105,360 |
| Other fees | 34,615 | 37,115 | 25,268 | 11,847 |
| Total debt services | <u>6,199,079</u> | <u>6,201,579</u> | <u>6,084,368</u> | <u>117,211</u> |
| Total expenditures | <u>51,680,059</u> | <u>51,795,945</u> | <u>47,662,847</u> | <u>4,133,098</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(4,649,217)</u> | <u>(4,573,601)</u> | <u>(1,147,616)</u> | <u>3,425,985</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 2,165,000 | 2,165,000 | 1,932,850 | (232,150) |
| Transfers out | (1,394,950) | (1,470,566) | (1,677,355) | (206,789) |
| Capital asset disposition | 3,725,000 | 3,725,000 | 2,877,897 | (847,103) |
| Total other financing sources (uses) | <u>4,495,050</u> | <u>4,419,434</u> | <u>3,133,392</u> | <u>(1,286,042)</u> |
| Net change in fund balances | <u>(154,167)</u> | <u>(154,167)</u> | <u>1,985,776</u> | <u>2,139,943</u> |
| Fund balance - beginning | <u>3,268,345</u> | <u>3,268,345</u> | <u>7,742,432</u> | <u>4,474,087</u> |
| Fund balance - ending | <u>\$ 3,114,178</u> | <u>\$ 3,114,178</u> | <u>\$ 9,728,208</u> | <u>\$ 6,614,030</u> |

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

The City of Frederick, Maryland
Statement of Net Assets
Proprietary Funds
June 30, 2005

| | Business-type Activities - Enterprise Funds | | | | | | |
|--|---|-----------------------|----------------------|----------------------|------------------------|-------------------|-----------------------|
| | Water and Sewer | Golf Course | Airport | Parking Facilities | Storm Water Management | Rental Operations | Total |
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ - | \$ 900 | \$ - | \$ 460 | \$ - | \$ - | \$ 1,360 |
| Investments | - | - | - | - | - | 1,030 | 1,030 |
| Equity in pooled cash/investments | 16,625,572 | - | 461,577 | 2,402,711 | 438,561 | 60,385 | 19,988,806 |
| Receivables (net of allowance of uncollectibles) | 1,983,485 | - | 785,645 | 1,094,144 | 139,498 | 1,419 | 4,004,191 |
| Inventories | 359,571 | 114,983 | - | - | - | - | 474,554 |
| Prepays | 99,747 | 3,000 | 5,990 | - | - | - | 108,737 |
| Deposit for asset acquisition | - | - | - | 386,176 | - | - | 386,176 |
| Deferred charges | 57,039 | 42,616 | 17,488 | 61,951 | - | - | 179,094 |
| Total current assets | <u>19,125,414</u> | <u>161,499</u> | <u>1,270,700</u> | <u>3,945,442</u> | <u>578,059</u> | <u>62,834</u> | <u>25,143,948</u> |
| Noncurrent assets: | | | | | | | |
| Temporarily restricted assets: | | | | | | | |
| Cash and cash equivalents | 6,975,928 | - | 219,587 | - | - | - | 7,195,515 |
| Net pension asset | 401,522 | 32,507 | 2,143 | 46,197 | - | - | 482,369 |
| Capital assets: | | | | | | | |
| Land | 3,080,433 | - | 14,463,674 | 2,909,906 | 10,750 | 30,650 | 20,495,413 |
| Buildings and systems | 28,719,251 | - | 8,362,069 | 10,735,416 | - | 180,795 | 47,997,531 |
| Improvements other than buildings | 66,123,082 | 4,566,269 | 6,696,810 | 43,404 | 56,433,969 | - | 133,863,534 |
| Machinery and equipment | 4,740,583 | 481,274 | 152,142 | 573,076 | 456,120 | 16,040 | 6,419,235 |
| Construction in progress | 2,386,375 | - | 4,700 | 3,466,804 | - | - | 5,857,879 |
| Less accumulated depreciation | (29,812,874) | (1,647,059) | (2,739,191) | (6,124,038) | (4,710,957) | (128,880) | (45,162,999) |
| Total noncurrent assets | <u>82,614,300</u> | <u>3,432,991</u> | <u>27,161,934</u> | <u>11,650,765</u> | <u>52,189,882</u> | <u>98,605</u> | <u>177,148,477</u> |
| Total assets | <u>101,739,714</u> | <u>3,594,490</u> | <u>28,432,634</u> | <u>15,596,207</u> | <u>52,767,941</u> | <u>161,439</u> | <u>202,292,425</u> |
| LIABILITIES | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | 1,899,227 | 71,138 | 251,491 | 864,689 | 3,504 | 93 | 3,090,142 |
| Accrued liabilities | 231,650 | 56,985 | 24,834 | 38,038 | 10,155 | 394 | 362,056 |
| Deposits | 4,529 | - | 62,087 | - | - | 753 | 67,369 |
| Unearned revenue | 28,215 | 31,144 | 17,528 | 56,719 | - | - | 133,606 |
| Advances from other funds | - | 2,134,740 | - | - | - | - | 2,134,740 |
| Compensated absences | 251,461 | 7,456 | 11,810 | 15,397 | 7,855 | - | 293,979 |
| Bonds, notes, and loans payable | 1,271,580 | 360,717 | 157,943 | 357,993 | - | - | 2,148,233 |
| Total current liabilities | <u>3,686,662</u> | <u>2,662,180</u> | <u>525,693</u> | <u>1,332,836</u> | <u>21,514</u> | <u>1,240</u> | <u>8,230,125</u> |
| Noncurrent liabilities: | | | | | | | |
| Compensated absences | - | 59,610 | 27,294 | 2,335 | - | - | 89,239 |
| Bonds, notes, and loans payable | 14,731,318 | 2,008,153 | 3,761,003 | 3,906,700 | - | - | 24,407,174 |
| Total noncurrent liabilities | <u>14,731,318</u> | <u>2,067,763</u> | <u>3,788,297</u> | <u>3,909,035</u> | <u>-</u> | <u>-</u> | <u>24,496,413</u> |
| Total liabilities | <u>18,417,980</u> | <u>4,729,943</u> | <u>4,313,990</u> | <u>5,241,871</u> | <u>21,514</u> | <u>1,240</u> | <u>32,726,538</u> |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | 59,719,301 | 1,031,614 | 23,195,046 | 7,339,875 | 52,189,882 | 98,605 | 143,574,323 |
| Restricted for: | | | | | | | |
| Net pension asset | 401,522 | 32,507 | 2,143 | 46,197 | - | - | 482,369 |
| Other improvements | 6,490,579 | - | - | - | - | - | 6,490,579 |
| Unrestricted | 16,710,332 | (2,199,574) | 921,455 | 2,968,264 | 556,545 | 61,594 | 19,018,616 |
| Total net assets | <u>\$ 83,321,734</u> | <u>\$ (1,135,453)</u> | <u>\$ 24,118,644</u> | <u>\$ 10,354,336</u> | <u>\$ 52,746,427</u> | <u>\$ 160,199</u> | <u>\$ 169,565,887</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 Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

| | Business-type Activities - Enterprise Funds | | | | | | |
|--|---|-----------------------|----------------------|----------------------|------------------------|-------------------|-----------------------|
| | Water and Sewer | Golf Course | Airport | Parking Facilities | Storm Water Management | Rental Operations | Total |
| Operating revenues: | | | | | | | |
| Charges for services: | | | | | | | |
| Water and sewer charges | \$ 10,520,206 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,520,206 |
| Golf course fees | - | 1,612,358 | - | - | - | - | 1,612,358 |
| Airport fees | - | - | 1,123,999 | - | - | - | 1,123,999 |
| Parking fees | - | - | - | 2,036,060 | - | - | 2,036,060 |
| Stormwater management fees | - | - | - | - | 797,980 | - | 797,980 |
| Licenses and permits | 289,743 | - | - | 86,597 | - | - | 376,340 |
| Fines and forfeitures | 10,239 | - | - | 792,606 | - | - | 802,845 |
| Miscellaneous | 30,628 | 2,794 | 14,628 | 70,973 | 17 | 19,112 | 138,152 |
| Total operating revenues | <u>10,850,816</u> | <u>1,615,152</u> | <u>1,138,627</u> | <u>2,986,236</u> | <u>797,997</u> | <u>19,112</u> | <u>17,407,940</u> |
| Operating expenses: | | | | | | | |
| Finance | 160,113 | - | - | - | - | - | 160,113 |
| Plumbing inspection | 225,072 | - | - | - | - | - | 225,072 |
| Water service | 1,541,121 | - | - | - | - | - | 1,541,121 |
| Water chemicals | 293,640 | - | - | - | - | - | 293,640 |
| Water treatment | 2,190,035 | - | - | - | - | - | 2,190,035 |
| Sewage collection/disposal | 2,419,313 | - | - | - | - | - | 2,419,313 |
| Sewage maintenance/house connections | 489,101 | - | - | - | - | - | 489,101 |
| Inflow and infiltration | 215,624 | - | - | - | - | - | 215,624 |
| Public housing | - | - | - | - | - | 56,736 | 56,736 |
| Golf course maintenance | - | 546,958 | - | - | - | - | 546,958 |
| Golf course clubhouse | - | 574,584 | - | - | - | - | 574,584 |
| Golf course restaurant | - | 257,101 | - | - | - | - | 257,101 |
| Airport | - | - | 880,684 | - | - | - | 880,684 |
| Parking facilities | - | - | - | 1,260,745 | - | - | 1,260,745 |
| Stormwater management activities | - | - | - | - | 477,582 | - | 477,582 |
| Miscellaneous | 3,399,785 | - | - | - | 19,061 | - | 3,418,846 |
| Depreciation | 2,699,893 | 131,717 | 613,103 | 414,066 | 1,446,015 | 6,811 | 5,311,605 |
| Total operating expenses | <u>13,633,697</u> | <u>1,510,360</u> | <u>1,493,787</u> | <u>1,674,811</u> | <u>1,942,658</u> | <u>63,547</u> | <u>20,318,860</u> |
| Operating income/(loss) | <u>(2,782,881)</u> | <u>104,792</u> | <u>(355,160)</u> | <u>1,311,425</u> | <u>(1,144,661)</u> | <u>(44,435)</u> | <u>(2,910,920)</u> |
| Nonoperating revenues/(expenses) | | | | | | | |
| Intergovernmental | 452,277 | - | 1,800,188 | 1,121,009 | - | 16,746 | 3,390,220 |
| Interest income | 539,421 | 5,691 | 8,309 | 108,968 | 2,489 | 1,254 | 666,132 |
| Loss on disposal of capital assets | (4,134) | - | - | - | - | - | (4,134) |
| Other nonoperating revenues | 86,922 | - | - | 1,018 | - | - | 87,940 |
| Interest expense | (587,562) | (106,068) | (187,876) | (210,773) | - | - | (1,092,279) |
| Other nonoperating expenses | (37,384) | (43,801) | (3,473) | (13,825) | - | - | (98,483) |
| Total nonoperating revenue/(expenses) | <u>449,540</u> | <u>(144,178)</u> | <u>1,617,148</u> | <u>1,006,397</u> | <u>2,489</u> | <u>18,000</u> | <u>2,949,396</u> |
| Income/(loss) before contributions and transfers | <u>(2,333,341)</u> | <u>(39,386)</u> | <u>1,261,988</u> | <u>2,317,822</u> | <u>(1,142,172)</u> | <u>(26,435)</u> | <u>38,476</u> |
| Capital contributions | 3,840,274 | - | - | - | 225,350 | - | 4,065,624 |
| Transfers in | - | - | - | - | 53,693,249 | - | 53,693,249 |
| Transfers out | <u>(1,100,000)</u> | <u>-</u> | <u>(86,646)</u> | <u>(620,000)</u> | <u>(30,000)</u> | <u>-</u> | <u>(1,836,646)</u> |
| Change in net assets | 406,933 | (39,386) | 1,175,342 | 1,697,822 | 52,746,427 | (26,435) | 55,960,703 |
| Total net assets - beginning | <u>82,914,801</u> | <u>(1,096,067)</u> | <u>22,943,302</u> | <u>8,656,514</u> | <u>-</u> | <u>186,634</u> | <u>113,605,184</u> |
| Total net assets - ending | <u>\$ 83,321,734</u> | <u>\$ (1,135,453)</u> | <u>\$ 24,118,644</u> | <u>\$ 10,354,336</u> | <u>\$ 52,746,427</u> | <u>\$ 160,199</u> | <u>\$ 169,565,887</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, 2005

| | Business-type Activities - Enterprise Funds | | | | | | |
|--|---|------------------|-------------------|---------------------|------------------------|-------------------|----------------------|
| | Water and Sewer | Golf Course | Airport | Parking Facilities | Storm Water Management | Rental Operations | Total |
| Cash flows from operating activities: | | | | | | | |
| Receipts from customers and users | \$ 10,137,886 | \$ 1,620,934 | \$ 1,210,620 | \$ 3,013,051 | \$ 658,499 | \$ 17,761 | \$ 16,658,751 |
| Receipts from other sources | 1,175,655 | - | - | - | - | - | 1,175,655 |
| Payments to vendors | (6,806,991) | (766,998) | (572,772) | (807,312) | (219,817) | (45,199) | (9,219,089) |
| Payments to employees | (3,489,677) | (581,739) | (251,524) | (440,774) | (255,312) | (12,021) | (5,031,047) |
| Net cash provided (used) by operating activities | <u>1,016,873</u> | <u>272,197</u> | <u>386,324</u> | <u>1,764,965</u> | <u>183,370</u> | <u>(39,459)</u> | <u>3,584,270</u> |
| Cash flows from noncapital financing activities: | | | | | | | |
| Transfers out | (1,100,000) | - | (86,646) | (620,000) | (30,000) | - | (1,836,646) |
| Operating subsidy | - | - | - | - | - | 16,746 | 16,746 |
| Due to other funds | - | 178,264 | (176,088) | - | - | - | 2,176 |
| Net cash provided (used) by noncapital financing activities | <u>(1,100,000)</u> | <u>178,264</u> | <u>(262,734)</u> | <u>(620,000)</u> | <u>(30,000)</u> | <u>16,746</u> | <u>(1,817,724)</u> |
| Cash flows from capital and related financing activities: | | | | | | | |
| Capital contributions | 3,621,147 | - | - | - | 225,349 | - | 3,846,496 |
| Intergovernmental payments | 465,246 | - | 3,008,663 | 51,114 | - | - | 3,525,023 |
| Capital asset acquisitions | (6,918,665) | (32,819) | (2,633,498) | (4,182,401) | (260,372) | - | (14,027,755) |
| Transfer in for capital asset acquisition | - | - | - | - | 317,725 | - | 317,725 |
| Proceeds from debt issue | - | 2,568,013 | - | - | - | - | 2,568,013 |
| Principal payments | (1,255,540) | (2,813,000) | (153,468) | (389,000) | - | - | (4,611,008) |
| Interest payments | (590,091) | (127,861) | (188,379) | (209,671) | - | - | (1,116,002) |
| Reallocation of debt proceeds | (405,920) | - | - | (993,026) | - | - | (1,398,946) |
| Proceeds from sale of capital assets | - | - | - | - | - | - | - |
| Other debt related costs | (25,225) | (50,485) | (1,408) | (6,560) | - | - | (83,678) |
| Net cash provided (used) by capital and related financing activities | <u>(5,109,048)</u> | <u>(456,152)</u> | <u>31,910</u> | <u>(5,729,544)</u> | <u>282,702</u> | <u>-</u> | <u>(10,980,132)</u> |
| Cash flows from investing activities: | | | | | | | |
| Interest earned | 530,353 | 5,691 | 8,495 | 104,738 | 2,489 | 1,254 | 653,020 |
| Net cash provided (used) by investing activities | <u>530,353</u> | <u>5,691</u> | <u>8,495</u> | <u>104,738</u> | <u>2,489</u> | <u>1,254</u> | <u>653,020</u> |
| Net increase (decrease) in cash equivalents | (4,661,822) | - | 163,995 | (4,479,841) | 438,561 | (21,459) | (8,560,566) |
| Cash equivalents - beginning | <u>28,263,322</u> | <u>900</u> | <u>517,169</u> | <u>6,883,012</u> | <u>-</u> | <u>82,873</u> | <u>35,747,276</u> |
| Cash equivalents - ending | <u>\$ 23,601,500</u> | <u>\$ 900</u> | <u>\$ 681,164</u> | <u>\$ 2,403,171</u> | <u>\$ 438,561</u> | <u>\$ 61,414</u> | <u>\$ 27,186,710</u> |

(continued)

The City of Frederick, Maryland
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

| | Business-type Activities - Enterprise Funds | | | | | | |
|---|---|-------------------|---------------------|-----------------------|---------------------------|----------------------|-----------------------|
| | Water and Sewer | Golf Course | Airport | Parking Facilities | Storm Water Management | Rental Operations | Total |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | | |
| Operating income | <u>\$ (2,782,881)</u> | <u>\$ 104,792</u> | <u>\$ (355,160)</u> | <u>\$ 1,311,425</u> | <u>\$ (1,144,661)</u> | <u>\$ (44,435)</u> | <u>\$ (2,910,920)</u> |
| Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities. | <u>304,692</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>304,692</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | | |
| Depreciation expense | 2,699,893 | 131,717 | 613,103 | 414,066 | 1,446,015 | 6,811 | 5,311,605 |
| (Increase)/decrease in accounts receivable | (82,389) | - | 68,387 | (884) | (139,498) | (1,354) | (155,738) |
| (Increase)/decrease in inventory | (12,303) | (6,507) | - | - | - | - | (18,810) |
| (Increase)/decrease in prepaids | (99,646) | 550 | - | - | - | - | (99,096) |
| (Decrease in net pension asset (Decrease)/increase in accounts payable | 2,902 | 251 | 22 | 365 | - | - | 3,540 |
| (Decrease)/increase in deferred revenue | 773,470 | 25,428 | 57,819 | 11,563 | 3,504 | (268) | 871,516 |
| (Decrease)/increase in deposits | 18,706 | 5,782 | 2,293 | 27,699 | - | - | 54,480 |
| (Decrease)/increase in wages payable | 221,717 | - | 1,313 | - | - | 3 | 223,033 |
| (Decrease)/increase in compensated absences | (4,131) | 3,455 | 282 | 3,110 | 10,155 | (216) | 12,655 |
| Total adjustments | <u>(23,157)</u> | <u>6,729</u> | <u>(1,735)</u> | <u>(2,379)</u> | <u>7,855</u> | <u>-</u> | <u>(12,687)</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,016,873</u> | <u>\$ 272,197</u> | <u>\$ 386,324</u> | <u>\$ 1,764,965</u> | <u>\$ 183,370</u> | <u>\$ (39,459)</u> | <u>\$ 3,584,270</u> |

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

The City of Frederick, Maryland
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

| | <u>Pension Trust Fund</u> |
|------------------------------------|-------------------------------|
| ASSETS: | |
| Cash and short-term investments | \$ 2,347,556 |
| Receivables | |
| Accounts receivable - employee | <u>96,872</u> |
| Total receivables | <u>96,872</u> |
| Investments, at fair value: | |
| Equities | 41,938,107 |
| Fixed income | <u>12,897,225</u> |
| Total investments | <u>54,835,332</u> |
| Total assets | <u>57,279,760</u> |
| NET ASSETS | |
| Held in trust for pension benefits | <u>\$ 57,279,760</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 Assets
Fiduciary Funds
For the Year Ended June 30, 2005

| | <u>Pension Trust Fund</u> |
|---------------------------------|-------------------------------|
| ADDITIONS: | |
| Contributions - employer | \$ 5,137,814 |
| Contributions - employees | 1,222,232 |
| Interest | 1,433,144 |
| Net appreciation/(depreciation) | <u>2,890,488</u> |
| Total Additions | <u>10,683,678</u> |
| DEDUCTIONS: | |
| Pension benefits | 3,813,668 |
| Service charges | <u>452,204</u> |
| Total Deductions | <u>4,265,872</u> |
| Change in net assets | 6,417,806 |
| Net assets - beginning | <u>50,861,954</u> |
| Net assets - ending | <u><u>\$ 57,279,760</u></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, 2005

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 each potential component unit addressed in defining the City's reporting entity.

Blended Component Units:

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 Director of Human Resources 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 Director of Human Resources 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 Director of Human Resources 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.

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 component units are not available.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund 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 *component units* for which the primary government is financially accountable.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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) grant 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 *golf course fund* accounts for all activities that relate to the City's public golf course.

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

The *parking 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 *rental operations fund* does not qualify as a major fund; however, since it is the lone remaining proprietary fund, it is disclosed as a separate fund in the fund financial statements.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund type:

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

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

As a general rule the effect of interfund 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 *nonoperating* 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 nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

Cash and Investments

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

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 interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund 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 offset by a fund balance reserve account in 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, 2005

1. Summary of Significant Accounting Policies (continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles.

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 reevaluation 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. Semiannual 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 by a fund balance reserve in the fund financial statements which indicates that inventory does not constitute "available spendable resources" even though it is a component of net current assets.

Payments made to vendors for services that benefit periods beyond June 30, 2005, are recorded as prepaid items in both the government-wide and fund financial statements.

Deferred revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. 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 \$ 631,991 in unearned revenue. No deferred revenue was recognized due to its unavailability.

Restricted assets

Unspent bond proceeds 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.

The City entered into an agreement with a contractor to have the retainage that was withheld from a construction contract held by a third party until the City released the funds outright to the contractor. This third party retainage account has been classified as a restricted asset as well.

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.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

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

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

| <u>Assets</u> | <u>Years</u> |
|--------------------|--------------|
| Buildings | 40-95 years |
| Equipment | 5-50 years |
| Other improvements | 10-50 years |
| Infrastructure | 20-40 years |

Compensated absences

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

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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

Fund balance

In the fund financial statements, governmental funds report reserves for inventory, prepaid items and noncurrent loans receivable to segregate that portion of fund balance which does not represent "available spendable resources". Reserves for encumbrances are segregated to indicate that portion of fund balance which is committed for expenditure and is therefore not available for future appropriation. Designations of unreserved fund balances indicate City management's plans to use financial resources in a future period.

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

2. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, not reported in the fund.” The details of this \$88,949,157 difference are as follows:

| | |
|--|----------------------|
| Capital assets | \$ 131,937,836 |
| Less: Accumulated depreciation | <u>(42,988,679)</u> |
| Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | <u>\$ 88,949,157</u> |

Another element of that reconciliation states that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$53,163,303 difference are as follows:

| | |
|--|----------------------|
| Bonds payable | \$ 51,668,131 |
| Less: Deferred charge for issuance costs (to be amortized over life of debt) | (578,820) |
| Add: Issuance premium (to be amortized over life of debt) | 102,916 |
| Add: Compensated absences | <u>1,971,076</u> |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | <u>\$ 53,163,303</u> |

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 3,379,048 difference are as follows:

| | |
|--|---------------------|
| Capital outlay | \$ 8,053,929 |
| Depreciation expense | <u>(4,674,881)</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 3,379,048</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 decrease net assets.” The details of this (\$ 974,478) difference are as follows:

| | |
|---|----------------------|
| In the statement of activities, only the <i>gain</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 assets differs from the change in fund balance by the cost of the capital assets sold. | \$ (1,681,309) |
| Donation of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. | 858,504 |
| The statement of activities reports <i>losses</i> arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on capital asset disposals. | <u>(151,673)</u> |
| Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ (974,478)</u> |

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

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

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$ 2,643,939 difference are as follows:

| | |
|--|---------------------|
| Debt issued or incurred | \$ (1,398,946) |
| Principal repayments | <u>4,042,885</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | \$ <u>2,643,939</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 \$ 47,896 difference are as follows:

| | |
|--|--------------------|
| Compensated absences | \$ 24,416 |
| Pension expense resulting in a net pension asset reduction | (15,945) |
| Accrued interest | 7,833 |
| Amortization of issuance costs | <u>(64,200)</u> |
| Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | \$ <u>(47,896)</u> |

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.

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).

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

3. Stewardship, compliance and accountability (continued)

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 2005, the community development department within the General Fund exceeded its budget allotment by \$3,192. The over-expenditure was funded by budget savings within other departments. Supplemental budget appropriations were made during fiscal year 2005 in the amount of \$191,502 in the General Fund to account for unanticipated sources and uses of funds.

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

4. Detailed notes on all funds

Deposits and investments

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

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, 2005, the City had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> |
|---|----------------------|
| Repurchase agreements | \$ 2,172,790 |
| U. S. Treasuries | 120,506 |
| Maryland Local Government Investment Pool | <u>31,673,202</u> |
| | \$ 33,966,498 |
| Pension Fund investments | <u>57,182,888</u> |
| Total fair value of investments | <u>\$ 91,149,386</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. As of June 30, 2005, 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.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4. Detailed notes on all funds (continued)

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 \$18,612,892, and the bank balance was \$17,663,225 with \$50,052 of the bank balance being exposed to custodial credit risk due to undercollateralization.

Petty cash amounts at June 30, 2005 totaled \$4,570.

Receivables

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

| | <u>General</u> | <u>CIP</u> | <u>Water & Sewer</u> | <u>Airport</u> | <u>Parking</u> | <u>Storm Water Management</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|---------------------------------------|---------------------|------------------|------------------------------|-------------------|--------------------|-----------------------------------|---------------------------|--------------------|
| Taxes | \$ 442,227 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 442,227 |
| Loans/notes | 1,119,919 | - | - | 260,349 | - | - | 838,422 | 2,218,690 |
| Intergovernmental | 971,514 | 429,798 | 6,675 | 496,970 | 1,085,566 | - | 24,450 | 3,014,973 |
| Interest | 44,602 | - | 13,937 | 409 | 8,278 | - | - | 67,226 |
| Other | <u>205,912</u> | <u>18,617</u> | <u>1,974,166</u> | <u>68,454</u> | <u>300</u> | <u>139,498</u> | <u>3,130</u> | <u>2,410,077</u> |
| Gross receivables | 2,784,174 | 448,415 | 1,994,778 | 826,182 | 1,094,144 | 139,498 | 866,002 | 8,153,193 |
| Less: allowance for uncollectibles | <u>(134,402)</u> | <u>(17,752)</u> | <u>(11,293)</u> | <u>(40,537)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(203,984)</u> |
| Net receivables | <u>\$ 2,649,772</u> | <u>\$430,663</u> | <u>\$1,983,485</u> | <u>\$ 785,645</u> | <u>\$1,094,144</u> | <u>\$139,498</u> | <u>\$ 866,002</u> | <u>\$7,949,209</u> |

Capital assets

Capital asset activity for the year ended June 30, 2005 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 | \$ 24,020,812 | \$ 141,158 | \$ 1,681,309 | \$ (10,750) | \$ 22,469,911 |
| Construction in progress | <u>4,868,071</u> | <u>3,747,126</u> | <u>60,250</u> | <u>(3,231)</u> | <u>8,551,716</u> |
| Total capital assets, not being depreciated | <u>28,888,883</u> | <u>3,888,284</u> | <u>1,741,559</u> | <u>(13,981)</u> | <u>31,021,627</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 27,310,817 | 350,001 | - | - | 27,660,818 |
| Other improvements | 4,615,689 | 1,052,374 | 880,079 | 3,261,743 | 8,049,727 |
| Infrastructure | 106,587,293 | 2,733,271 | - | (59,440,008) | 49,880,556 |
| Machinery and equipment | <u>15,318,180</u> | <u>888,504</u> | <u>433,356</u> | <u>(448,220)</u> | <u>15,325,108</u> |
| Total capital assets, being depreciated | <u>153,831,979</u> | <u>5,024,150</u> | <u>1,313,435</u> | <u>(56,626,485)</u> | <u>100,916,209</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | 10,861,819 | 927,530 | - | - | 11,789,349 |
| Other improvements | 3,256,198 | 373,671 | 795,738 | 95,604 | 2,929,735 |
| Infrastructure | 18,508,220 | 2,040,088 | - | (3,086,375) | 17,461,933 |
| Machinery and equipment | <u>10,174,515</u> | <u>1,333,592</u> | <u>426,274</u> | <u>(274,171)</u> | <u>10,807,662</u> |
| Total accumulated depreciation | <u>42,800,752</u> | <u>4,674,881</u> | <u>1,222,012</u> | <u>(3,264,942)</u> | <u>42,988,679</u> |
| Total capital assets, being depreciated, net | <u>111,031,227</u> | <u>349,269</u> | <u>91,423</u> | <u>(53,361,543)</u> | <u>57,927,530</u> |
| Governmental activities capital assets, net | <u>\$ 139,920,110</u> | <u>\$ 4,237,553</u> | <u>\$ 1,832,982</u> | <u>\$(53,375,524)</u> | <u>\$ 88,949,157</u> |

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4. Detailed notes on all funds (continued)

| | <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 | \$ 18,491,740 | \$ 1,992,922 | \$ - | \$ 10,750 | \$ 20,495,412 |
| Construction in progress | <u>606,485</u> | <u>5,251,394</u> | <u>-</u> | <u>-</u> | <u>5,857,879</u> |
| Total capital assets, not being depreciated | <u>19,098,225</u> | <u>7,244,316</u> | <u>-</u> | <u>10,750</u> | <u>26,353,291</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 48,004,526 | - | - | - | 48,004,526 |
| Other improvements | 71,669,731 | 6,208,313 | - | 55,978,495 | 133,856,539 |
| Machinery and equipment | <u>5,308,927</u> | <u>467,990</u> | <u>8,905</u> | <u>651,221</u> | <u>6,419,233</u> |
| Total capital assets, being depreciated | <u>124,983,184</u> | <u>6,676,303</u> | <u>8,905</u> | <u>56,629,716</u> | <u>188,280,298</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | 15,906,170 | 1,225,298 | - | - | 17,131,468 |
| Other improvements | 17,945,059 | 3,629,094 | - | 2,949,606 | 24,523,759 |
| Machinery and equipment | <u>2,739,990</u> | <u>457,213</u> | <u>4,770</u> | <u>315,336</u> | <u>3,507,769</u> |
| Total accumulated depreciation | <u>36,591,219</u> | <u>5,311,605</u> | <u>4,770</u> | <u>3,264,942</u> | <u>45,162,996</u> |
| Total capital assets, being depreciated, net | <u>88,391,965</u> | <u>1,364,698</u> | <u>4,135</u> | <u>53,364,774</u> | <u>143,117,302</u> |
| Business-type activities capital assets, net | <u>\$ 107,490,190</u> | <u>\$ 8,609,014</u> | <u>\$ 4,135</u> | <u>\$ 53,375,524</u> | <u>\$ 169,470,593</u> |

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

| | |
|---|---------------------|
| Governmental activities: | |
| General government | \$ 365,006 |
| Public safety | 527,114 |
| Public works | 2,772,879 |
| Recreation and parks | 913,903 |
| Community development | 11,492 |
| Economic opportunity | <u>84,487</u> |
| Total depreciation expense – governmental activities | <u>\$ 4,674,881</u> |
| Business-type activities: | |
| Rental operations | \$ 6,811 |
| Water and sewer | 2,699,893 |
| Golf course | 131,717 |
| Airport | 613,103 |
| Parking | 414,066 |
| Storm water | <u>1,446,015</u> |
| Total depreciation expense – business-type activities | <u>\$ 5,311,605</u> |

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

4. Detailed notes on all funds (continued)

Construction commitments

The City has active construction projects as of June 30, 2005. 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> |
|-----------------------------------|----------------------|---------------------------------|
| Municipal Facility | \$ 48,010 | \$ 2,354,064 |
| East Church Street Reconstruction | 2,508,111 | 1,192,674 |
| Water Distribution Project | 2,434,124 | 3,962,095 |
| New Design Water Plant Expansion | 800,000 | 6,308,277 |
| Water Resource Project | 2,922,634 | 1,075,322 |
| Parking Deck #4 | 4,768,124 | 12,885,763 |
| Carroll Creek Linear Park | 7,335,266 | 5,447,691 |

The Municipal Facility, East Church Street Reconstruction, Water Distribution, New Design Water Plant Expansion, and Water Resource Project are primarily debt funded. Parking Deck #4 is being jointly funded the Frederick County and the City. The Carroll Creek Linear Park is being funded by the State, private donations and a combination of debt and pay-as-you-go funds.

Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2005 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------|
| General | Golf Course | \$ 2,134,740 |

The \$2,134,740 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.

Interfund transfers:

| | <u>Transfers In:</u> | | | | <u>Total</u> |
|-----------------------------|-------------------------|---------------------|----------------------------------|--|---------------------|
| | <u>General Fund</u> | <u>CIP Fund</u> | <u>Nonmajor Governmental</u> | <u>Storm Water Management Fund</u> | |
| Transfer out: | | | | | |
| General fund | \$ - | \$ 1,412,693 | \$ 264,662 | \$ - | \$ 1,677,355 |
| General CIP fund | - | - | - | 317,725 | 317,725 |
| Nonmajor government funds | 96,204 | - | - | - | 96,204 |
| Water and sewer fund | 1,100,000 | - | - | - | 1,100,000 |
| Airport fund | 86,646 | - | - | - | 86,646 |
| Parking fund | 620,000 | - | - | - | 620,000 |
| Storm water management fund | <u>30,000</u> | - | - | - | <u>30,000</u> |
| Total transfers out | \$ <u>1,932,850</u> | \$ <u>1,412,693</u> | \$ <u>264,662</u> | \$ <u>317,725</u> | \$ <u>3,927,930</u> |

Transfers into the general fund from water and sewer, airport, parking and 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. Approximately \$500,000 of the transfer from the parking fund into the general fund was a transfer of net assets that were unrelated to general fund expenditures. The transfer from nonmajor governmental funds into the general fund represents general fund expenditures that are funded by special fund revenues.

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

The \$264,662 transfer by the general fund into the nonmajor governmental fund represents the annual contribution to subsidize operations of the Weinberg Center for the Arts.

In fiscal year 2005, the City created the Storm Water Management Fund. The transfer from the General CIP into the Storm Water Management Fund represent funds that were designated for storm water facilities projects that were moved into the newly created fund. Additionally, \$53,375,524 of storm water management capital assets were transferred from governmental activities into the Storm Water Management Fund.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

5. Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of various equipment within the general fund. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through the capital lease are as follows:

| | |
|--------------------------------|---------------------|
| | <u>General Fund</u> |
| Machinery and equipment | \$ 1,113,273 |
| Less: Accumulated depreciation | <u>(272,779)</u> |
| Total | <u>\$ 840,494</u> |

\$156,727 of the lease proceeds were not spent on equipment acquisition. Per the escrow agreement, the remaining balance was repaid and applied to the next rental payment due under the lease.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 are as follows:

| | | |
|---|------------------------|---------------------|
| | <u>Fiscal Year</u> | |
| | <u>Ending June 30.</u> | <u>General Fund</u> |
| | 2006 | \$ 272,045 |
| | 2007 | 272,045 |
| | 2008 | 272,045 |
| | 2009 | <u>272,044</u> |
| Total minimum lease payments | | \$ 1,088,179 |
| Less: amount representing interest | | <u>(68,729)</u> |
| Present value of minimum lease payments | | <u>\$ 1,019,450</u> |

6. Long Term Obligations

Current Refunding

During fiscal year 2005, the City refunded \$2,400,000 of general obligation bonds relating to the golf course by issuing \$2,568,013 in general obligation refunding bonds at an interest rate of 2.84%. This refunding was undertaken to reduce total debt service payments relating to the golf course and resulted in a reduced cash flow of \$131,303 and an economic gain of \$130,237.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

6. Long term obligations (continued)

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 7/1/2004 | Additions FY '05 | Reductions FY '05 | Outstanding 6/30/2005 | Due Within One Year |
|---|---------------|------------------|-------------------------|----------------------|------------------|-------------------|-----------------------|---------------------|
| Governmental Activities: | | | | | | | | |
| Bonds and Notes Payable: | | | | | | | | |
| General Purpose | 08/01/89 | 08/01/11 | Variable | \$ 2,000,000 | \$ - | \$ (300,000) | \$ 1,700,000 | \$ 300,000 |
| General Purpose | 10/19/94 | 10/01/14 | 5.25-6.125 | 320,000 | - | (320,000) | - | - |
| General Purpose | 08/07/01 | 12/01/21 | 3.25-4.75 | 23,504,000 | 1,393,583 | (2,134,000) | 22,763,583 | 2,417,583 |
| General Purpose | 09/19/02 | 09/01/22 | 2.50-5.0 | 23,729,000 | 5,363 | (888,000) | 22,846,363 | 912,363 |
| MILA Loan - Trading Lane | 06/95 | 06/22 | 5.93 | 149,640 | - | (4,813) | 144,827 | 5,105 |
| MICRF Loan - Ice Arena | 12/95 | 01/06 | 5.50 | 21,240 | - | (13,966) | 7,274 | 7,274 |
| MICRF Loan - MedImmune | 12/96 | 01/17 | 3.00 | 1,034,696 | - | (69,146) | 965,550 | 71,273 |
| Tax Increment Financing | 12/99 | 06/24 | 5.95 | 2,283,494 | - | (62,410) | 2,221,084 | 66,124 |
| Capital Lease | 11/25/03 | 07/15/08 | 2.65 | 1,270,000 | - | (250,550) | 1,019,450 | 244,910 |
| Subtotal | | | | 54,312,070 | 1,398,946 | (4,042,885) | 51,668,131 | 4,024,632 |
| Add remaining premium | | | | 108,987 | - | (6,071) | 102,916 | 6,072 |
| Total bonds and notes payable | | | | 54,421,057 | 1,398,946 | (4,048,956) | 51,771,047 | 4,030,704 |
| Other Obligations: | | | | | | | | |
| Compensated Absences | | | | 1,995,492 | 1,748,056 | (1,772,472) | 1,971,076 | 1,534,105 |
| Total Governmental Activity Long-term Obligations | | | | \$ 56,416,549 | \$ 3,147,002 | \$ (5,821,428) | \$ 53,742,123 | \$ 5,564,809 |
| Business-type activities: | | | | | | | | |
| General Obligation Bonds: | | | | | | | | |
| Water and Sewer | 08/01/89 | 08/01/11 | Variable | \$ 1,125,000 | \$ - | \$ (169,000) | \$ 956,000 | \$ 169,000 |
| Water and Sewer | 08/07/01 | 12/01/21 | 3.25-4.75 | 10,031,000 | - | (1,198,557) | 8,832,443 | 836,443 |
| Water and Sewer | 09/19/02 | 09/01/22 | 2.50-5.0 | 1,786,000 | - | (72,363) | 1,713,637 | 62,637 |
| Total General Obligation Bonds | | | | 12,942,000 | - | (1,439,920) | 11,502,080 | 1,068,080 |
| State Loan Fund - BNR | 08/23/01 | 02/01/22 | 2.30 | 4,871,751 | - | (221,540) | 4,650,211 | 226,635 |
| Total Water & Sewer Debt | | | | 17,813,751 | - | (1,661,460) | 16,152,291 | 1,294,715 |
| Golf Course Facilities Bonds | 10/19/94 | 10/01/10 | 5.25-6.00 | 2,765,000 | - | (2,765,000) | - | - |
| Golf Course Facilities Bonds | 07/26/04 | 10/01/10 | 2.84% | - | 2,568,013 | - | 2,568,013 | 398,649 |
| Total Golf Course Obligations | | | | 2,765,000 | 2,568,013 | (2,765,000) | 2,568,013 | 398,649 |
| Aiport Improvement Bonds | 08/07/01 | 12/01/21 | 3.25-4.75 | 3,820,000 | - | (145,000) | 3,675,000 | 150,000 |
| MILA Loan - Frederick Aviation | 03/98 | 03/23 | 5.42 | 268,817 | - | (8,468) | 260,349 | 8,942 |
| Total Airport Debt | | | | 4,088,817 | - | (153,468) | 3,935,349 | 158,942 |
| Parking Facilities | 08/01/89 | 08/01/11 | Variable | 875,000 | - | (131,000) | 744,000 | 131,000 |
| Parking Facilities | 08/07/01 | 12/01/21 | 3.25-4.75 | 4,755,000 | - | (1,251,026) | 3,503,974 | 225,974 |
| Total Parking Facilities | | | | 5,630,000 | - | (1,382,026) | 4,247,974 | 356,974 |
| Total business-type activities debt | | | | 30,297,568 | 2,568,013 | (5,961,954) | 26,903,627 | 2,209,280 |
| Other Obligations: | | | | | | | | |
| Add remaining premium | | | | 41,160 | - | (2,377) | 38,783 | 2,377 |
| Less remaining discounts | | | | (17,402) | - | 999 | (16,403) | (999) |
| Less deferred refunding | | | | (350,355) | (79,364) | 59,119 | (370,600) | (62,426) |
| Compensated Absences | | | | 395,905 | 319,269 | (331,956) | 383,218 | 293,979 |
| Total business-type activities obligations | | | | \$ 30,366,876 | \$ 2,807,918 | \$ (6,236,169) | \$ 26,938,625 | \$ 2,442,211 |

Ninety-nine percent of the compensated absences 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, 2005

6. Long Term Obligations (continued)

The annual requirements to amortize all general long term debt, as of June 30, 2005, (an assumed rate of 2.45% was used to estimate interest costs on the 1989 variable rate bond issue) are as follows:

| Fiscal Year | Governmental Activities | | Business-type Activities | | Total | | |
|----------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2006 | \$ 3,713,598 | \$ 1,892,368 | \$ 2,209,281 | \$ 1,029,801 | \$ 5,922,879 | \$ 2,922,169 | \$ 8,845,048 |
| 2007 | 3,406,880 | 1,770,122 | 2,114,027 | 950,694 | 5,520,907 | 2,720,816 | 8,241,723 |
| 2008 | 3,415,402 | 1,648,172 | 2,159,568 | 870,926 | 5,574,970 | 2,519,098 | 8,094,068 |
| 2009 | 3,477,144 | 1,496,645 | 2,150,652 | 782,136 | 5,627,796 | 2,278,781 | 7,906,577 |
| 2010 | 3,527,915 | 1,332,729 | 2,213,049 | 689,844 | 5,740,964 | 2,022,573 | 7,763,537 |
| 2011 - 2015 | 14,681,590 | 4,759,781 | 7,700,035 | 1,944,633 | 22,381,625 | 6,704,414 | 29,086,039 |
| 2016 - 2020 | 9,856,633 | 2,463,368 | 5,596,728 | 1,183,480 | 15,453,361 | 3,646,848 | 19,100,209 |
| 2021 - 2024 | <u>6,348,435</u> | <u>403,818</u> | <u>2,760,287</u> | <u>135,144</u> | <u>9,108,722</u> | <u>538,962</u> | <u>9,647,684</u> |
| Totals | <u>\$48,427,597</u> | <u>\$15,767,003</u> | <u>\$26,903,627</u> | <u>\$ 7,586,658</u> | <u>\$75,331,224</u> | <u>\$23,353,661</u> | <u>\$ 98,684,885</u> |

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2005 are as follows:

| Fiscal Year | Tax Incremental Financing Bonds | | |
|----------------|---------------------------------|--------------------|--------------------|
| | Principal | Interest | Total |
| 2006 | \$ 66,124 | \$ 132,155 | \$ 198,279 |
| 2007 | 70,058 | 128,220 | 198,278 |
| 2008 | 74,226 | 124,052 | 198,278 |
| 2009 | 78,643 | 119,635 | 198,278 |
| 2010 | 83,322 | 114,956 | 198,278 |
| 2011 - 2015 | 497,145 | 494,246 | 991,391 |
| 2016 - 2020 | 663,724 | 327,666 | 991,390 |
| 2021 - 2024 | <u>687,842</u> | <u>105,272</u> | <u>793,114</u> |
| Totals | <u>\$2,221,084</u> | <u>\$1,546,202</u> | <u>\$3,767,286</u> |

Computation of Legal Debt Margin:

| | |
|--|-----------------------|
| Assessed value | \$3,809,982,818 |
| Debt limit (8% of assessed value per City Charter) | \$ 304,798,625 |
| Amount of debt applicable to debt limit: | |
| Total bonded debt | \$71,524,097 |
| Other debt | <u>6,028,211</u> |
| | \$77,552,308 |
| Less: Water and sewer debt | 16,152,291 |
| Total amount of debt applicable to debt limit | <u>61,400,017</u> |
| Legal debt margin | <u>\$ 243,398,608</u> |

Schedule of Intended Source of Funds for Debt Retirement:

| | Debt Amount |
|---------------------------------------|----------------------|
| General revenue | \$ 47,462,047 |
| Water and sewer charges | 16,152,291 |
| Airport charges | 3,675,000 |
| Parking charges and fines | 4,247,974 |
| Cash flow from golf course operations | 2,568,013 |
| MILA/MICRF Loan Repayments | 1,225,899 |
| Incremental tax revenue | <u>2,221,084</u> |
| | <u>\$ 77,552,308</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, 2005

6. 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 | \$ 75,331,224 | 100.00% | \$ 75,331,224 |
| Frederick County | <u>362,832,494</u> | 22.44 | <u>81,419,612</u> |
| Total | <u>\$ 438,163,718</u> | | <u>\$ 156,750,836</u> |

1989 Variable Rate Demand/Fixed Rate Bonds:

The Variable Rate Demand/Fixed Rate General Improvement Bonds, 1989 Series, is backed by the full faith, credit and taxing power of the City. The variable interest rate for the bonds is reset on a weekly basis by the remarketing agent. At June 30, 2005, the interest rate was 2.45%.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice. Stern Brothers & Co., the remarketing agent, has been authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate.

An irrevocable letter of credit was issued to the City by Wachovia Bank (the "Bank"). The letter of credit expires in November 2005 with renewal provisions. The Bank has no right of termination of this letter of credit until November 2005.

If the remarketing agent is unable to resell any bonds that are "put", the registrar/paying agent will draw on the letter of credit. There were no principal draws on the letter of credit during the current year.

The principal balance due on these bonds totaled \$3,400,000 at June 30, 2005. In the event these bonds were "put" by the bondholders at that date and the remarketing agent was unable to sell the bonds, the City would draw against the letter of credit. If this were to take place, the debt service to maturity would be as follows:

| <u>Fiscal Year</u> | <u>Interest</u> | <u>Principal</u> |
|--------------------|-----------------|------------------|
| 2006 | \$ 21,958 | 3,400,000 |

Interest charges under the letter of credit are prime plus 1.5% (equating to 7.75% at June 30, 2005). The City is required to pay annual fees relating to this issue which totaled approximately \$ 27,400 in the current year.

7. Pension Plans

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

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 formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

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, 2005 | 35 |
| Vested terminated employees | 75 |
| Active employees - vested 100% | 125 |
| Active employees - nonvested | 43 |

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

7. Pension plans (continued)

Eligibility - Work at least twenty hours a week, attain the age of 21 with one year of service, and agree to make required contributions.

Employee contributions - 5% of earnings above Social Security Taxable Wage Base.

Retirement -

Normal - Age 62 with five years of service
 Age 63 with four years of service
 Age 64 with three years of service
 Age 65 or older with two years of service
 or 30 years of service regardless of age

Annual benefit is 1.2% of Final Average Earnings multiplied by years and months of service (plus unused sick leave). Final Average Earnings is the average yearly earnings during the three consecutive plan years out of the last 10 plan years which produces the highest average.

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

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

Vesting - A participant is 100% vested after 5 years of service.

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

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

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

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

Cost of Living - based on the Consumer Price Index but limited to an annual increase of 3% of the member's benefit the previous year.

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

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

Mortality - 1983 Group Mortality Tables for males and females.

Interest rates - 8.5% per annum, compounded annually

Expenses - Expenses from previous plan year are added to the normal cost.

Retirement - Assumed retirement at the earlier of age 62 or completion of 30 years of service.

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

| <u>Age</u> | <u>Annual Termination 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, 2005

7. Pension plans (continued)

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

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

Salary scale - Salaries are assumed to increase 6.0% per year for participants under age 50 and 4.5% per year for participants age 50 and older. When available, actual salaries are used retrospectively.

Cost-of-living increases - a compound increase rate of 3.0% per annum is assumed in projecting the liability for cost-of-living benefits.

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

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

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

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

| | |
|--|---------------------|
| Annual required contribution | \$ 881,850 |
| Interest on net pension assets | (19,012) |
| Adjustment to annual required contribution | <u>20,813</u> |
| Annual pension cost | 883,651 |
| Contributions made | <u>(881,850)</u> |
| Decrease in net pension assets | 1,801 |
| Net pension assets beginning of year | <u>(242,687)</u> |
| Net pension assets end of year | <u>\$ (240,886)</u> |

Three-Year Trend Information

| Year Ended <u>June 30.</u> | Annual Pension <u>Cost (APC)</u> | Percentage <u>Contributed</u> | Net Pension <u>Obligation</u> |
|----------------------------------|--|----------------------------------|-------------------------------------|
| 2003 | 582,657 | 105.38% | (244,501) |
| 2004 | 658,558 | 99.72% | (242,687) |
| 2005 | 883,651 | 99.80% | (240,886) |

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, 2005 | 127 |
| Vested terminated employees | 58 |
| Active employees - vested 100% | 129 |
| Active employees - nonvested | 62 |

Eligibility - Work at least twenty hours a week, attain the age of 21 with one year of service, and agree to make member contributions.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

7. Pension plans (continued)

Retirement -

Normal - Age 62 with five years of service
 Age 63 with four years of service
 Age 64 with three years of service
 Age 65 or older with two years of service
 or 25 years of service regardless of age

Annual benefit is 2% of Final Average Earnings multiplied by years and months of service (plus unused sick leave). Final Average Earnings is the average yearly earnings during the three consecutive plan years out of the last 10 plan years which produces the highest average.

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

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

Vesting - A participant is 100% vested after 5 years of service.

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

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

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

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

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

Cost-of-Living - based on the Consumer Price Index but limited to an annual increase of 3% of the member's benefit the previous year.

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

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

Mortality - 1983 Group Mortality Tables for males and females.

Interest rates - 8.5% per annum, compounded annually.

Expenses - Expenses from previous plan years are added to the normal cost.

Retirement - Assumed retirement at the earlier of age 62 or 25 years of service for all employees.

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

| <u>Age</u> | <u>Annual Termination 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, 2005

7. Pension plans (continued)

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

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

Salary scale - Salaries are assumed to increase 6.0% per year for participants under age 50 and 4.5% per year for participants age 50 and older. When available, actual salaries are used retrospectively.

Cost-of-living increases - a compound increase rate of 3.0% per annum is assumed in projecting the liability for cost-of-living benefits.

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

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

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

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

| | |
|--|----------------------|
| Annual required contribution | \$ 2,017,267 |
| Interest on net pension assets | (121,162) |
| Adjustment to annual required contribution | <u>132,637</u> |
| Annual pension cost | 2,028,742 |
| Contributions made | <u>(2,017,267)</u> |
| Decrease in net pension assets | 11,475 |
| Net pension assets beginning of year | <u>(1,546,594)</u> |
| Net pension assets end of year | <u>\$(1,535,119)</u> |

| <u>Three-Year Trend Information</u> | | | |
|-------------------------------------|----------------------------------|-------------------------------|-------------------------------|
| <u>Year Ended June 30.</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage Contributed</u> | <u>Net Pension Obligation</u> |
| 2003 | 1,273,543 | 104.74% | (1,558,155) |
| 2004 | 1,547,050 | 99.25% | (1,546,594) |
| 2005 | 2,028,742 | 99.43% | (1,535,119) |

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, 2005 | 30 |
| Vested terminated employees | 15 |
| Active employees - vested 100% | 94 |
| Active employees - nonvested | 33 |

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

7. Pension Plans (continued)

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

Retirement -

- Normal - Age 62 with five years of service
- Age 63 with four years of service
- Age 64 with three years of service
- Age 65 or older with two years of service
- or 22 years of service regardless of age

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

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

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

Vesting - A participant is 100% vested after 5 years of service.

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

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

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

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

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

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

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

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

Mortality - 1983 Group Mortality Tables for Males and Females.

Interest rates - 8.5% per annum, compounded annually.

Expenses - Expenses from previous plan year are added to the normal cost.

Retirement - Assumed retirement at the earlier of age 62 or 22 years of service for all employees.

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

| <u>Age</u> | <u>Annual Termination Rate</u> |
|------------|--------------------------------|
| 25 | 5.29% |
| 35 | 4.70% |
| 45 | 3.54% |
| 55 | 0.94% |

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

7. Pension plans (continued)

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

| <u>Age</u> | <u>Annual Disablement Rate</u> |
|------------|--------------------------------|
| 25 | .090% |
| 35 | .133% |
| 45 | .459% |
| 55 | 1.206% |

Salary scale - Salaries are assumed to increase prospectively and decrease retrospectively at the rate of 7% per annum. When available, actual salaries are used retrospectively.

Cost-of-living increases - a compound increase rate of 3.0% per annum is assumed in projecting the liability for cost-of-living benefits.

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

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

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

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

| | |
|--|---------------------|
| Annual required contribution | \$ 2,238,697 |
| Interest on net pension assets | (65,561) |
| Adjustment to annual required contribution | <u>71,770</u> |
| Annual pension cost | 2,244,906 |
| Contributions made | <u>(2,238,697)</u> |
| Decrease in net pension assets | 6,209 |
| Net pension assets beginning of year | <u>(836,863)</u> |
| Net pension assets end of year | <u>\$ (830,654)</u> |

| Year Ended | <u>Three-Year Trend Information</u> | | Net Pension Obligation |
|---------------|-------------------------------------|-------------------------------|------------------------|
| | <u>Annual Pension Cost (APC)</u> | <u>Percentage Contributed</u> | |
| June 30, 2003 | 1,618,944 | 105.30% | (843,119) |
| 2004 | 2,046,995 | 99.69% | (836,863) |
| 2005 | 2,244,906 | 99.72% | (803,654) |

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

| Valuation date | <u>30-Year Plan</u> | <u>25-Year Plan</u> | <u>22-Year Plan</u> |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| | 7/1/05 | 7/1/05 | 7/1/05 |
| 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 | 8.5% | 8.5% | 8.5% |
| Projected salary increases: | | | |
| Under age 50 | 6.0% | 6.0% | 7.0% |
| Age 50 and older | 4.5% | 4.5% | 7.0% |

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7. Pension plans (continued)

Statement of Fiduciary Net Assets

| | Pension Trust Fund | | | 2005 Total |
|------------------------------------|----------------------|----------------------|----------------------|---------------|
| | Pension - 30 Year | Pension - 25 Year | Pension - 22 Year | |
| ASSETS: | | | | |
| Cash and short-term investments | \$ 332,482 | \$ 1,239,752 | \$ 775,322 | \$ 2,347,556 |
| Receivables | | | | |
| Accounts receivable – employee | - | 47,043 | 49,829 | 96,872 |
| Total receivables | - | 47,043 | 49,829 | 96,872 |
| Investments, at fair value: | | | | |
| Equities | 5,939,642 | 22,147,631 | 13,850,834 | 41,938,107 |
| Fixed income | 1,826,617 | 6,811,061 | 4,259,547 | 12,897,225 |
| Total investments | 7,766,259 | 28,958,692 | 18,110,381 | 54,835,332 |
| Total assets | 8,098,741 | 30,245,487 | 18,935,532 | 57,279,760 |
| NETS ASSETS: | | | | |
| Held in trust for pension benefits | \$ 8,098,741 | \$ 30,245,487 | \$ 18,935,532 | \$ 57,279,760 |

Statement of Changes in Fiduciary Net Assets

| | Pension Trust Fund | | | 2005 Total |
|--------------------------|----------------------|----------------------|----------------------|---------------|
| | Pension - 30 Year | Pension - 25 Year | Pension - 22 Year | |
| ADDITIONS: | | | | |
| Contributions – employer | \$ 881,850 | \$ 2,017,267 | \$ 2,238,697 | \$ 5,137,814 |
| Contributions – employee | 3,204 | 566,922 | 652,106 | 1,222,232 |
| Interest 199,855 | 770,633 | 462,656 | 1,433,144 | |
| Net appreciation | 403,085 | 1,554,278 | 933,125 | 2,890,488 |
| Total additions | 1,487,994 | 4,909,100 | 4,286,584 | 10,683,678 |
| DEDUCTIONS: | | | | |
| Pension benefits | 214,547 | 2,557,224 | 1,041,897 | 3,813,668 |
| Service charges | 63,061 | 243,160 | 145,983 | 452,204 |
| Total deductions | 277,608 | 2,800,384 | 1,187,880 | 4,265,872 |
| Change in net assets | 1,210,386 | 2,108,716 | 3,098,704 | 6,417,806 |
| Net assets – beginning | 6,888,355 | 28,136,771 | 15,836,828 | 50,861,954 |
| Net assets – ending | \$ 8,098,741 | \$ 30,245,487 | \$ 18,935,532 | \$ 57,279,760 |

8. Post-Employment Health Care Benefits

Pursuant to Sections 35-B and 137 of the City Charter, the City provides post-employment health care to all employees who qualify as a retiree and meet specific service requirements. A life insurance benefit is provided to retirees with at least 10 years of service and hired prior to July 1, 2003. Currently 332 retirees and dependents are eligible for health benefits and 159 of those are also eligible for life insurance coverage. The City provides preferred provider and health maintenance organization types of health coverage for pre-Medicare retirees and their dependents. Retirees over 65 are enrolled in a plan that coordinates benefits with Medicare. Finally, a \$3,000 life insurance policy is maintained on each retiree that was hired prior to July 1, 2003. The cost of retiree health care and life insurance benefits is recognized as an expenditure when premiums are paid. For fiscal year 2005, those costs totaled approximately \$1,625,000.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

9. Commitments and contingencies

Loan Guarantee The City has guaranteed the repayment of a bank loan to a private corporation. The loan, which had a balance of \$702,254.55 at June 30, 2005 is to be repaid by the borrower in monthly installments through April 2008.

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, 2005, 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 various legal proceedings. In the opinion of the City Attorney, the potential liability arising from claims against the City not covered by insurance, would not materially affect the financial statements.

10. Conduit Debt Obligations

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

As of June 30, 2005 there were thirteen series of Industrial/Economic Revenue Bonds outstanding. The aggregate principal amount payable for these issues could not be determined; however, their original issue amounts totaled \$53,074,353.

11. Risk Management

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

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

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

12. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2005 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the City beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

12. New Governmental Accounting Standards Board Standards (continued)

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, will be effective for the City beginning with its year ending June 30, 2006. This Statement updates and modifies portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the city beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid will create a liability (asset) similar to the net pension obligations.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an Amendment to GASB Statement No. 34*, will be effective for the City beginning with its year ending June 30, 2006. This statement provides further clarification on the legally enforceable requirement for classifying restricted net assets.

GASB Statement No. 47, *Accounting for Termination Benefits*, becomes effective for the City with its fiscal year ending June 30, 2006. This statement establishes accounting standards for termination benefits.

13. Subsequent Events

On August 16, 2005, the City issued \$69,250,000 general obligation bonds to finance various parking and water and sewer projects. The interest rate on the bonds range from 4.25% to 5.00% and the maturity date is August 1, 2025.

On September 1, 2005, the irrevocable standby letter of credit issued to the City by Wachovia Bank to support the 1989 variable rate demand/fixed rate bonds was amended to extend the date of expiration to November 20, 2008.

REQUIRED SUPPLEMENTARY
INFORMATION

(Unaudited)

The City of Frederick, Maryland
 Required Supplementary Information (unaudited)
 Schedule of Funding Progress - Pension Plans
 For the Year Ended June 30, 2005

The City of Frederick 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) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 07/01/97 | 4,089,262 | 3,545,351 | (543,911) | 115.34% | 3,577,162 | -15.21% |
| 07/01/98 | 4,927,424 | 3,972,645 | (954,779) | 124.03% | 3,723,331 | -25.64% |
| 07/01/99 | 5,486,103 | 4,601,706 | (884,397) | 119.22% | 4,429,815 | -19.96% |
| 07/01/00 | 6,608,202 | 6,283,183 | (325,019) | 105.17% | 5,488,930 | -5.92% |
| 07/01/01 | 7,075,699 | 7,640,941 | 565,242 | 92.60% | 6,235,412 | 9.07% |
| 07/01/02 | 7,210,661 | 8,828,780 | 1,618,119 | 81.67% | 6,537,445 | 24.75% |
| 07/01/03 | 7,315,294 | 10,553,554 | 3,238,260 | 69.32% | 7,562,016 | 42.82% |
| 07/01/04 | 7,715,840 | 11,531,014 | 3,815,174 | 66.91% | 7,554,517 | 50.50% |
| 07/01/05 | 8,337,386 | 11,880,776 | 3,543,390 | 70.18% | 7,508,089 | 47.19% |

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) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 07/01/97 | 24,047,430 | 29,306,564 | 5,259,134 | 82.05% | 5,510,498 | 95.44% |
| 07/01/98 | 29,107,997 | 31,537,294 | 2,429,297 | 92.30% | 5,476,389 | 44.36% |
| 07/01/99 | 31,572,459 | 31,756,236 | 183,777 | 99.42% | 5,685,306 | 3.23% |
| 07/01/00 | 36,699,638 | 36,872,412 | 172,774 | 99.53% | 6,236,356 | 2.77% |
| 07/01/01 | 37,227,330 | 42,421,294 | 5,193,964 | 87.76% | 6,898,563 | 75.29% |
| 07/01/02 | 35,635,894 | 44,901,337 | 9,265,443 | 79.36% | 7,124,689 | 130.05% |
| 07/01/03 | 33,541,406 | 48,272,476 | 14,731,070 | 69.48% | 7,865,877 | 187.28% |
| 07/01/04 | 32,450,166 | 51,327,131 | 18,876,965 | 63.22% | 7,998,673 | 236.00% |
| 07/01/05 | 31,477,624 | 54,053,336 | 22,575,712 | 58.23% | 8,738,749 | 258.34% |

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) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 07/01/97 | 6,322,792 | 12,746,656 | 6,423,864 | 49.60% | 3,827,733 | 167.82% |
| 07/01/98 | 8,677,594 | 14,747,183 | 6,069,589 | 58.84% | 4,165,261 | 145.72% |
| 07/01/99 | 10,508,130 | 15,989,109 | 5,480,979 | 65.72% | 4,445,184 | 123.30% |
| 07/01/00 | 13,374,512 | 18,515,303 | 5,140,791 | 72.23% | 5,017,900 | 102.45% |
| 07/01/01 | 14,747,228 | 23,901,043 | 9,153,815 | 61.70% | 5,562,375 | 164.57% |
| 07/01/02 | 15,351,371 | 28,453,297 | 13,101,926 | 53.95% | 6,458,916 | 202.85% |
| 07/01/03 | 16,186,136 | 32,019,641 | 15,833,505 | 50.55% | 6,451,813 | 245.41% |
| 07/01/04 | 17,371,771 | 36,676,680 | 19,304,909 | 47.36% | 7,275,892 | 265.33% |
| 07/01/05 | 19,343,006 | 41,731,458 | 22,388,452 | 46.35% | 7,718,223 | 290.07% |

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, 2005

| | <u>Special Revenue Funds</u> | | | Total Nonmajor Governmental Funds |
|---|------------------------------|----------------------------|----------------------------------|--|
| | <u>CDS Program</u> | <u>Weinberg Center</u> | <u>Community Development</u> | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ 22,208 | \$ - | \$ 22,208 |
| Equity in pooled cash/investments | 199,492 | 13,232 | 177,445 | 390,169 |
| Receiveables (net of allowance for uncollectibles) | - | 1,678 | 862,905 | 864,583 |
| Prepaid items | - | 250 | - | 250 |
| Total assets | <u>\$ 199,492</u> | <u>\$ 37,368</u> | <u>\$ 1,040,350</u> | <u>\$ 1,277,210</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 973 | \$ 15,056 | \$ 80,819 | \$ 96,848 |
| Accrued liabilities | - | 9,013 | 3,114 | 12,127 |
| Deposits | 79,023 | - | 500 | 79,523 |
| Total liabilities | <u>79,996</u> | <u>24,069</u> | <u>84,433</u> | <u>188,498</u> |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 6,185 | 13,049 | 200,597 | 219,831 |
| Prepaid items | - | 250 | - | 250 |
| Loans | - | - | 838,422 | 838,422 |
| Unreserved: | | | | |
| Undesignated | 113,311 | - | (83,102) | 30,209 |
| Total fund balances | <u>119,496</u> | <u>13,299</u> | <u>955,917</u> | <u>1,088,712</u> |
| Total liabilities and fund balances | <u>\$ 199,492</u> | <u>\$ 37,368</u> | <u>\$ 1,040,350</u> | <u>\$ 1,277,210</u> |

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

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

| | <u>Special Revenue Funds</u> | | | Total Nonmajor Governmental Funds |
|--|------------------------------|----------------------------|----------------------------------|--|
| | <u>CDS Program</u> | <u>Weinberg Center</u> | <u>Community Development</u> | |
| REVENUES: | | | | |
| Intergovernmental | \$ - | \$ 50,000 | \$ 759,260 | \$ 809,260 |
| Charges for services | - | 260,322 | - | 260,322 |
| Fines and forfeitures | 82,364 | - | - | 82,364 |
| Miscellaneous | 4,696 | 242,053 | 51,906 | 298,655 |
| Total revenues | <u>87,060</u> | <u>552,375</u> | <u>811,166</u> | <u>1,450,601</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public safety | 53,610 | - | - | 53,610 |
| Recreation and parks | - | 805,990 | - | 805,990 |
| Community development | - | - | 1,044,482 | 1,044,482 |
| Total expenditures | <u>53,610</u> | <u>805,990</u> | <u>1,044,482</u> | <u>1,904,082</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>33,450</u> | <u>(253,615)</u> | <u>(233,316)</u> | <u>(453,481)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Fixed asset disposition | - | - | 470,000 | 470,000 |
| Transfers in | - | 264,662 | - | 264,662 |
| Transfers out | - | - | (96,204) | (96,204) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>264,662</u> | <u>373,796</u> | <u>638,458</u> |
| Net Change in Fund Balances | 33,450 | 11,047 | 140,480 | 184,977 |
| Fund Balance - beginning | <u>86,046</u> | <u>2,252</u> | <u>815,437</u> | <u>903,735</u> |
| Fund Balance - ending | <u>\$ 119,496</u> | <u>\$ 13,299</u> | <u>\$ 955,917</u> | <u>\$ 1,088,712</u> |

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

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, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Fines and forfeitures | \$ 38,500 | \$ 38,500 | \$ 82,364 | \$ 43,864 |
| Miscellaneous | 1,500 | 1,500 | 4,696 | 3,196 |
| Total Revenues | <u>40,000</u> | <u>40,000</u> | <u>87,060</u> | <u>47,060</u> |
| EXPENDITURES: | | | | |
| CDS Enforcement | <u>80,401</u> | <u>80,401</u> | <u>53,610</u> | <u>26,791</u> |
| Total Expenditures | <u>80,401</u> | <u>80,401</u> | <u>53,610</u> | <u>26,791</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(40,401)</u> | <u>(40,401)</u> | <u>33,450</u> | <u>73,851</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | (40,401) | (40,401) | 33,450 | 73,851 |
| Budgetary Fund Balance - beginning | <u>40,401</u> | <u>40,401</u> | <u>86,046</u> | <u>45,645</u> |
| Budgetary Fund Balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 119,496</u> | <u>\$ 119,496</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, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 41,440 | \$ 41,440 | \$ 50,000 | \$ 8,560 |
| Charges for services | 418,865 | 418,865 | 260,322 | (158,543) |
| Miscellaneous | 100,000 | 114,000 | 242,053 | 128,053 |
| Total Revenues | <u>560,305</u> | <u>574,305</u> | <u>552,375</u> | <u>(21,930)</u> |
| EXPENDITURES: | | | | |
| Weinberg Center | <u>812,307</u> | <u>826,923</u> | <u>805,990</u> | <u>20,933</u> |
| Total Expenditures | <u>812,307</u> | <u>826,923</u> | <u>805,990</u> | <u>20,933</u> |
| Excess (Deficiency) of Revenue over Expenditures | <u>(252,002)</u> | <u>(252,618)</u> | <u>(253,615)</u> | <u>(997)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer in | <u>250,000</u> | <u>250,616</u> | <u>264,662</u> | <u>14,046</u> |
| Total Other Financing Sources (Uses) | <u>250,000</u> | <u>250,616</u> | <u>264,662</u> | <u>14,046</u> |
| Net Change in Fund Balance | (2,002) | (2,002) | 11,047 | 13,049 |
| Budgetary Fund Balance - beginning | <u>2,002</u> | <u>2,002</u> | <u>2,252</u> | <u>250</u> |
| Budgetary Fund Balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,299</u> | <u>\$ 13,299</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, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 1,517,799 | \$ 1,517,799 | \$ 759,260 | \$ (758,539) |
| Miscellaneous | 23,500 | 23,500 | 51,906 | 28,406 |
| Total Revenues | <u>1,541,299</u> | <u>1,541,299</u> | <u>811,166</u> | <u>(730,133)</u> |
| EXPENDITURES: | | | | |
| Community development | 1,882,244 | 1,857,244 | 1,044,482 | 812,762 |
| Total Expenditures | <u>1,882,244</u> | <u>1,857,244</u> | <u>1,044,482</u> | <u>812,762</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(340,945)</u> | <u>(315,945)</u> | <u>(233,316)</u> | <u>82,629</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Fixed asset disposition | 175,000 | 175,000 | 470,000 | 295,000 |
| Transfers in | 5,000 | 5,000 | - | (5,000) |
| Transfers out | <u>(75,000)</u> | <u>(100,000)</u> | <u>(96,204)</u> | <u>3,796</u> |
| Total Other Financing Sources (Uses) | <u>105,000</u> | <u>80,000</u> | <u>373,796</u> | <u>293,796</u> |
| Net Change in Fund Balance | (235,945) | (235,945) | 140,480 | 376,425 |
| Budgetary Fund Balance - beginning | <u>235,945</u> | <u>235,945</u> | <u>815,437</u> | <u>579,492</u> |
| Budgetary Fund Balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 955,917</u> | <u>\$ 955,917</u> |

STATISTICAL SECTION

THE CITY OF FREDERICK, MARYLAND
 Government-wide Expenses by Function (1)

| Fiscal Year | General Government | Public Safety | Public Works | Recreation and Parks | Community Development | Economic Opportunity | Debt Service | Miscellaneous | Rental Operations | Water & Sewer | Golf Course | Airport | Parking | Storm Water Management | Total |
|-------------|--------------------|---------------|---------------|----------------------|-----------------------|----------------------|--------------|---------------|-------------------|---------------|--------------|--------------|--------------|------------------------|---------------|
| 2003 | \$ 7,719,643 | \$ 16,114,175 | \$ 10,405,465 | \$ 5,317,760 | \$ 667,175 | \$ 2,055,864 | \$ 2,087,187 | \$ 62,839 | \$ 27,017 | \$ 9,473,787 | \$ 1,731,567 | \$ 1,069,779 | \$ 1,382,570 | \$ - | \$ 58,114,828 |
| 2004 | 7,857,792 | 17,670,546 | 12,977,426 | 5,585,375 | 787,758 | 1,964,282 | 2,186,093 | 59,002 | 33,412 | 10,991,769 | 1,629,269 | 1,711,743 | 1,635,725 | - | 65,090,192 |
| 2005 | 7,811,588 | 18,969,032 | 12,666,210 | 5,513,056 | 1,102,406 | 2,194,580 | 2,097,849 | 61,126 | 63,547 | 14,258,643 | 1,660,229 | 1,685,136 | 1,899,409 | 1,942,658 | 71,925,469 |

(1) - Fiscal year 2003 was the first year for reporting under GASB 34.

THE CITY OF FREDERICK, MARYLAND
 Government-wide Revenues (1)

| Fiscal Year | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Taxes | Unrestricted Licenses and Permits | Unrestricted Grants and Contributions | Unrestricted Interest Earnings | Unrestricted Capital Asset Disposition | Miscellaneous | Total |
|-------------|----------------------|------------------------------------|----------------------------------|---------------|-----------------------------------|---------------------------------------|--------------------------------|--|---------------|---------------|
| 2003 | \$ 16,945,317 | \$ 5,444,156 | \$ 9,079,705 | \$ 29,522,920 | \$ 374,410 | \$ 2,706,746 | \$ 1,274,206 | \$ 416,643 | \$ 141,320 | \$ 65,905,423 |
| 2004 | 18,266,176 | 4,894,001 | 13,759,723 | 30,010,145 | 366,564 | 3,092,151 | 820,172 | 311,973 | 74,783 | 71,595,688 |
| 2005 | 22,159,146 | 6,519,396 | 10,024,871 | 33,079,349 | 555,074 | 3,341,584 | 1,173,082 | 1,032,703 | 58,991 | 77,944,196 |

(1) - Fiscal year 2003 was the first year for reporting under GASB 34.

THE CITY OF FREDERICK, MARYLAND
GENERAL GOVERNMENTAL REVENUES BY SOURCE
TEN-YEAR SUMMARY

For the years ended June 30,

| Fiscal Year | Taxes | Licenses and Permits | Inter-Governmental | Charges for Services | Fines and Forfeitures | Miscellaneous | Total |
|-------------|---------------|----------------------|--------------------|----------------------|-----------------------|---------------|---------------|
| 1996 | \$ 20,167,060 | \$ 596,254 | \$ 7,176,723 | \$ 544,875 | \$ 59,037 | \$ 2,569,493 | \$ 31,113,442 |
| 1997 | 21,358,696 | 647,119 | 8,885,170 | 981,527 | 95,061 | 2,217,786 | 34,185,359 |
| 1998 | 22,128,605 | 738,849 | 6,713,898 | 981,986 | 48,833 | 2,152,060 | 32,764,231 |
| 1999 | 23,781,352 | 757,837 | 5,646,779 | 1,166,484 | 48,441 | 2,698,855 | 34,099,748 |
| 2000 | 25,814,162 | 1,104,845 | 5,649,460 | 1,139,518 | 105,432 | 2,904,243 | 36,717,660 |
| 2001 | 27,212,751 | 1,136,046 | 7,143,695 | 1,289,396 | 26,663 | 1,838,062 | 38,646,613 |
| 2002 | 29,443,838 | 830,568 | 11,127,878 | 1,241,508 | 73,437 | 1,322,387 | 44,039,616 |
| 2003 | 29,522,920 | 811,367 | 8,271,637 | 1,233,540 | 122,942 | 1,631,836 | 41,594,242 |
| 2004 | 30,010,145 | 1,160,087 | 9,226,953 | 1,490,066 | 71,864 | 2,471,717 | 44,430,832 |
| 2005 | 33,079,349 | 1,965,138 | 10,627,614 | 1,774,069 | 116,690 | 2,236,450 | 49,799,310 |

Note: This table is a summary of revenues of the General, Special Revenue and Capital Projects Funds.

THE CITY OF FREDERICK, MARYLAND
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
TEN-YEAR SUMMARY

For the years ended June 30,

| Fiscal Year | General Government | Public Safety | Public Works | Recreation and Parks | Community Development | Capital Projects | Debt Service | Economic Opportunity | Miscellaneous | Total |
|-------------|--------------------|---------------|--------------|----------------------|-----------------------|------------------|--------------|----------------------|---------------|---------------|
| 1996 | \$ 2,589,353 | \$ 8,249,049 | \$ 7,139,255 | \$ 2,594,254 | \$ 2,454,923 | \$ 9,647,854 | \$ 4,434,512 | \$ 886,470 | \$ 125,714 | \$ 38,121,384 |
| 1997 | 2,668,580 | 8,693,027 | 7,306,635 | 2,679,949 | 2,502,106 | 9,266,742 | 4,285,497 | 890,492 | 30,959 | 38,323,987 |
| 1998 | 3,520,687 | 9,939,157 | 6,954,718 | 3,133,426 | 1,843,518 | 2,681,967 | 3,791,595 | 984,531 | 25,902 | 32,875,501 |
| 1999 | 4,410,578 | 10,764,585 | 6,818,799 | 3,222,561 | 375,555 | 6,347,194 | 3,633,192 | 1,108,220 | 295,228 | 36,975,912 |
| 2000 | 5,187,944 | 11,862,193 | 7,065,302 | 3,426,829 | 424,800 | 4,144,028 | 3,486,286 | 1,262,933 | 217,433 | 37,077,748 |
| 2001 | 5,770,291 | 12,835,731 | 7,788,576 | 3,870,892 | 361,913 | 11,400,191 | 3,905,353 | 1,515,764 | 43,984 | 47,492,695 |
| 2002 | 6,506,390 | 13,910,720 | 8,358,712 | 4,019,936 | 455,294 | 18,648,319 | 3,678,008 | 1,878,996 | 65,294 | 57,521,669 |
| 2003 | 7,201,732 | 15,590,211 | 9,439,703 | 4,456,581 | 803,601 | 3,952,098 | 4,042,596 | 2,085,199 | 62,839 | 47,634,560 |
| 2004 | 7,291,826 | 17,350,095 | 9,678,425 | 4,569,933 | 793,812 | 7,056,923 | 5,465,506 | 1,982,785 | 59,002 | 54,248,307 |
| 2005 | 7,544,954 | 18,469,066 | 9,146,013 | 4,671,167 | 1,437,530 | 8,071,281 | 6,084,368 | 2,152,705 | 61,126 | 57,638,210 |

Note: This table is a summary of expenditures of the General, Special Revenue and Capital Projects Funds.

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

| Fiscal Year | Current Tax Levy | Taxes Collected In Year of Levy | | Applicable To Prior Years | * Total Taxes Collected | |
|-------------|------------------|---------------------------------|---------|---------------------------|-------------------------|---------|
| | | Amount | Percent | | Amount | Percent |
| 1996 | \$16,608,831 | \$16,503,450 | 99.4% | \$ 34,152 | \$ 16,537,602 | 99.6% |
| 1997 | 17,694,024 | 17,564,206 | 99.3% | 78,961 | 17,643,167 | 99.7% |
| 1998 | 18,115,658 | 17,997,161 | 99.3% | (31,090) | 17,966,071 | 99.2% |
| 1999 | 18,959,737 | 18,808,855 | 99.2% | 116,508 | 18,925,363 | 99.8% |
| 2000 | 19,827,370 | 19,676,923 | 99.2% | 251,997 | 19,928,920 | 100.5% |
| 2001 | 20,860,349 | 20,737,662 | 99.4% | 250,135 | 20,987,797 | 100.6% |
| 2002 | 21,843,060 | 21,576,340 | 98.8% | 39,159 | 21,615,499 | 99.0% |
| 2003 | 24,137,418 | 23,994,424 | 99.4% | 267,417 | 24,261,841 | 100.5% |
| 2004 | 24,936,205 | 24,804,259 | 99.5% | 83,142 | 24,887,401 | 99.8% |
| 2005 | 27,663,408 | 27,469,863 | 99.3% | 39,011 | 27,508,874 | 99.4% |

* Includes current and delinquent

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 | Rate | | | | | | | |
| 1996 | \$ 1.56 | \$ 1.56 | \$16,608,831 | 2.440 | \$23,687,567 | \$ 0.210 | \$2,038,684 | \$ 4.210 | \$42,335,082 |
| 1997 | 1.61 | 1.61 | 17,694,024 | 2.440 | 24,250,927 | 0.210 | 2,087,170 | 4.260 | 44,032,121 |
| 1998 | 1.59 | 1.59 | 18,115,658 | 2.440 | 25,211,509 | 0.210 | 2,169,843 | 4.240 | 45,497,010 |
| 1999 | 1.59 | 1.59 | 18,959,737 | 2.440 | 26,126,002 | 0.210 | 2,248,549 | 4.240 | 47,334,288 |
| 2000 | 1.59 | 1.59 | 19,827,370 | 2.440 | 26,973,862 | 0.210 | 2,321,521 | 4.240 | 49,122,753 |
| 2001 | 1.57 | 1.57 | 20,860,349 | 2.680 | 31,520,863 | 0.210 | 2,469,918 | 4.460 | 54,851,130 |
| 2002 | 0.62 | 1.55 | 21,843,060 | 1.100 | 34,308,180 | 0.084 | 2,619,897 | 1.804 | 58,771,137 |
| 2003 | 0.64 | 1.55 | 24,137,418 | 1.100 | 36,921,960 | 0.084 | 2,819,495 | 1.824 | 63,878,873 |
| 2004 | 0.64 | 1.55 | 24,936,205 | 1.135 | 39,725,801 | 0.132 | 4,620,093 | 1.907 | 69,282,099 |
| 2005 | 0.69 | 1.55 | 27,663,408 | 1.135 | 41,365,817 | 0.132 | 4,810,826 | 1.957 | 73,840,051 |

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 2% if paid in July and 1% 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
 June 30, 2005

Real Property Tax:

| Taxpayer | Assessed Value | Amount of Tax | Percentage of Total Assessed Value |
|------------------------------------|-------------------|------------------|--|
| State Farm Mutual Auto Insurance | \$ 39,914,266 | \$ 275,408 | 1.10% |
| First Real Estate Investment Trust | 27,217,200 | 187,799 | 0.75% |
| Fredericktowne Mall Assoc. | 23,252,200 | 160,440 | 0.64% |
| Frederick Partners LLP | 20,671,432 | 142,633 | 0.57% |
| Brightseat, LLC | 20,239,500 | 139,653 | 0.56% |
| Homewood Retirement Centers | 15,958,600 | 110,114 | 0.44% |
| Frederick Shopping Center | 15,708,600 | 108,389 | 0.43% |
| Costco Wholesale Corp. | 14,687,000 | 101,340 | 0.40% |
| Waverly Limited Partnership | 14,657,632 | 101,138 | 0.40% |
| Frederick Commons, LLC | 13,438,400 | 92,725 | 0.37% |
| | \$ 205,744,830 | \$ 1,419,639 | 5.65% |

Personal Property Tax:

| Taxpayer | Assessed Value | Amount of Tax | Percentage of Total Assessed Value |
|--|-------------------|------------------|--|
| BPSolar International, LLC | \$ 11,341,700 | \$ 175,796 | 6.86% |
| Mid Atlantic Medical Services, Inc. | 5,802,520 | 89,939 | 3.51% |
| Intracel Resources, LLC | 5,105,460 | 79,135 | 3.09% |
| Morningstar Foods, Inc. | 3,856,930 | 59,782 | 2.33% |
| MedImmune, Inc. | 3,162,570 | 49,020 | 1.91% |
| State Farm Mutual Automobile Insurance Co. | 2,886,300 | 44,738 | 1.74% |
| Von Hoffman Corporation | 2,577,870 | 39,957 | 1.56% |
| Valley Rental Company, Inc. | 2,211,970 | 34,286 | 1.34% |
| Expoexchange, LLC | 2,207,540 | 34,217 | 1.33% |
| GS Cable, LLC | 2,078,990 | 32,224 | 1.26% |
| | \$ 41,231,850 | \$ 639,094 | 24.93% |

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 |
|-------------|----------------|------------------------|-------------------|------------------------|-----------------|------------------------|---|
| | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | |
| 1996 | \$ 970,801,923 | \$2,427,004,808 | \$ 93,866,731 | \$ 250,311,283 | \$1,064,668,654 | \$2,677,316,091 | 39.77% |
| 1997 | 993,890,435 | 2,484,726,088 | 105,117,267 | 280,312,712 | 1,099,007,702 | 2,765,038,800 | 39.75% |
| 1998 | 1,033,258,553 | 2,583,146,383 | 106,091,006 | 282,909,349 | 1,139,349,559 | 2,866,055,732 | 39.75% |
| 1999 | 1,070,737,799 | 2,676,844,498 | 121,698,491 | 324,529,309 | 1,192,436,290 | 3,001,373,807 | 39.73% |
| 2000 | 1,105,486,164 | 2,763,715,410 | 141,518,239 | 377,381,971 | 1,247,004,403 | 3,141,097,381 | 39.70% |
| 2001 | 1,176,151,592 | 2,940,378,980 | 152,533,057 | 406,754,819 | 1,328,684,649 | 3,347,133,799 | 39.70% |
| 2002 | 3,118,925,484 | 3,118,925,484 | 161,659,484 | 431,091,957 | 3,280,584,968 | 3,550,017,441 | 92.41% |
| 2003 | 3,356,541,848 | 3,356,541,848 | 172,173,441 | 459,129,176 | 3,528,715,289 | 3,815,671,024 | 92.48% |
| 2004 | 3,500,070,576 | 3,500,070,576 | 163,929,676 | 437,145,803 | 3,664,000,252 | 3,937,216,379 | 93.06% |
| 2005 | 3,644,565,359 | 3,644,565,359 | 165,417,459 | 441,113,224 | 3,809,982,818 | 4,085,678,583 | 93.25% |

Note - Effective fiscal year 2002, the assessed value for real property was changed from 40% to 100% of estimated actual value.

THE CITY OF FREDERICK, MARYLAND
 SPECIAL ASSESSMENT COLLECTIONS
 TEN-YEAR SUMMARY
 For the years ended June 30,

| Fiscal Year | Current Assessments Levied | Current Assessments Collected | Percentage of Assessments Collected |
|-------------|----------------------------|-------------------------------|-------------------------------------|
| 1996 | \$ 758,479 | \$ 758,479 | 100.00% |
| 1997 | 700,621 | 696,789 | 99.45% |
| 1998 | 1,023,855 | 1,025,636 | 100.17% |
| 1999 | 1,254,780 | 1,248,911 | 99.53% |
| 2000 | 1,632,600 | 1,640,520 | 100.49% |
| 2001 | 1,580,065 | 1,580,065 | 100.00% |
| 2002 | 754,185 | 754,185 | 100.00% |
| 2003 | 160,235 | 160,235 | 100.00% |
| 2004 | 74,190 | 74,190 | 100.00% |
| 2005 | 135,120 | 135,120 | 100.00% |

THE CITY OF FREDERICK, MARYLAND
 IMPACT FEES ASSESSED AND COLLECTED
 For the years ended June 30,

| Fiscal Year | Water Impact Fees | | Sewer Impact Fees | | Park Impact Fees | | Ratio of Total Assessed to Total Collected |
|-------------|-------------------|------------|-------------------|------------|------------------|-----------|--|
| | Assessed | Collected | Assessed | Collected | Assessed | Collected | |
| 2003 | \$ 230,669 | \$ 230,669 | \$ 181,031 | \$ 181,031 | \$ 22,152 | \$ 22,152 | 100.00% |
| 2004 | 1,851,322 | 1,851,322 | 624,048 | 624,048 | 355,616 | 355,616 | 100.00% |
| 2005 | 2,404,952 | 2,404,952 | 1,081,075 | 1,081,075 | 308,296 | 308,296 | 100.00% |

Note - Impact fees were instituted in fiscal year 2003

THE CITY OF FREDERICK, MARYLAND
 COMPUTATION OF LEGAL DEBT MARGIN
 June 30, 2005

| | | |
|--|------------------|------------------------------|
| Assessed valuations | | <u>\$ 3,809,982,818</u> |
| Debt limit (8% of assessed value per City Charter) | | \$ 304,798,625 |
| Amount of debt applicable to debt limit: | | |
| Total bonded debt | \$ 71,524,097 | |
| Other debt | <u>6,028,211</u> | |
| | \$ 77,552,308 | |
| Less: Water and sewer debt | 16,152,291 | |
| Total amount of debt applicable to debt limit | | <u>61,400,017</u> |
| Legal debt margin | | <u><u>\$ 243,398,608</u></u> |

THE CITY OF FREDERICK, MARYLAND
 SCHEDULE OF INTENDED SOURCE OF FUNDS FOR DEBT RETIREMENT
 June 30, 2005

| <u>Intended source of funds:</u> | <u>Debt Amount</u> |
|----------------------------------|-----------------------------|
| General revenue | \$ 47,462,047 |
| Water and sewer charges | 16,152,291 |
| Airport charges | 3,675,000 |
| Parking charges and fees | 4,247,974 |
| Golf course operations | 2,568,013 |
| MILA/MICRF loan repayments | 1,225,899 |
| Incremental tax revenue | <u>2,221,084</u> |
| | <u><u>\$ 77,552,308</u></u> |

THE CITY OF FREDERICK, MARYLAND
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 June 30, 2005

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.

| <u>Jurisdiction</u> | <u>Net Debt Outstanding</u> | <u>Percentage Applicable to City</u> | <u>Amount Applicable to City</u> |
|-----------------------|---------------------------------|--|--------------------------------------|
| The City of Frederick | \$ 75,331,224 | 100.00% | \$ 75,331,224 |
| Frederick County | <u>362,832,494</u> | 22.44% | <u>81,419,612</u> |
| Total | <u><u>\$ 438,163,718</u></u> | | <u><u>\$ 156,750,836</u></u> |

THE CITY OF FREDERICK, MARYLAND

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET GENERAL BONDED DEBT PER CAPITA

TEN-YEAR SUMMARY

For the years ended June 30,

| Fiscal Year | * Population | Assessed Value | Bonded Debt | | | Ratio of Net Bonded Debt to Assessed Value | | | Net Bonded Debt Per Capita | | |
|-------------|--------------|-----------------|---------------|--------------|--------------|--|-------|-------|----------------------------|-----------|------------|
| | | | General | Other | Total | General | Other | Total | General | Other | Total |
| 1996 | 47,538 | \$1,064,668,654 | \$ 33,324,000 | \$24,276,000 | \$57,600,000 | 3.13% | 2.28% | 5.41% | \$ 701.00 | \$ 510.67 | \$1,211.67 |
| 1997 | 48,591 | 1,099,007,702 | 31,293,000 | 22,782,000 | 54,075,000 | 2.85% | 2.07% | 4.92% | 644.01 | 468.85 | 1,112.86 |
| 1998 | 49,736 | 1,139,349,559 | 29,312,000 | 21,218,000 | 50,530,000 | 2.57% | 1.86% | 4.43% | 589.35 | 426.61 | 1,015.96 |
| 1999 | 51,030 | 1,192,436,290 | 27,476,000 | 19,479,000 | 46,955,000 | 2.30% | 1.63% | 3.94% | 538.43 | 381.72 | 920.15 |
| 2000 | 52,767 | 1,247,004,403 | 25,647,000 | 17,713,000 | 43,360,000 | 2.06% | 1.42% | 3.48% | 486.04 | 335.68 | 821.72 |
| 2001 | 52,767 | 1,328,684,649 | 23,826,000 | 15,909,000 | 39,735,000 | 1.79% | 1.20% | 2.99% | 451.53 | 301.50 | 753.03 |
| 2002 | 56,282 | 3,280,584,968 | 30,220,000 | 27,315,000 | 57,535,000 | 0.92% | 0.83% | 1.75% | 536.94 | 485.32 | 1,022.26 |
| 2003 | 57,919 | 3,528,715,289 | 52,738,000 | 26,907,000 | 79,645,000 | 1.50% | 0.76% | 2.27% | 910.55 | 464.56 | 1,375.11 |
| 2004 | 58,650 | 3,664,000,252 | 49,553,000 | 25,157,000 | 74,710,000 | 1.36% | 0.69% | 2.05% | 844.89 | 428.93 | 1,273.82 |
| 2005 | 59,013 | 3,809,982,818 | 47,309,946 | 21,993,067 | 69,303,013 | 1.25% | 0.58% | 1.83% | 801.69 | 372.68 | 1,174.37 |

Note - Effective fiscal year 2002, the assessed value for real property was changed from 40% to 100% of estimated actual value.

* Sources: 1996 - 1999 - Frederick County Planning Department, 2000 - 2001 - U.S. Census Bureau, 2002 - 2005 Frederick City Planning Department

THE CITY OF FREDERICK, MARYLAND

RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND NET GENERAL OBLIGATION DEBT PER CAPITA

TEN-YEAR SUMMARY

For the years ended June 30,

| Fiscal Year | * Population | Assessed Value | General Obligation Debt | | | Ratio of General Obligation Debt to Assessed Value | | | Net General Obligation Debt Per Capita | | |
|-------------|--------------|-----------------|-------------------------|--------------|--------------|--|-------|-------|--|-----------|------------|
| | | | General | Other | Total | General | Other | Total | General | Other | Total |
| 1996 | 47,538 | \$1,064,668,654 | \$ 34,896,121 | \$24,327,772 | \$59,223,893 | 3.28% | 2.29% | 5.57% | \$ 734.07 | \$ 511.75 | \$1,245.82 |
| 1997 | 48,591 | 1,099,007,702 | 33,999,243 | 22,830,506 | 56,829,749 | 3.09% | 2.08% | 5.17% | 699.70 | 469.85 | 1,169.55 |
| 1998 | 49,736 | 1,139,349,559 | 31,977,170 | 21,518,000 | 53,495,170 | 2.81% | 1.89% | 4.70% | 642.94 | 432.64 | 1,075.58 |
| 1999 | 51,030 | 1,192,436,290 | 30,070,069 | 19,779,000 | 49,849,069 | 2.52% | 1.66% | 4.18% | 589.26 | 387.60 | 976.86 |
| 2000 | 52,767 | 1,247,004,403 | 28,167,536 | 18,011,388 | 46,178,924 | 2.26% | 1.44% | 3.70% | 533.81 | 341.34 | 875.15 |
| 2001 | 52,767 | 1,328,684,649 | 25,902,510 | 16,200,579 | 42,103,089 | 1.95% | 1.22% | 3.17% | 490.88 | 307.02 | 797.90 |
| 2002 | 56,282 | 3,280,584,968 | 31,592,214 | 31,384,694 | 62,976,908 | 0.96% | 0.96% | 1.92% | 561.32 | 557.63 | 1,118.95 |
| 2003 | 57,919 | 3,528,715,289 | 54,028,333 | 32,272,105 | 86,300,438 | 1.53% | 0.91% | 2.44% | 932.83 | 557.19 | 1,490.02 |
| 2004 | 58,650 | 3,664,000,252 | 50,758,576 | 30,297,568 | 81,056,144 | 1.39% | 0.83% | 2.22% | 865.45 | 516.58 | 1,382.03 |
| 2005 | 59,013 | 3,809,982,818 | 48,427,597 | 26,903,627 | 75,331,224 | 1.27% | 0.71% | 1.98% | 820.63 | 455.89 | 1,276.52 |

Note - Effective fiscal year 2002, the assessed value for real property was changed from 40% to 100% of estimated actual value.

* Sources: 1996 - 1999 - Frederick County Planning Department, 2000 - 2001 - U.S. Census Bureau, 2002 - 2005 Frederick City Planning Department

THE CITY OF FREDERICK, MARYLAND
GENERAL FUND
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT
TO TOTAL GENERAL EXPENDITURES - BUDGETARY BASIS
TEN-YEAR SUMMARY
For the years ended June 30,

| Fiscal Year | Principal | Interest | Total General Bonded Debt Service | Total General Expenditures | Ratio of Debt Service To General Expenditures |
|-------------|--------------|-------------|-----------------------------------|----------------------------|---|
| 1996 | \$ 2,010,000 | \$1,904,108 | \$ 3,914,108 | \$27,226,000 | 14.38% |
| 1997 | 2,031,000 | 1,792,592 | 3,823,592 | 27,591,521 | 13.86% |
| 1998 | 1,981,000 | 1,711,173 | 3,692,173 | 28,763,703 | 12.84% |
| 1999 | 1,836,000 | 1,607,545 | 3,443,545 | 29,357,573 | 11.73% |
| 2000 | 1,829,000 | 1,500,734 | 3,329,734 | 31,646,438 | 10.52% |
| 2001 | 1,821,000 | 1,419,336 | 3,240,336 | 34,703,690 | 9.34% |
| 2002 | 1,806,000 | 1,001,202 | 2,807,202 | 37,281,660 | 7.53% |
| 2003 | 2,085,000 | 1,523,166 | 3,608,166 | 41,711,790 | 8.65% |
| 2004 | 3,185,000 | 1,913,781 | 5,098,781 | 45,438,665 | 11.22% |
| 2005 | 3,642,000 | 1,818,537 | 5,460,537 | 47,662,847 | 11.46% |

THE CITY OF FREDERICK, MARYLAND
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR ALL BONDED DEBT
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
TEN-YEAR SUMMARY
For the years ended June 30,

| Fiscal Year | Principal | Interest | Total General Bonded Debt Service | Total General Expenditures | Ratio of Debt Service To General Expenditures |
|-------------|--------------|-------------|-----------------------------------|----------------------------|---|
| 1996 | \$ 2,010,000 | \$1,904,108 | \$ 3,914,108 | \$38,121,384 | 10.27% |
| 1997 | 2,031,000 | 1,792,592 | 3,823,592 | 38,323,987 | 9.98% |
| 1998 | 1,981,000 | 1,711,173 | 3,692,173 | 32,875,501 | 11.23% |
| 1999 | 1,836,000 | 1,607,545 | 3,443,545 | 36,975,912 | 9.31% |
| 2000 | 1,829,000 | 1,500,734 | 3,329,734 | 37,077,748 | 8.98% |
| 2001 | 1,821,000 | 1,419,336 | 3,240,336 | 47,492,695 | 6.82% |
| 2002 | 1,806,000 | 1,001,202 | 2,807,202 | 57,521,669 | 4.88% |
| 2003 | 2,085,000 | 1,523,166 | 3,608,166 | 47,634,559 | 7.57% |
| 2004 | 3,185,000 | 1,913,781 | 5,098,781 | 54,248,307 | 9.40% |
| 2005 | 3,642,000 | 1,818,537 | 5,460,537 | 57,638,210 | 9.47% |

Note: This table is a summary of the General, Special Revenue and Capital Projects Funds.

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF INTEREST AND DIVIDEND REVENUE
TEN-YEAR SUMMARY
For the years ended June 30,

| Fiscal Year | General Fund | Special Revenue Funds | Capital Projects | * Other | Total |
|-------------|--------------|-----------------------|------------------|--------------|-------------|
| 1996 | \$ 817,567 | \$ 16,919 | \$230,033 | \$ 4,679,200 | \$5,743,719 |
| 1997 | 635,657 | 10,181 | 124,194 | 2,019,394 | 2,789,426 |
| 1998 | 716,038 | 9,955 | - | 2,223,136 | 2,949,129 |
| 1999 | 690,178 | 9,717 | - | 2,195,046 | 2,894,941 |
| 2000 | 877,745 | 9,662 | - | 2,693,769 | 3,581,176 |
| 2001 | 1,119,694 | 7,978 | - | 2,805,333 | 3,933,005 |
| 2002 | 457,511 | 6,012 | - | 1,993,576 | 2,457,099 |
| 2003 | 515,613 | 5,866 | - | 1,670,961 | 2,192,440 |
| 2004 | 341,360 | 8,323 | - | 1,485,310 | 1,834,993 |
| 2005 | 487,031 | 8,916 | - | 2,099,276 | 2,595,223 |

* Other funds include Proprietary and Fiduciary Fund types.

THE CITY OF FREDERICK, MARYLAND
CONSTRUCTION PERMITS, ESTIMATED CONSTRUCTION COSTS AND PERMIT FEES
TEN-YEAR SUMMARY
For the years ended June 30,

| Year | Commercial | | Residential | | Total Permits Fees Paid |
|------|-------------------|------------------------------|-------------------|------------------------------|-------------------------|
| | Number of Permits | Estimated Construction Costs | Number of Permits | Estimated Construction Costs | |
| 1995 | 436 | \$21,855,146 | 1,042 | \$28,261,904 | \$ 246,031 |
| 1997 | 370 | 45,986,344 | 1,163 | 44,883,216 | 334,024 |
| 1998 | 456 | 67,618,891 | 1,228 | 50,112,359 | 378,799 |
| 1999 | 455 | 76,483,953 | 1,743 | 88,911,983 | 421,247 |
| 2000 | 581 | 109,928,960 | 2,448 | 121,955,185 | 576,207 |
| 2001 | 568 | 146,567,554 | 2,304 | 136,149,947 | 556,082 |
| 2002 | 388 | 95,669,140 | 1,770 | 102,752,175 | 454,132 |
| 2003 | 454 | 59,920,757 | 1,477 | 34,164,190 | 165,111 |
| 2004 | 520 | 90,196,021 | 3,023 | 68,911,761 | 680,098 |
| 2005 | 948 | 126,085,558 | 2,738 | 115,433,164 | 810,277 |

Source: Building permits issued by the Department of Permits and Code Management of The City of Frederick.

Years 1995 are presented on a calendar year basis, 1997-2005 are on a fiscal year basis. Information on bank deposits normally included with this schedule is not available.

THE CITY OF FREDERICK, MARYLAND
 SELECTED DEMOGRAPHIC STATISTICS
 June 30, 2005
 For the years ended June 30,

| Fiscal Year | (1) Population | (2) Household Mean Income | (3) Per Capita Personal Income | (4) School Enrollment | (5) Unemployment Rate |
|-------------|-------------------|---------------------------------|---|-----------------------------|-----------------------------|
| 1996 | 47,538 | \$ 59,150 | \$ 25,245 | 32,898 | 4.1% |
| 1997 | 48,591 | 63,600 | 27,089 | 33,942 | 4.2 |
| 1998 | 49,736 | 67,600 | 28,800 | 34,742 | 3.3 |
| 1999 | 51,030 | 69,950 | 29,999 | 35,383 | 2.6 |
| 2000 | 52,767 | 75,650 | 32,695 | 36,074 | 4.3 |
| 2001 | 52,767 | 79,600 | 34,242 | 36,961 | 5.0 |
| 2002 | 56,282 | 80,650 | 34,207 | 38,122 | 5.4 |
| 2003 | 57,919 | 83,600 | 35,423 | 38,621 | 5.4 |
| 2004 | 58,650 | 87,950 | N/A | 39,003 | 5.1 |
| 2005 | 59,013 | N/A | N/A | 39,564 | N/A |

Data on population is for The City of Frederick; all other data is for Frederick County

- Sources: (1) 1996 - 1999 Estimate by Frederick County Planning Department
 2000 - 2001 - U.S. Census Bureau
 2002 - 2005 - The City of Frederick Planning Department
 (2) Maryland Department of Planning Data Services, May 2005, (current dollars)
 (3) Regional Economic Information System, Bureau of Economic Analysis, April 2005
 (current dollars, not adjusted for inflation)
 (4) Frederick County Board of Education
 (5) U.S. Department of Labor, Bureau of Labor Statistics, Frederick City

N/A - Not available

THE CITY OF FREDERICK, MARYLAND
 MAJOR LOCAL EMPLOYERS

The following table provides information relating to the distribution of various types of employment within or in close proximity to the City. These figures are representative only and do not include all of the diversified employment opportunities in or adjacent to the City.

| | <u>No. of Employees</u> | <u>Business Classification</u> |
|-------------------------------------|-----------------------------|--|
| Fort Detrick | 7,800 | Army and National Cancer Institute |
| Frederick County Board of Education | 4,800 | Public Education |
| Frederick County Government | 2,526 | County Government |
| Frederick Memorial Hospital | 2,300 | Comprehensive Health Care |
| Wells Fargo Home Mortgage | 1,700 | Mortgage Loans & Service Center |
| Mid Atlantic Medical Services Inc. | 1,600 | Medical Insurance |
| Bechtel Corporation | 1,487 | Headquarters - Engineering |
| Frederick Community College | 1,159 | Two-Year College |
| State Farm Insurance Company | 1,000 | Regional Headquarters |
| CitiMortgage | 868 | Operations Center |
| Frederick City Government | 851 | Municipal Government |
| BP Solar | 375 | Manufacture, Research & Development of Photovoltaic Cells |
| H. L. Hartz & Son | 325 | Mens' Clothing |
| Farmers & Mechanics Bank | 297 | Banking Headquarters |
| Hood College | 292 | Four-Year College |
| Expo Exchange | 261 | Conference Services |
| Orgill/Frederick | 260 | Wholesale Building Materials |
| R. F. Kline | 250 | Asphalt Contractors |
| BB&T Bank | 242 | Full Service Community Bank |
| MedImmune | 235 | BioTech Manufacturing |
| Verizon | 226 | Telecommunications |
| Frederick News-Post | 207 | Daily Newspaper |
| AOPA | 202 | Aircraft Owner & Pilots Assoc. |
| Airpax Corporation LLC | 150 | Thermostats, Coin Acceptors |

THE CITY OF FREDERICK, MARYLAND
 MISCELLANEOUS STATISTICAL DATA
 June 30, 2005

| | | | |
|--------------------------------------|----------------|-------------------------------------|------------|
| Date of settlement: | 1745 | Election information: | |
| Mayor and Council established: | 1817 | Registered voters - | 29,784 |
| Date of incorporation: | 1817 | Registered voters - | |
| Form of government: | Mayor/Aldermen | last local election | 29,550 |
| | | Votes cast - last local election | 9,618 |
| Population (official census figures) | | Percentage voting | 32.55% |
| | 1910 10,411 | Dwelling units | 20,065 |
| | 1920 11,066 | Financial facts: | |
| | 1930 14,434 | Banks/Savings Institutions | 11 |
| | 1940 15,802 | Churches | 66 |
| | 1950 18,142 | Newspaper: | 1 daily |
| | 1960 21,744 | Total paid circulation | 44,000 |
| | 1970 23,641 | Medical care: | |
| | 1980 28,086 | Hospital | 1 |
| | 1990 40,148 | Nursing/Shelteredcare homes | 5 |
| | 2000 52,767 | Radio stations | 4 FM, 2 AM |
| Authorized employees: | | Education: | |
| Elected | 6 | Colleges - 4 year | 1 |
| Full-time | 530 | - 2 year | 1 |
| Part-time (FTEs) | 89 | High schools | 2 |
| Area, square miles | 20.86 | Middle schools | 3 |
| Street System: | | Elementary schools | 6 |
| Miles of paved streets | 185 | Private schools | 5 |
| Miles of sidewalks | 350 | Special schools | 2 |
| Number of street lights | 7,700 | Police Protection: | |
| Number of traffic signals | 72 | Number of stations | 2 |
| Parks System: | | Number of patrol units | 6 |
| Number of parks | 63 | Number of personnel and officers: | |
| Parks acreage | 443 | Authorized | 187 |
| Number of swimming pools | 2 | Employed | 175 |
| Number of tennis courts | 25 | Number of law violations: | |
| Amusements: | | Physical arrests | 3,137 |
| Cultural Arts Center | 4 | Traffic violations | 12,684 |
| Motion picture theaters | 3 | Parking System: | |
| Municipal stadium | 2 | Number of parking areas | 3 |
| YMCA with pool | 1 | Number of parking spaces | 156 |
| Bowling alleys | 2 | Number of parking garages | 3 |
| Ice skating rink - indoor | 1 | Number of parking garage spaces | 1,469 |
| Water System: | | Number of parking violations issued | 48,094 |
| Miles of water main | 255 | Sewage System: | |
| Number of service connections | 17,100 | Miles of sanitary sewer | 162 |
| Number of fire hydrants | 2,675 | Number of sewage treatment plants | 1 |
| Avg. daily consumption - gal. | 6.5 MGD | Number of service connections | 14,729 |
| Max. daily capacity - gallons | 11.3 MGD | Avg. daily treatment - gallons | 7.0 MGD |
| Number of water storage tanks | 6 | Max. daily capacity - gallons | 8.0 MGD |
| Water storage tank capacity | 6.75 MGD | | |

SINGLE AUDIT SECTION

McGladrey & Pullen

Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01 and 05-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered material weaknesses. However, we believe that the items above are not material weaknesses. We also noted certain matters that we have reported to management of the City in a separate letter dated September 9, 2005.

Compliance and Other Matters

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

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

McGladrey & Pullen, LLP

Frederick, Maryland
September 9, 2005

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of The City of Frederick, Maryland (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal programs for the year ended June 30, 2005. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters that we reported to management of the City in a separate letter dated September 9, 2005.

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

McGladrey & Pullen, LLP

Frederick, Maryland
September 9, 2005

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

| Federal Grantor/Pass Through Grantor/ Program Title | Federal I.D. Number | Federal CFDA Number | Federal Award Amount | Cash Received July 1, 2004 - June 30, 2005 | Adjustment to Accrual Basis | Revenue Recognized July 1, 2004 - June 30, 2005 | Total Cash Received Through June 30, 2005 | Accrual Basis Revenue Through June 30, 2005 | Cash Disbursements July 1, 2004 - June 30, 2005 | Adjustment To Accrual Basis | Accrual Basis Disbursements July 1, 2004 - June 30, 2005 | Total Cash Disbursements Through June 30, 2005 | Accrual Basis Disbursements Through June 30, 2005 |
|--|---------------------|---------------------|----------------------|--|-----------------------------|---|---|---|---|-----------------------------|--|--|---|
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | | | | | | | | | | |
| Direct Programs: | | | | | | | | | | | | | |
| Community Development Block Grant - Entitlement Program | B-02-MC-240013 | 14.218 | \$ 438,000 | \$ 366,546 | \$ (122,169) | \$ 244,377 | \$ 438,000 | \$ 438,000 | \$ 305,529 | \$ (61,152) | \$ 244,377 | \$ 438,000 | \$ 438,000 |
| Community Development Block Grant - Entitlement Program | B-03-MC-240013 | 14.218 | 480,000 | 468,114 | 11,886 | 480,000 | 468,114 | 480,000 | 480,000 | - | 480,000 | 480,000 | 480,000 |
| Community Development Block Grant - Entitlement Program Plus Program Income | B-04-MC-240013 | 14.218 | 469,000 | - | 12,565 | 12,565 | - | 12,565 | 12,144 | 421 | 12,565 | 12,144 | 12,565 |
| Total Program | | | | <u>663,653</u> | <u>-</u> | <u>663,653</u> | <u>-</u> | <u>665,988</u> | <u>665,988</u> | <u>-</u> | <u>665,988</u> | <u>930,144</u> | <u>930,565</u> |
| Supportive Housing Program Grant | MD06B93-1227 | 14.235 | 934,134 | 146,557 | (2,165) | 144,392 | 1,280,533 | 1,347,708 | 144,392 | - | 144,392 | 1,347,708 | 1,347,708 |
| Supportive Housing Program Grant | MD06B94-0552 | 14.235 | 439,565 | 76,871 | 2,398 | 79,269 | 504,627 | 535,845 | 79,269 | - | 79,269 | 535,845 | 535,845 |
| Total Program | | | | <u>223,428</u> | <u>233</u> | <u>223,661</u> | <u>1,785,160</u> | <u>1,883,553</u> | <u>223,661</u> | <u>-</u> | <u>223,661</u> | <u>1,883,553</u> | <u>1,883,553</u> |
| Emergency Shelter Grant | 2003-ESG-BOS-08 | 14.231 | 32,595 | 32,595 | (18,750) | 13,845 | 32,595 | 32,595 | 13,845 | - | 13,845 | 32,595 | 32,595 |
| Emergency Shelter Grant | 2004-ESG-BOS-09 | 14.231 | 36,250 | - | 36,250 | 36,250 | - | 36,250 | 36,250 | - | 36,250 | 36,250 | 36,250 |
| Total Program | | | | <u>32,595</u> | <u>17,500</u> | <u>50,095</u> | <u>32,595</u> | <u>68,845</u> | <u>50,095</u> | <u>-</u> | <u>50,095</u> | <u>68,845</u> | <u>68,845</u> |
| HUD Housing Counseling Grant | | 14.169 | 29,001 | - | 10,514 | 10,514 | 49,001 | 43,898 | 10,514 | - | 10,514 | 43,898 | 43,898 |
| TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | <u>\$ 1,754,336</u> | <u>\$ (69,471)</u> | <u>\$ 1,684,865</u> | <u>\$ 2,772,870</u> | <u>\$ 2,926,861</u> | <u>\$ 1,747,931</u> | <u>\$ (60,731)</u> | <u>\$ 1,687,200</u> | <u>\$ 2,926,440</u> | <u>\$ 2,926,861</u> |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | | | | | | | | |
| Passed Through Maryland State Department of Human Resources: | | | | | | | | | | | | | |
| Community Services Block Grant | 01-99-B1MD COSR | 93.031 | \$ 153,985 | \$ - | \$ 2,511 | \$ 2,511 | \$ 150,924 | \$ 150,924 | \$ 2,511 | \$ - | \$ 2,511 | \$ 150,924 | \$ 150,924 |
| Community Services Block Grant | 01-00-B1MD COSR | 93.031 | 208,662 | - | 324 | 324 | 217,403 | 214,911 | 324 | - | 324 | 214,911 | 214,911 |
| Community Services Block Grant | 01-03-B1MD COSR | 93.031 | 249,427 | 61,648 | 14,416 | 76,064 | 246,592 | 246,592 | 76,064 | - | 76,064 | 246,592 | 246,592 |
| Community Services Block Grant | 01-04-B1MD COSR | 93.031 | 246,592 | 184,944 | (19,787) | 165,157 | 184,944 | 165,157 | 165,157 | - | 165,157 | 165,157 | 165,157 |
| Total Program | | | | <u>246,592</u> | <u>(2,536)</u> | <u>244,056</u> | <u>799,863</u> | <u>777,584</u> | <u>244,056</u> | <u>-</u> | <u>244,056</u> | <u>777,584</u> | <u>777,584</u> |
| Passed Through Healthcare for the Homeless, Inc.: | | | | | | | | | | | | | |
| Healthcare for the Homeless | 03-H-002,325-03 | 93.151 | 123,134 | 70,879 | (18,964) | 51,915 | 123,134 | 123,134 | 51,915 | - | 51,915 | 123,134 | 123,134 |
| Healthcare for the Homeless | 03-H-002,325-03 | 93.151 | 121,000 | 66,626 | 20,367 | 86,993 | 66,626 | 86,993 | 86,993 | - | 86,993 | 86,993 | 86,993 |
| Total Program | | | | <u>137,505</u> | <u>1,403</u> | <u>138,908</u> | <u>189,760</u> | <u>210,127</u> | <u>138,908</u> | <u>-</u> | <u>138,908</u> | <u>210,127</u> | <u>210,127</u> |
| Passed Through Maryland State Department of Health and Mental Hygiene: | | | | | | | | | | | | | |
| McKinney PATH Grant | MH-263-OTH | 93.150 | 35,001 | 20,085 | (20,085) | - | 35,001 | 35,001 | - | - | - | 35,001 | 35,001 |
| McKinney PATH Grant | MH-263-OTH | 93.150 | 42,000 | 28,098 | 13,901 | 41,999 | 28,098 | 41,999 | 41,999 | - | 41,999 | 41,999 | 41,999 |
| Total Program | | | | <u>48,183</u> | <u>(6,184)</u> | <u>41,999</u> | <u>63,099</u> | <u>77,000</u> | <u>41,999</u> | <u>-</u> | <u>41,999</u> | <u>77,000</u> | <u>77,000</u> |
| Passed Through Maryland State Department of Housing and Community Development: | | | | | | | | | | | | | |
| Community Food Nutrition Program | | 93.571 | 6,809 | - | - | - | 6,809 | 646 | - | - | - | 646 | 646 |
| Community Food Nutrition Program | | 93.571 | 13,544 | 13,544 | (5,531) | 8,013 | 13,544 | 13,544 | 8,013 | - | 8,013 | 13,544 | 13,544 |
| Total Program | | | | <u>13,544</u> | <u>(5,531)</u> | <u>8,013</u> | <u>13,544</u> | <u>13,544</u> | <u>8,013</u> | <u>-</u> | <u>8,013</u> | <u>13,544</u> | <u>13,544</u> |
| TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | <u>\$ 445,824</u> | <u>\$ (12,848)</u> | <u>\$ 432,976</u> | <u>\$ 1,066,266</u> | <u>\$ 1,078,255</u> | <u>\$ 432,976</u> | <u>\$ -</u> | <u>\$ 432,976</u> | <u>\$ 1,078,255</u> | <u>\$ 1,078,255</u> |
| DEPARTMENT OF ENERGY | | | | | | | | | | | | | |
| Passed Through Maryland Department of Housing and Community Development: | | | | | | | | | | | | | |
| Weatherization Assistance Program | | 81.042 | \$ (A) | \$ 155,074 | \$ (14,955) | \$ 140,119 | \$ 840,184 | \$ 867,017 | \$ 140,119 | \$ - | \$ 140,119 | \$ 867,017 | \$ 867,017 |

(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 operations performed.

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, 2005

| Federal Grantor/Pass Through Grantor/ Program Title | Federal I.D. Number | Federal CFDA Number | Federal Award Amount | Cash Received July 1, 2004 - June 30, 2005 | Adjustment to Accrual Basis | Revenue Recognized July 1, 2004 - June 30, 2005 | Total Cash Received Through June 30, 2005 | Accrual Basis Revenue Through June 30, 2005 | Cash Disbursements July 1, 2004 - June 30, 2005 | Adjustment To Accrual Basis | Accrual Basis Disbursements July 1, 2004 - June 30, 2005 | Total Cash Disbursements Through June 30, 2005 | Accrual Basis Disbursements Through June 30, 2005 |
|--|---------------------|---------------------|----------------------|--|-----------------------------|---|---|---|---|-----------------------------|--|--|---|
| DEPARTMENT OF JUSTICE | | | | | | | | | | | | | |
| <u>Direct Programs</u> | | | | | | | | | | | | | |
| Local Law Enforcement Block Grant | 2004-LB-BX-0697 | 16.592 | 23,753 | 23,753 | (1,897) | 21,856 | 23,753 | 21,856 | 20,950 | 906 | 21,856 | 20,950 | 21,856 |
| COPS Universal Hiring Grant | 2003-UM-WX-0055 | 16.710 | 525,000 | 350,660 | (101,421) | 249,239 | 350,660 | 385,000 | 249,239 | - | 249,239 | 385,000 | 385,000 |
| COPS Homeland Security Grant | 2003-OM-WX-0271 | 16.710 | 96,992 | 96,992 | (41,753) | 55,239 | 96,992 | 96,992 | 55,239 | - | 55,239 | 96,992 | 96,992 |
| COPS Secure Our Schools Initiative | 2004-CK-SX-0620 | 16.710 | 30,000 | - | - | - | - | - | - | - | - | - | - |
| Total Program | | | | 447,652 | (143,174) | 304,478 | 447,652 | 481,992 | 304,478 | - | 304,478 | 481,992 | 481,992 |
| Passed Through Frederick County Health Department: | | | | | | | | | | | | | |
| Tobacco Enforcement Grant | | 16.542 | (B) | 3,026 | (2,396) | 630 | 16,362 | 16,992 | 630 | - | 630 | 16,992 | 16,992 |
| | | | | 3,026 | (2,396) | 630 | 16,362 | 16,992 | 630 | - | 630 | 16,992 | 16,992 |
| TOTAL DEPARTMENT OF JUSTICE | | | | \$ 474,431 | \$ (147,467) | \$ 326,964 | \$ 487,767 | \$ 520,840 | \$ 326,058 | \$ 906 | \$ 326,964 | \$ 519,934 | \$ 520,840 |
| DEPARTMENT OF TRANSPORTATION | | | | | | | | | | | | | |
| <u>Direct Program:</u> | | | | | | | | | | | | | |
| Airport Development Aid Program | 3-24-0017-014 | 20.106 | \$ 4,333,751 | \$ 209,046 | \$ (209,046) | \$ - | \$ 4,268,597 | \$ 4,268,597 | \$ - | \$ - | \$ - | \$ 4,268,597 | \$ 4,268,597 |
| Airport Development Aid Program | 3-24-0017-017 | 20.106 | 4,723,482 | 1,413,467 | (527,445) | 886,022 | 4,217,341 | 4,552,555 | 1,748,681 | (862,659) | 886,022 | 4,552,555 | 4,552,555 |
| Airport Development Aid Program | 3-24-0017-018 | 20.106 | 357,840 | 30,948 | (11,254) | 19,694 | 284,040 | 284,040 | 30,948 | (11,254) | 19,694 | 284,040 | 284,040 |
| Airport Development Aid Program | 3-24-0017-019 | 20.106 | 3,130,380 | 332,567 | 118,864 | 451,431 | 2,077,888 | 2,197,967 | 451,431 | - | 451,431 | 2,197,967 | 2,197,967 |
| Airport Development Aid Program | 3-24-0017-020 | 20.106 | 1,537,106 | 281,106 | (89,105) | 192,001 | 1,537,106 | 1,537,106 | 192,001 | - | 192,001 | 1,537,106 | 1,537,106 |
| Airport Development Aid Program | 3-24-0017-021 | 20.106 | 405,080 | 139,374 | - | 139,374 | 139,374 | 139,374 | 139,374 | - | 139,374 | 139,374 | 139,374 |
| Airport Development Aid Program | 3-24-0017-022 | 20.106 | 284,208 | 268,200 | - | 268,200 | 268,200 | 268,200 | 268,200 | - | 268,200 | 268,200 | 268,200 |
| | | | | 2,674,708 | (717,986) | 1,956,722 | 12,792,546 | 13,247,839 | 2,830,635 | (873,913) | 1,956,722 | 13,247,839 | 13,247,839 |
| Passed through the Maryland State Highway Administration: | | | | | | | | | | | | | |
| Transportation Enhancement Program | 5260020033 | 20.205 | \$ 470,000 | \$ - | \$ 408,854 | \$ 408,854 | \$ - | \$ 408,854 | \$ 408,854 | \$ - | \$ 408,854 | \$ 408,854 | \$ 408,854 |
| TOTAL DEPARTMENT OF TRANSPORTATION | | | | \$ 2,674,708 | \$ (309,132) | \$ 2,365,576 | \$ 12,792,546 | \$ 13,656,693 | \$ 3,239,489 | \$ (873,913) | \$ 2,365,576 | \$ 13,656,693 | \$ 13,656,693 |
| DEPARTMENT OF AGRICULTURE | | | | | | | | | | | | | |
| Passed Through Maryland State Dept. of Education | | | | | | | | | | | | | |
| Summer Food Service Program | | 10.559 | (C) | \$ 4,011 | \$ 1,812 | \$ 5,823 | \$ 27,785 | \$ 31,097 | \$ 5,823 | \$ - | \$ 5,823 | \$ 31,097 | \$ 31,097 |
| DEPARTMENT OF EDUCATION | | | | | | | | | | | | | |
| Passed Through Maryland State Department of Education | | | | | | | | | | | | | |
| Community Service Program for Suspended or Expelled Students | 52-730358K | 18.184 | \$ 181,411 | 67,500 | 34,703 | 102,203 | 67,500 | 102,203 | 102,203 | - | 102,203 | 102,203 | 102,203 |
| | | | | \$ 67,500 | \$ 34,703 | \$ 102,203 | \$ 67,500 | \$ 102,203 | \$ 102,203 | \$ - | \$ 102,203 | \$ 102,203 | \$ 102,203 |
| DEPARTMENT OF HOMELAND SECURITY | | | | | | | | | | | | | |
| Passed Through Maryland Emergency Management Agency | | | | | | | | | | | | | |
| Frederick Flood Hazard Mitigation Grant | | 97.039 | \$ 272,272 | \$ 314,028 | \$ (257,754) | \$ 56,274 | \$ 314,028 | \$ 314,028 | \$ 56,274 | \$ - | \$ 56,274 | \$ 314,028 | \$ 314,028 |
| Disaster Assistance - Hurricane | | 97.036 | (D) | (92) | - | (92) | 76,305 | 76,305 | (92) | - | (92) | 76,305 | 76,305 |
| TOTAL DEPARTMENT OF HOMELAND SECURITY | | | | \$ 313,936 | \$ (257,754) | \$ 56,182 | \$ 390,333 | \$ 390,333 | \$ 56,182 | \$ - | \$ 56,182 | \$ 390,333 | \$ 390,333 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | \$ 5,889,820 | \$ (775,112) | \$ 5,114,708 | \$ 18,445,251 | \$ 19,573,299 | \$ 6,050,781 | \$ (933,738) | \$ 5,117,043 | \$ 19,571,972 | \$ 19,573,299 |

(B) The City is a subgrantee of the Frederick County Health Department. Grant awards are not made, rather passed-through receipts are based on operations performed.
(C) 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.
(D) The City is a subgrantee of the State of Maryland. Grant awards are not made, rather pass through receipts are based on expenditures made.

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, 2005

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, 2005.

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. Cost 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, 2005

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? _____yes x no
Reportable condition(s) identified that are
not considered to be material weakness(es)? x yes _____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
Reportable condition(s) 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: Unqualified

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

Identification major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program</u> |
|-----------------------|------------------------------------|
| 20.106 | Airport Development Aid Program |
| 16.710 | COPS Grants |
| 20.205 | Transportation Enhancement Program |

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, 2005

Section II – Financial Statement Findings

Finding 05-01: Weinberg Center Segregation of Duties

Criteria: Accounting functions should allow for segregation of duties in the processing of transactions.

Condition: There is a lack of segregation of duties in the accounting functions involved in the processing of transactions at the Weinberg Center for the Arts, Inc.

Context: In performing our audit, we consider the City's internal control over financial reporting.

Effect: There is an increased risk of misstatement and risk of loss to City assets due fraud or an employee's or member of the Board of Director's unintentional error.

Cause: It is our understanding that because of the number of individuals involved in the processing of transactions at the Weinberg Center for the Arts, Inc., ideal segregation of duties is not achieved.

Recommendation: We recommend the implementation of procedures to obtain segregation of duties over all Weinberg Center transactions. An ideal segregation of duties would divide among a minimum of three individuals the following accounting functions: authorizing transactions, custody of assets (receiving and disbursing funds), and recording of receipts and disbursements.

Views of Responsible Officials and Planned Corrective Actions: The City concurs with the finding and will work with the Board of Directors to implement segregation of duties between Board Members and employees as recommended.

Finding 05-02: Review of Journal Entry Postings

Criteria: All transactions should be subjected to a review process.

Condition: It does not appear that journal entries prepared by the City's Comptroller are subjected to an independent review.

Context: In performing our audit, we consider the City's internal control of financial reporting.

Effect: There is an increased risk of misstatement and risk of loss to City assets due to fraud or unintentional employee error.

Cause: It is our understanding that City did not perceive a risk of misstatement due to the Comptroller's experience and the oversight provided by the Chief Financial Officer.

Recommendation: We recommend the implementation of procedures to ensure all journal entry postings are subjected to an independent review.

Views of Responsible Officials and Planned Corrective Actions: The City is committed to ensuring the highest level of internal controls are in place. The City plans to implement a process by which all journal entries prepared by the Comptroller are reviewed by the Chief Financial Officer.

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2005

No matters were reported in the prior year.