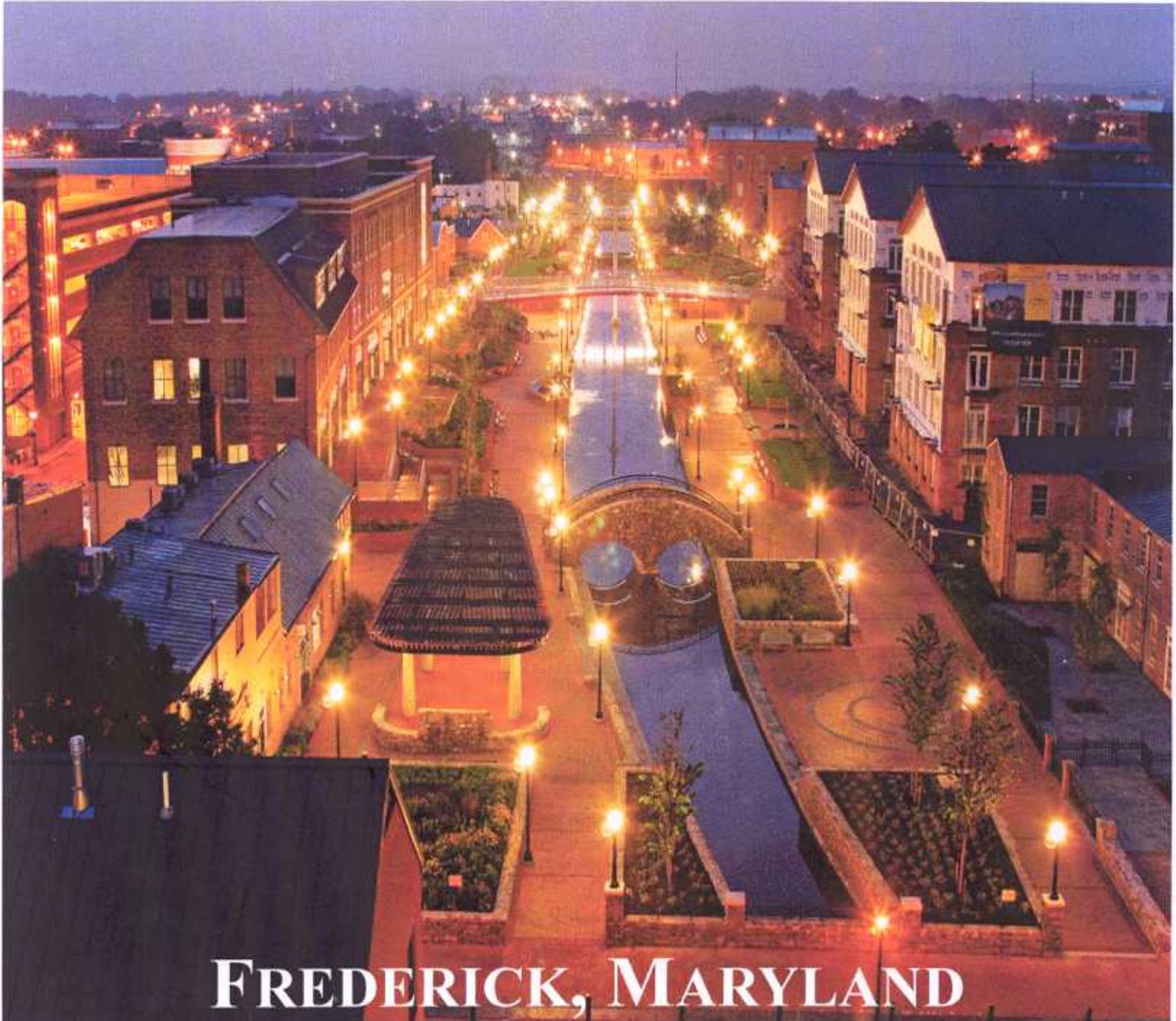


THE CITY OF FREDERICK
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FISCAL YEAR
JULY 1, 2005 JUNE 30 2006



FREDERICK, MARYLAND

THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2006

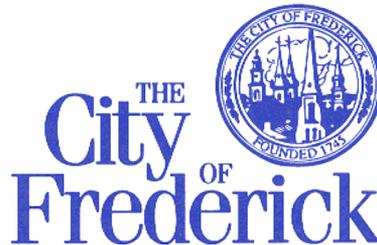
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William J. Holtzinger
Mayor



Aldermen
Marcia A. Hall
President Pro Tem
David "Kip" Koontz
Alan E. Imhoff
C. Paul Smith
Donna Kuzemchak Ramsburg

October 31, 2006

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, 2006. 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, 2006, 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, 2006, 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 60,725. 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 60,725, 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 65% of Frederick's population falls between the ages of 18 and 64, with the estimated average age of Frederick residents coming in at 36. More than 65% 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 23,289 households, a third of all those located in Frederick County. In 2006, the average resale price of a single-family home in Frederick County was \$346,299, boasting housing costs that are lower than other Washington, D.C. suburban counties.

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

is also available to City residents. The City and surrounding area is also serviced by Frederick Municipal Airport, a general aviation reliever airport for Reagan National, Baltimore-Washington International and Washington Dulles International airports. Its close proximity to urban areas along with the available transportation systems make the City a logical location for growth and progress.

Long-term financial planning

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

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

The 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 is underway and will occur over 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 \$1,600,180 with realized gains of \$9,313,761 and unrealized losses of \$5,530,103.

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 3.95%, with total investment interest of \$1,232,953.

The City also invested unspent bond proceeds during the fiscal year. The average rate for these investments was 4.06%. Total investment interest earnings on these proceeds for the fiscal year was \$3,103,391.

Total interest on all investments for fiscal year 2006 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 340 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 of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twenty third consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance and the various 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. Additionally, I would like to recognize and extend a thank you to John D. Leisenring who served as the City's Chief Financial Officer during fiscal 2006.

Respectfully submitted,



Gerald D. Kolbfleisch
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The City of Frederick,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



Carla E. Fudge

President

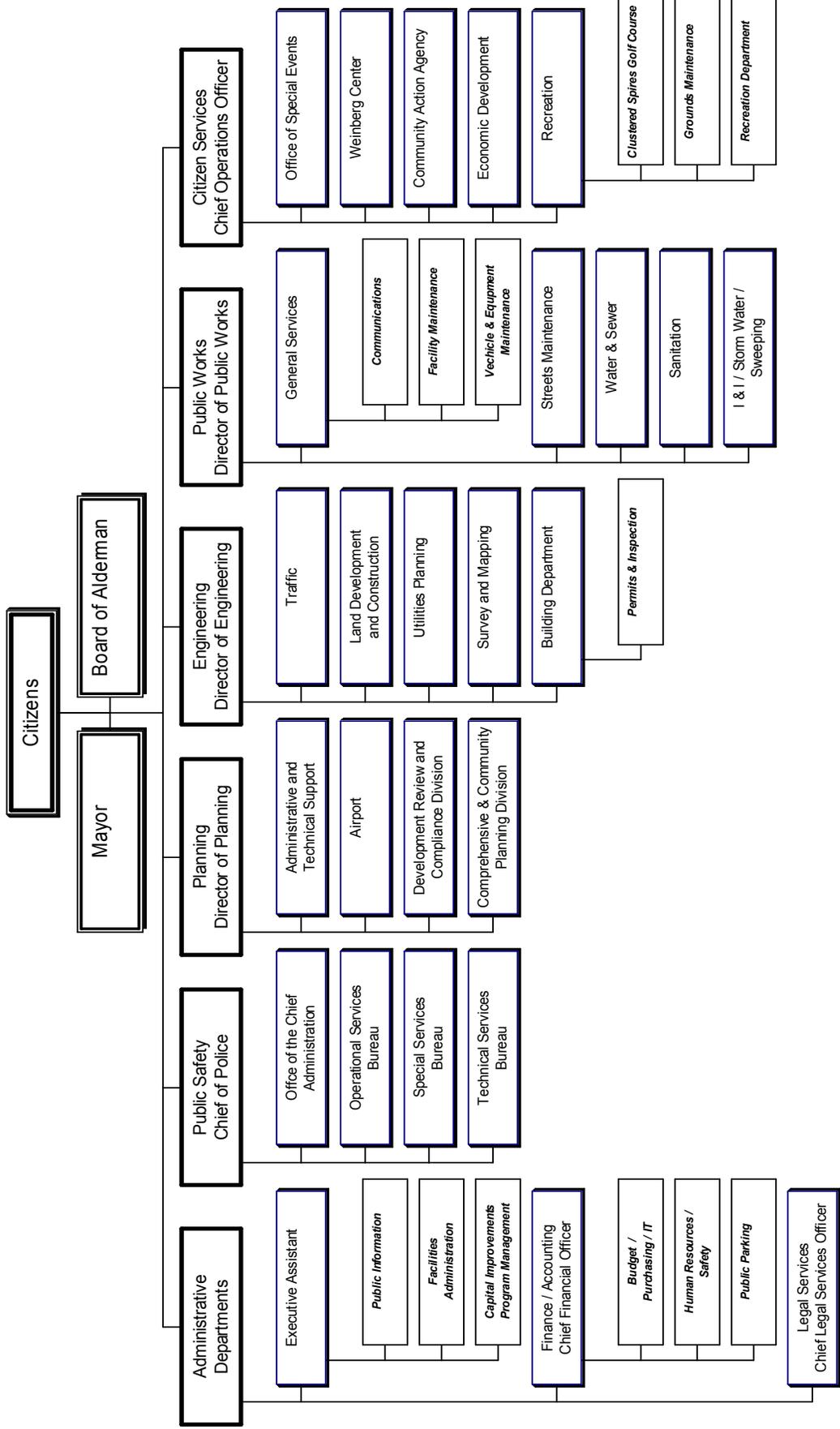
Jeffrey R. Egan

Executive Director

The City of Frederick

Organizational Chart

June 30, 2006



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2006

MAYOR

William J. Holtzinger

BOARD OF ALDERMEN

Marcia A. Hall
President Pro Tem

David "Kip" Koontz
Alan E. Imhoff
C. Paul Smith
Donna Kuzemchak Ramsburg

APPOINTED OFFICIALS

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

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

Sandra A. Nickols
John D. Leisenring
Colonel Kim C. Dine

Gerald D. Kolbfleisch
Jonathan M. Angel
Michael R. Spurrier
Richard G. Griffin
S. Jeanne Rockenbaugh
Charles W. Boyd
Fred L. Eisenhart
Roelkey I. Myers
Ronald G. Tobin

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, 2006, 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.

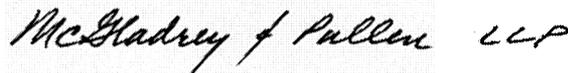
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of June 30, 2006, 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 8, 2006, 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, the "Schedule of Funding Progress – Pension Plans" on page 57 and the "Schedule of Employer Contributions – Pension Plans" on page 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions 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 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.



Frederick, Maryland
September 8, 2006

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, 2006. 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 \$252,765,540 (net assets). Of this amount, \$39,064,263 (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 \$19,683,414, or 8.44%. The governmental net assets increased by \$13,316,433 and the business-type net assets increased by \$6,366,981.

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 \$27,399,704, an increase of \$1,388,641 in comparison to the prior year. Capital improvement program expenditures reduced the fund balance by \$4,585,576. An increase of \$96,231 in the fund balance was attributable to non-major governmental funds and the remaining increase of \$5,877,986 was attributable to the general fund.

At June 30, 2006, the total governmental fund unreserved fund balance was \$14,885,922. The unreserved fund balance for the general fund was \$10,317,530, or 20.74% 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 presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The government-wide financial statements can be found on pages 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, airport, parking, storm water management, golf course and rental operations.

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

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 - 56 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 pages 57 - 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 \$252,765,540 at the close of the most recent fiscal year.

The City of Frederick's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 35,931,245	\$ 34,906,256	\$ 76,704,771	\$ 30,687,092	\$ 112,636,016	\$ 65,593,348
Capital assets	98,118,615	88,949,157	202,068,823	169,470,593	300,187,438	258,419,750
Total assets	<u>134,049,860</u>	<u>123,855,413</u>	<u>278,773,594</u>	<u>200,157,685</u>	<u>412,823,454</u>	<u>324,013,098</u>
Long-term liabilities outstanding	50,901,471	53,742,123	96,814,692	26,938,625	147,716,163	80,680,748
Other liabilities	6,315,717	6,597,051	6,026,034	3,653,173	12,341,751	10,250,224
Total liabilities	<u>57,217,188</u>	<u>60,339,174</u>	<u>102,840,726</u>	<u>30,591,798</u>	<u>160,057,914</u>	<u>90,930,972</u>
Net assets:						
Invested in capital assets, net of related debt	55,805,720	54,856,404	144,403,887	143,574,323	200,209,607	198,430,727
Restricted	795,991	820,341	12,695,679	6,490,579	13,491,670	7,310,920
Unrestricted	<u>20,230,961</u>	<u>7,839,494</u>	<u>18,833,302</u>	<u>19,500,985</u>	<u>39,064,263</u>	<u>27,340,479</u>
Total net assets	<u>\$ 76,832,672</u>	<u>\$ 63,516,239</u>	<u>\$ 175,932,868</u>	<u>\$ 169,565,887</u>	<u>\$ 252,765,540</u>	<u>\$ 233,082,126</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 (\$7,310,920) represents resources that are restricted on how they may be used. The remaining balance of net assets (\$27,340,479) 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 \$2,319,594.

The City's net assets increased by \$19,683,414 during the current fiscal year.

Governmental activities. Governmental activities increased the City's net assets by \$13,316,433 in the current fiscal year with total revenues from governmental activities increasing by \$5,730,250 and total governmental activities expenses increasing by \$1,596,383.

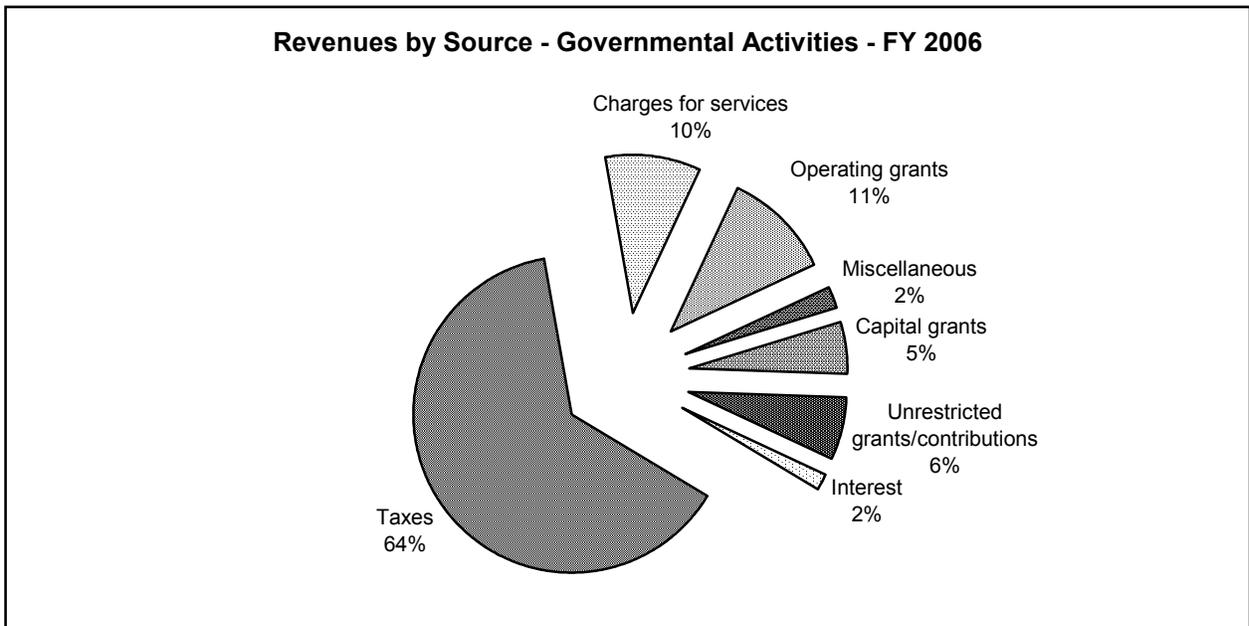
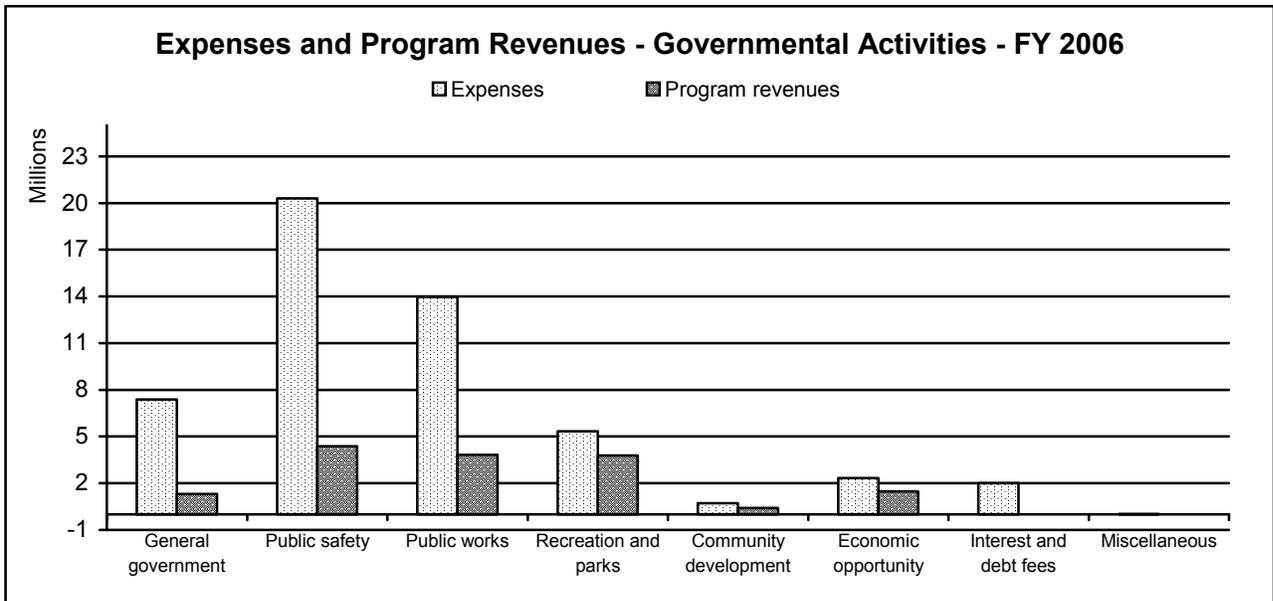
Taxes increased by \$3,903,725 with the primary increase in property taxes resulting from continued growth within the City. Licenses and permits increased by \$728,605 with increased building activity being reflected in increased building permit fees. Intergovernmental revenues increased by \$534,971 with significant increases in highway user revenue of approximately \$430,000 and tax differential of approximately \$387,000. Community development block grant revenues decreased by \$567,372 due to an unusually high expenditure level in the previous year. Fines and forfeitures increased by \$327,714 and was a result of the City introducing red light camera operations. Capital contributions increased by \$452,511 and were due primarily to increased donated assets of \$401,952.

Total expenses increased by \$1,596,383 in fiscal year 2006. The significant increases were in personnel benefits, which increased by \$864,615, and were due primarily to increased contributions to the City's pension plans. Additionally, supplies increased by \$688,764, with \$374,050 of the increase attributable to increased energy costs and approximately \$185,000 due to a change in the solid waste collection process where the City had to purchase automated wheeled refuse containers.

Net transfer from business-type activities to the governmental activities totaled \$7,267,939. The majority of the transfers, \$5,936,613 were for capital outlay in the governmental funds while \$1,331,326 was to reimburse the governmental funds for administrative services they provide to the business-type funds that benefit the City.

The City of Frederick's Changes in Net Assets

	Governmental activities		Business-type activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 5,696,509	\$ 5,218,340	\$ 19,579,861	\$ 17,495,880	\$ 25,276,370	\$ 22,714,220
Operating grants/contributions	6,413,053	6,409,566	103,762	109,830	6,516,815	6,519,396
Capital grants/contributions	3,074,822	2,678,857	14,414,700	7,346,014	17,489,522	10,024,871
General revenues:						
Taxes	36,983,075	33,079,349	-	-	36,983,075	33,079,349
Non-restricted grants/contributions	3,728,364	3,341,584	-	-	3,728,364	3,341,584
Other	<u>2,164,901</u>	<u>1,602,778</u>	<u>3,356,010</u>	<u>666,132</u>	<u>5,520,911</u>	<u>2,268,910</u>
Total revenues	<u>58,060,724</u>	<u>52,330,474</u>	<u>37,454,333</u>	<u>25,617,856</u>	<u>95,515,057</u>	<u>77,948,330</u>
Expenses:						
General government	7,381,790	7,811,588	-	-	7,381,790	7,811,588
Public safety	20,289,857	18,969,032	-	-	20,289,857	18,969,032
Public works	13,955,935	12,666,210	-	-	13,955,935	12,666,210
Recreation and parks	5,334,442	5,513,056	-	-	5,334,442	5,513,056
Community development	711,756	1,102,406	-	-	711,756	1,102,406
Economic opportunity	2,323,843	2,194,580	-	-	2,323,843	2,194,580
Interest and long-term debt	1,999,391	2,097,849	-	-	1,999,391	2,097,849
Miscellaneous	15,216	61,126	-	-	15,216	61,126
Rental operations	-	-	22,433	63,547	22,433	63,547
Water and sewer	-	-	14,710,720	14,262,777	14,710,720	14,262,777
Golf course	-	-	1,612,515	1,660,229	1,612,515	1,660,229
Airport	-	-	1,764,846	1,685,136	1,764,846	1,685,136
Parking	-	-	3,724,869	1,899,409	3,724,869	1,899,409
Storm water	-	-	<u>1,984,030</u>	<u>1,942,658</u>	<u>1,984,030</u>	<u>1,942,658</u>
Total expenses	<u>52,012,230</u>	<u>50,415,847</u>	<u>23,819,413</u>	<u>21,513,756</u>	<u>75,831,643</u>	<u>71,929,603</u>
Increase/(decrease) in net assets						
before transfers	6,048,494	1,914,627	13,634,920	4,404,100	19,683,414	6,018,727
Transfers	<u>7,267,939</u>	<u>(51,856,603)</u>	<u>(7,267,939)</u>	<u>51,856,603</u>	-	-
Increase/(decrease) in net assets	13,316,433	(49,941,976)	6,366,981	55,960,703	19,683,414	6,018,727
Net assets, July 1	<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>
Net assets, June 30	\$ <u>76,832,672</u>	\$ <u>63,516,239</u>	\$ <u>175,932,868</u>	\$ <u>169,565,887</u>	\$ <u>252,765,540</u>	\$ <u>233,082,126</u>



Business-type activities. Business-type activities increased the City's net assets by \$6,366,981 in the current fiscal year. Total revenues increased by \$11,836,477 while expenses increased by \$2,305,657.

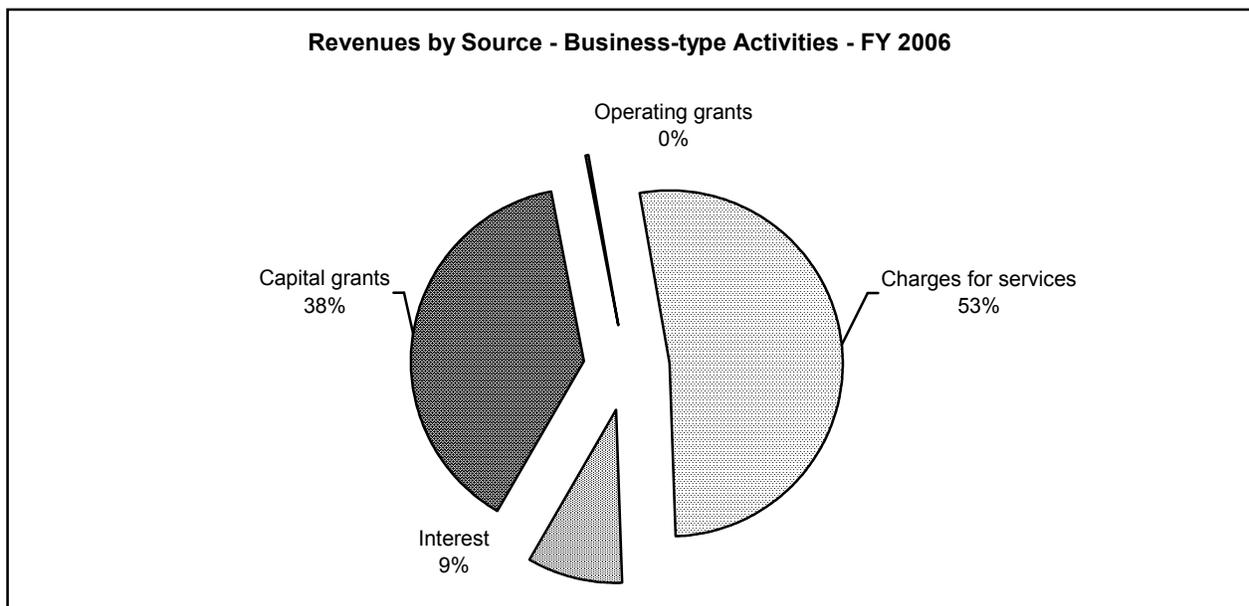
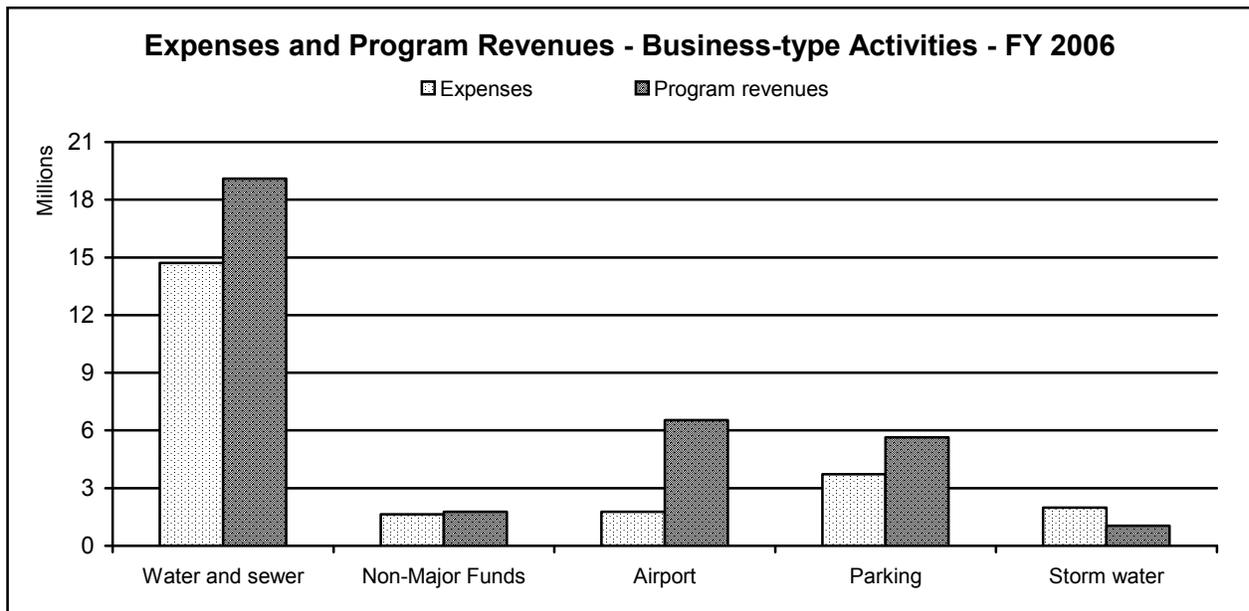
Charges for services increased by \$2,083,981 which includes a ten percent (10%) increase in water and sewer rates.

There was a \$7,068,686 increase in capital grants and contributions. \$4,847,510 of this increase is attributable to intergovernmental participation in City capital improvement projects such as airport improvements and a new parking deck. Impact fees from developers increased by \$2,361,055 demonstrating the ongoing development within the City. The value of donated assets decreased in fiscal year 2006 by approximately \$140,000.

Investment earnings increased by \$2,689,878 in fiscal 2006 due to the investment of bond proceeds during the year as well as higher interest rates.

Total expenses increased by \$2,305,657 in fiscal year 2006. Interest associated with the current year bond issue increased FY 2006 expenses by \$2,668,772. FY 2005 expenses included a large amount of non-capitalized expenses relating to the City capital improvement program. Such expenses decreased by approximately \$400,000 in FY 2006.

Business-type activities transferred \$8,214,628 into governmental activities in FY 2006 and received a transfer of \$946,689 from governmental activities for a net amount of \$7,267,939. \$1,331,326 of the transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities while \$664,192 represents a transfer of net assets from the parking fund to the general fund. Approximately \$6,200,000 of the transfer was used for capital improvements within the governmental activities. The \$946,689 received from the general CIP fund is an amount that the governmental activities contributed toward office space in the new parking deck.



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, 2006, the City's governmental funds reported combined ending fund balances of \$27,399,704, an increase of \$1,388,641 over the prior fiscal year. Revenues increased by 11.23% in the current year with all categories showing increases over the prior year. Expenditures increased by \$6,483,627, or 11.25% over the preceding year. Approximately 79% of this increase was due to increased capital project spending. Supplies account for 10.62% and salaries and benefits accounted for 9.19%. Supplies increased due to increased energy costs in conjunction with the City initiating a new solid waste collection system where the City needed to purchase automated rolling refuse carts for those residences that were phased in during the current year. The salary and benefits increase was primarily due to increased contributions to the City's pension plans.

Of the ending fund balance, \$14,885,922 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 (\$7,375,712), 2) loaned to other entities or funds (\$4,640,689), or 3) used to purchase inventory or other prepaid items (\$497,381).

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 \$10,317,530, while total fund balance was \$15,606,194. 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 20.7 percent of total general fund expenditures, while total fund balance represents 31.4 percent of that same amount.

The fund balance of the City's general fund increased by \$5,877,986 during the current fiscal year. Revenues increased by 13.26 percent and expenditures increased by 4.35 percent.

The general capital improvements project fund has a total fund balance of \$10,608,567, 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 difference between the original budget and the final amended budget was a decrease of \$377,719 and is summarized as follows:

Increase in general government activities	\$ 99,020
Increase in public safety	462,035
Increase in public works	(775,996)
Increase in recreation and parks	127,748
Increase in community development	13,192
Decrease in miscellaneous activities	(423,718)
Increase in transfers out	<u>120,000</u>
Total change in budget	\$ <u>(377,719)</u>

Of this increase, \$362,919 was to be funded by an increase in intergovernmental revenue, \$59,916 from insurance reimbursements, \$609,532 from interfund transfers, (\$1,422,086) from service fees and the remaining \$12,000 was to be funded from private donations. The transfer of surface parking activity back into the parking fund had a net effect of decreasing the budget by \$812,554 (parking revenues were decreased by \$1,422,086, expenditures were decreased

by \$812,544 and transfers in were increased by \$609,532). During the year the police department was able to acquire grant and insurance reimbursement funds for various police equipment and services in the amount of \$372,835. The parks department was also able to acquire additional grant funding in the amount of \$50,000 for park improvements. The City's department of economic development was able to secure a \$5,000 donation for production of an economic development video and the City's department of special events was also able to secure a \$7,000 donation for promotional activities.

During the year actual revenues exceeded the amended budget by \$1,718,437 or 3.4%. Taxes were the primary factor in this variance and were \$1,526,999 greater than estimated. Greater than anticipated building activity resulted in license and permit fees being \$965,818 greater than budgeted. Intergovernmental revenues were \$769,287 less than budgeted. This was primarily due to the community energy loan program, \$200,000, that did not get started as quickly as anticipated, the weatherization assistance program spent approximately \$235,000 less than budgeted and the federal lead hazard reduction program that spent approximately \$209,000 less than budgeted. Since these are reimbursement type grants, less expenditures means less revenue.

Expenditures were less than the final budgetary estimates by \$4,182,043 or 7.8%. Of this amount, \$1,064,228 was encumbered at year end. Significant departmental variance, after encumbrances, occurred in the community action agency which expended \$502,508 less than budgeted. The main reason for this variance is the community energy loan program which was delayed, lead paint reduction grant which expended less than budgeted, and the weatherization program that spent less than anticipated. The police department spent \$845,570 less than budgeted and is spread throughout their expenditure categories. The remaining budget savings occurred throughout all general fund departments.

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, 2006, amounts to \$300,187,438 (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 16.2 percent. Capital assets for governmental activities increased by 10.3 percent and 19.2 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 \$911,654.
- 2) Expenditures for the Carroll Creek Linear Park totaled approximately \$ 9,228,000 during the fiscal year.
- 3) Expenditures for the Parking Deck #4 totaled \$12,577,195 in FY 2006.
- 4) Expenditures for the water distribution project for FY 2006 totaled \$2,496,460.
- 5) Expenditures for the Schifferstadt Boulevard water main totaled \$1,147,176 in FY 2006.
- 6) Whittier booster pump station expenditures in FY 2006 totaled \$1,229,050.
- 7) Airport improvements, to include land acquisition and construction, totaled \$5,148,464.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 22,905,497	\$ 25,638,222	\$ 48,543,719
Buildings	15,084,480	30,570,847	45,655,327
Other improvements	5,645,816	115,481,647	121,127,463
Infrastructure	32,554,569	-	32,554,569
Machinery and equipment	4,648,763	2,420,558	7,069,321
Construction in progress	<u>17,279,490</u>	<u>27,957,549</u>	<u>45,237,039</u>
Total	<u>\$ 98,118,615</u>	<u>\$ 202,068,823</u>	<u>\$ 300,187,438</u>

Additional information on the City's capital assets can be found in note 4 on pages 43 - 44 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$140,813,305. Of this amount, \$138,658,345 carried the full faith, credit and taxing power of the City. The remaining \$2,154,960 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties will be assessed as an additional fee to cover any shortfall.

The City of Frederick’s Outstanding Long-term Obligations

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation debt	\$ 44,810,843	\$ 96,222,581	\$ 141,033,424
Tax increment financing debt	2,154,960	-	2,154,960
Capital leases	1,968,583	225,957	2,194,540
Compensated absences	<u>1,967,085</u>	<u>366,153</u>	<u>2,333,238</u>
Total	<u>\$ 50,901,471</u>	<u>\$ 96,814,691</u>	<u>\$ 147,716,162</u>

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 \$344,063,752 and the legal debt margin of the City is \$267,330,022.

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 2007 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 estimated unemployment rate for the City for June 2006 was 4.5 percent, which is a slight decrease from June 2005. The estimated rate for June 2006 for the county was 3.3 percent, the state was 4.1 percent and the nation was 4.8 percent.

The fiscal year 2007 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. Water and sewer rates were also increased by 20 percent and stormwater management rates were increased by 12 percent.

The general fund unreserved fund balance at June 30, 2006 was \$10,317,530. The City has appropriated \$6,361,052 of this amount for spending in the FY 2007 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 City of Frederick, Finance Department, 101 North Court Street, Frederick, Maryland 21701.

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 45,343	\$ 1,460	\$ 46,803
Investments	2,769	5,047	7,816
Equity in pooled cash/investments	14,168,119	21,083,706	35,251,825
Receivables (net of allowance of uncollectibles)	4,329,004	8,650,345	12,979,349
Inventories	491,538	540,617	1,032,155
Prepays	5,843	102,247	108,090
Deposit for asset acquisition	-	420,674	420,674
Deferred charges	514,620	467,812	982,432
Internal balances	6,537,331	(6,537,331)	-
Temporarily restricted assets:			
Cash and cash equivalents	7,722,912	51,479,283	59,202,195
Net pension asset	2,113,766	490,911	2,604,677
Capital assets (net of accumulated depreciation):			
Land	22,905,497	25,638,222	48,543,719
Buildings and systems	15,084,480	30,577,842	45,662,322
Improvements other than buildings	5,645,816	115,474,652	121,120,468
Infrastructure	32,554,569	-	32,554,569
Machinery and equipment	4,648,763	2,420,558	7,069,321
Construction in progress	17,279,490	27,957,549	45,237,039
Total assets	<u>134,049,860</u>	<u>278,773,594</u>	<u>412,823,454</u>
LIABILITIES			
Accounts payable and other current liabilities	2,939,390	4,263,960	7,203,350
Accrued liabilities	941,164	1,575,284	2,516,448
Deposits	1,801,997	58,501	1,860,498
Unearned revenue	633,166	128,289	761,455
Noncurrent liabilities:			
Due within one year	5,542,403	5,042,339	10,584,742
Due in more than one year	45,359,068	91,772,353	137,131,421
Total liabilities	<u>57,217,188</u>	<u>102,840,726</u>	<u>160,057,914</u>
NET ASSETS			
Invested in capital assets, net of related debt	55,805,720	144,403,887	200,209,607
Restricted for:			
Water/sewer improvements	-	12,695,679	12,695,679
Parks improvements	601,221	-	601,221
Debt service	194,770	-	194,770
Unrestricted	20,230,961	18,833,302	39,064,263
Total net assets	<u>\$ 76,832,672</u>	<u>\$ 175,932,868</u>	<u>\$ 252,765,540</u>

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

The City of Frederick, Maryland
Balance Sheet
Governmental Funds
June 30, 2006

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,704	\$ -	\$ 43,639	\$ 45,343
Investments	2,769	-	-	2,769
Equity in pooled cash/investments	8,016,714	5,878,694	272,711	14,168,119
Receivables (net of allowance for uncollectibles)	2,069,803	163	916,878	2,986,844
Inventories	491,538	-	-	491,538
Prepaid items	5,593	-	250	5,843
Advances to other funds	6,537,331	-	-	6,537,331
Cash - restricted	1,394,477	6,328,435	-	7,722,912
Intergovernmental receivable	1,142,440	99,890	99,830	1,342,160
Total assets	<u><u>\$19,662,369</u></u>	<u><u>\$12,307,182</u></u>	<u><u>\$ 1,333,308</u></u>	<u><u>\$ 33,302,859</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,132,220	\$ 1,698,394	\$ 108,776	\$ 2,939,390
Accrued liabilities	528,602	-	-	528,602
Deposits	1,762,187	221	39,589	1,801,997
Unearned revenue	633,166	-	-	633,166
Advances from other funds	-	-	-	-
Total liabilities	<u>4,056,175</u>	<u>1,698,615</u>	<u>148,365</u>	<u>5,903,155</u>
Fund balances:				
Reserved for:				
Encumbrances	1,064,228	6,180,606	130,878	7,375,712
Inventory	491,538	-	-	491,538
Prepaid items	5,593	-	250	5,843
Loans	3,727,305	-	913,384	4,640,689
Unreserved, reported in:				
General fund	10,317,530	-	-	10,317,530
Special revenue funds	-	-	140,431	140,431
Capital projects funds	-	4,427,961	-	4,427,961
Total fund balances	<u>15,606,194</u>	<u>10,608,567</u>	<u>1,184,943</u>	<u>27,399,704</u>
Total liabilities and fund balances	<u><u>\$19,662,369</u></u>	<u><u>\$12,307,182</u></u>	<u><u>\$ 1,333,308</u></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.	98,118,615
Accrued interest payable is not recorded in the funds	(412,562)
Net pension asset is not included in the governmental funds.	2,113,766
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(50,386,851)</u>
Net assets of governmental activities	<u><u>\$ 76,832,672</u></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, 2006

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$31,400,465	\$ -	\$ -	\$ 31,400,465
Payment in lieu of taxes	1,194	-	-	1,194
Income taxes	5,166,640	-	-	5,166,640
Business taxes	389,999	-	-	389,999
Discount allowance	(246,002)	-	-	(246,002)
Penalties/interest on delinquent taxes	270,778	-	-	270,778
Licenses and permits	2,693,743	-	-	2,693,743
Intergovernmental	9,894,584	1,082,931	185,069	11,162,584
Charges for services	1,371,627	-	373,644	1,745,271
Fines and forfeitures	382,904	-	61,500	444,404
Miscellaneous	1,358,000	763,657	241,623	2,363,280
Total revenues	<u>52,683,932</u>	<u>1,846,588</u>	<u>861,836</u>	<u>55,392,356</u>
EXPENDITURES				
Current:				
General government	7,081,328	-	-	7,081,328
Public safety	19,943,257	-	76,325	20,019,582
Public works	10,251,810	-	-	10,251,810
Recreation and parks	3,766,509	-	818,824	4,585,333
Community development	505,446	-	271,431	776,877
Economic opportunity	2,231,192	-	-	2,231,192
Miscellaneous	3,931	-	-	3,931
Debt service:				
Principal	4,024,631	-	-	4,024,631
Interest	1,908,433	-	-	1,908,433
Other fees	19,166	-	-	19,166
Capital projects	-	13,219,554	-	13,219,554
Total expenditures	<u>49,735,703</u>	<u>13,219,554</u>	<u>1,166,580</u>	<u>64,121,837</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,948,229</u>	<u>(11,372,966)</u>	<u>(304,744)</u>	<u>(8,729,481)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,101,322	7,734,079	280,406	10,115,807
Transfers out	(1,823,721)	(946,689)	(77,458)	(2,847,868)
Proceeds from capital lease	1,194,043	-	-	1,194,043
Insurance reimbursements	65,246	-	2,528	67,774
Capital asset disposition	1,392,867	-	195,499	1,588,366
Total other financing sources (uses)	<u>2,929,757</u>	<u>6,787,390</u>	<u>400,975</u>	<u>10,118,122</u>
Net change in fund balances	5,877,986	(4,585,576)	96,231	1,388,641
Fund balances - beginning	<u>9,728,208</u>	<u>15,194,143</u>	<u>1,088,712</u>	<u>26,011,063</u>
Fund balances - ending	<u>\$15,606,194</u>	<u>\$10,608,567</u>	<u>\$ 1,184,943</u>	<u>\$ 27,399,704</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, 2006

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

Net change in fund balances - total governmental funds	\$ 1,388,641
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.	8,185,369
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets.	984,089
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.	2,830,587
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.	(78,325)
Change in net assets of governmental activities	<u><u>\$ 13,316,433</u></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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$30,320,000	\$30,320,000	\$31,400,465	\$ 1,080,465
Payment in lieu of taxes	1,075	1,075	1,194	119
Income taxes	4,750,000	4,750,000	5,166,640	416,640
Business taxes	450,000	450,000	389,999	(60,001)
Discount allowance	(275,000)	(275,000)	(246,002)	28,998
Penalties/interest on delinquent taxes	210,000	210,000	270,778	60,778
Licenses and permits	1,823,845	1,727,925	2,693,743	965,818
Intergovernmental	10,300,952	10,663,871	9,894,584	(769,287)
Charges for services	2,197,866	1,641,138	1,371,627	(269,511)
Fines and forfeitures	1,313,826	544,388	382,904	(161,484)
Miscellaneous	920,098	932,098	1,358,000	425,902
Total revenues	<u>52,012,662</u>	<u>50,965,495</u>	<u>52,683,932</u>	<u>1,718,437</u>
EXPENDITURES				
Current:				
General government:				
Executive and legislative	1,150,432	1,214,832	1,038,473	176,359
Legal services	629,331	629,331	495,160	134,171
Registration and election	87,823	87,823	116,821	(28,998)
Finance and accounting	980,891	980,891	938,550	42,341
Purchasing	491,142	493,142	451,983	41,159
Information technology	736,271	736,271	656,083	80,188
Human resources	599,866	599,866	536,571	63,295
Safety	100,003	101,003	97,917	3,086
Planning and zoning	1,014,498	1,014,498	940,136	74,362
Code enforcement	388,344	412,964	251,559	161,405
Facilities maintenance	570,615	570,615	515,570	55,045
Asset management	757,695	757,695	658,141	99,554
Community promotion	171,928	171,928	157,880	14,048
Special events	234,553	241,553	226,484	15,069
Total general government	<u>7,913,392</u>	<u>8,012,412</u>	<u>7,081,328</u>	<u>931,084</u>
Public safety:				
Police department	18,844,965	19,302,000	18,294,650	1,007,350
Fire and rescue services	269,611	269,611	263,350	6,261
Building inspection	965,667	965,667	891,449	74,218
Electrical inspection	215,061	220,061	215,404	4,657
Construction inspection	310,706	310,706	278,404	32,302
Total public safety	<u>20,606,010</u>	<u>21,068,045</u>	<u>19,943,257</u>	<u>1,124,788</u>
Public works:				
General administration	1,035,225	1,035,225	1,029,919	5,306
Machinery & equipment maintenance	748,657	748,657	687,540	61,117
Engineering	1,156,463	1,156,463	1,055,520	100,943
Waste collection and disposal	3,979,070	4,015,628	3,748,790	266,838
Streets, roadways and alleys	1,862,671	1,862,671	1,596,441	266,230
Snow removal	305,736	305,736	218,790	86,946
Street lighting	1,715,912	1,715,912	1,480,171	235,741
Traffic lines	428,487	428,487	393,866	34,621
Surface parking	812,554	-	-	-
Bus service	40,780	40,780	40,773	7
Total public works	<u>12,085,555</u>	<u>11,309,559</u>	<u>10,251,810</u>	<u>1,057,749</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Recreation and parks:				
Municipal parks	2,713,903	2,815,151	2,505,488	309,663
Recreation centers	889,121	915,621	931,191	(15,570)
Recreation commission	113,356	113,356	96,697	16,659
Swimming pools	234,487	234,487	233,133	1,354
Total recreation and parks	<u>3,950,867</u>	<u>4,078,615</u>	<u>3,766,509</u>	<u>312,106</u>
Community development:				
Community development	47,785	50,977	37,049	13,928
Economic development	474,036	484,036	468,397	15,639
Total community development	<u>521,821</u>	<u>535,013</u>	<u>505,446</u>	<u>29,567</u>
Economic opportunity:				
Community Action Agency	2,865,120	2,865,120	2,231,192	633,928
Total economic opportunity	<u>2,865,120</u>	<u>2,865,120</u>	<u>2,231,192</u>	<u>633,928</u>
Miscellaneous	<u>500,000</u>	<u>76,282</u>	<u>3,931</u>	<u>72,351</u>
Debt service:				
Principal	3,937,687	3,937,687	4,024,631	(86,944)
Interest	1,993,053	1,993,053	1,908,433	84,620
Other fees	41,960	41,960	19,166	22,794
Total debt service	<u>5,972,700</u>	<u>5,972,700</u>	<u>5,952,230</u>	<u>20,470</u>
Total expenditures	<u>54,415,465</u>	<u>53,917,746</u>	<u>49,735,703</u>	<u>4,182,043</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,402,803)</u>	<u>(2,952,251)</u>	<u>2,948,229</u>	<u>5,900,480</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,415,000	2,024,532	2,101,322	76,790
Transfers out	(1,743,315)	(1,863,315)	(1,823,721)	39,594
Proceeds from capital lease	1,231,350	1,231,350	1,194,043	(37,307)
Insurance reimbursements	10,000	69,916	65,246	(4,670)
Capital asset disposition	1,859,000	1,859,000	1,392,867	(466,133)
Total other financing sources (uses)	<u>2,772,035</u>	<u>3,321,483</u>	<u>2,929,757</u>	<u>(391,726)</u>
Net change in fund balances	369,232	369,232	5,877,986	5,508,754
Fund balance - beginning	<u>2,953,862</u>	<u>2,953,862</u>	<u>9,728,208</u>	<u>6,774,346</u>
Fund balance - ending	<u>\$ 3,323,094</u>	<u>\$ 3,323,094</u>	<u>\$15,606,194</u>	<u>\$12,283,100</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, 2006

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary Funds	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 460	\$ -	\$ 1,000	\$ 1,460
Investments	-	-	-	-	5,047	5,047
Equity in pooled cash/investments	16,346,412	-	4,209,991	450,962	76,341	21,083,706
Receivables (net of allowance of uncollectibles)	2,666,480	5,504,411	343,704	134,948	802	8,650,345
Inventories	394,424	-	-	-	146,193	540,617
Prepays	99,747	-	-	-	2,500	102,247
Deposit for asset acquisition	-	-	386,176	-	34,498	420,674
Deferred charges	297,433	16,423	153,956	-	-	467,812
Total current assets	<u>19,804,496</u>	<u>5,520,834</u>	<u>5,094,287</u>	<u>585,910</u>	<u>266,381</u>	<u>31,271,908</u>
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	40,352,904	-	11,126,379	-	-	51,479,283
Net pension asset	401,242	2,140	46,149	8,895	32,485	490,911
Capital assets:						
Land	3,080,433	19,598,791	2,917,598	10,750	30,650	25,638,222
Buildings and systems	29,673,772	8,362,069	10,735,416	-	180,795	48,952,052
Improvements other than buildings	75,438,474	6,699,285	43,404	56,882,850	4,566,268	143,630,281
Machinery and equipment	4,913,025	188,174	573,076	486,045	468,764	6,629,084
Construction in progress	11,855,298	15,572	16,086,679	-	-	27,957,549
Less accumulated depreciation	<u>(32,777,940)</u>	<u>(3,384,512)</u>	<u>(6,537,467)</u>	<u>(6,170,259)</u>	<u>(1,868,187)</u>	<u>(50,738,365)</u>
Total noncurrent assets	<u>132,937,208</u>	<u>31,481,519</u>	<u>34,991,234</u>	<u>51,218,281</u>	<u>3,410,775</u>	<u>254,039,017</u>
Total assets	<u>152,741,704</u>	<u>37,002,353</u>	<u>40,085,521</u>	<u>51,804,191</u>	<u>3,677,156</u>	<u>285,310,925</u>
LIABILITIES						
Current liabilities:						
Accounts payable	2,372,598	90,152	1,745,767	5,886	49,557	4,263,960
Accrued liabilities	1,110,782	14,320	429,115	-	21,067	1,575,284
Deposits	4,529	53,215	-	-	757	58,501
Unearned revenue	33,182	13,689	45,920	-	35,498	128,289
Advances from other funds	-	4,206,229	-	-	2,331,102	6,537,331
Compensated absences	235,403	11,915	15,801	4,584	26,917	294,620
Bonds, notes, and loans payable	3,106,403	163,445	1,080,068	-	397,803	4,747,719
Total current liabilities	<u>6,862,897</u>	<u>4,552,965</u>	<u>3,316,671</u>	<u>10,470</u>	<u>2,862,701</u>	<u>17,605,704</u>
Noncurrent liabilities:						
Compensated absences	-	26,238	2,933	2,608	39,754	71,533
Bonds, notes, and loans payable	<u>62,896,330</u>	<u>3,597,558</u>	<u>23,596,581</u>	<u>-</u>	<u>1,610,351</u>	<u>91,700,820</u>
Total noncurrent liabilities	<u>62,896,330</u>	<u>3,623,796</u>	<u>23,599,514</u>	<u>2,608</u>	<u>1,650,105</u>	<u>91,772,353</u>
Total liabilities	<u>69,759,227</u>	<u>8,176,761</u>	<u>26,916,185</u>	<u>13,078</u>	<u>4,512,806</u>	<u>109,378,057</u>
NET ASSETS						
Invested in capital assets, net of related debt	53,837,553	27,718,376	10,268,436	51,209,386	1,370,136	144,403,887
Restricted for:						
Other improvements	12,695,679	-	-	-	-	12,695,679
Unrestricted	<u>16,449,245</u>	<u>1,107,216</u>	<u>2,900,900</u>	<u>581,727</u>	<u>(2,205,786)</u>	<u>18,833,302</u>
Total net assets	<u>\$82,982,477</u>	<u>\$28,825,592</u>	<u>\$13,169,336</u>	<u>\$51,791,113</u>	<u>\$ (835,650)</u>	<u>\$175,932,868</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, 2006

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary Funds	Total
Operating revenues:						
Charges for services:						
Water and sewer charges	\$ 12,217,055	\$ -	\$ -	\$ -	\$ -	\$ 12,217,055
Golf course fees	-	-	-	-	1,727,652	1,727,652
Airport fees	-	1,031,174	-	-	-	1,031,174
Parking fees	-	-	2,286,916	-	-	2,286,916
Stormwater management fees	-	-	-	800,628	-	800,628
Licenses and permits	331,649	-	93,920	-	-	425,569
Fines and forfeitures	11,538	-	665,525	-	-	677,063
Miscellaneous	46,473	14,134	62,054	20	29,404	152,085
Total operating revenues	<u>12,606,715</u>	<u>1,045,308</u>	<u>3,108,415</u>	<u>800,648</u>	<u>1,757,056</u>	<u>19,318,142</u>
Operating expenses:						
Finance	163,411	-	-	-	-	163,411
Plumbing inspection	235,089	-	-	-	-	235,089
Water service	1,649,908	-	-	-	-	1,649,908
Water chemicals	277,627	-	-	-	-	277,627
Water treatment	2,533,509	-	-	-	-	2,533,509
Sewage collection/disposal	2,683,732	-	-	-	-	2,683,732
Sewage maintenance/house connections	490,529	-	-	-	-	490,529
Inflow and infiltration	179,802	-	-	-	-	179,802
Public housing	-	-	-	-	15,622	15,622
Golf course maintenance	-	-	-	-	473,148	473,148
Golf course clubhouse	-	-	-	-	613,657	613,657
Golf course restaurant	-	-	-	-	285,143	285,143
Airport	-	971,235	-	-	-	971,235
Parking facilities	-	-	2,358,218	-	-	2,358,218
Stormwater management activities	-	-	-	524,729	-	524,729
Miscellaneous	1,000,148	-	-	-	-	1,000,148
Depreciation	2,992,596	609,289	413,429	1,459,301	136,138	5,610,753
Total operating expenses	<u>12,206,351</u>	<u>1,580,524</u>	<u>2,771,647</u>	<u>1,984,030</u>	<u>1,523,708</u>	<u>20,066,260</u>
Operating income/(loss)	<u>400,364</u>	<u>(535,216)</u>	<u>336,768</u>	<u>(1,183,382)</u>	<u>233,348</u>	<u>(748,118)</u>
Nonoperating revenues/(expenses)						
Intergovernmental	62,922	5,499,173	2,490,714	163,738	15,115	8,231,662
Interest income	2,593,313	8,639	738,175	13,502	2,381	3,356,010
Gain/(Loss) on disposal of capital assets	6,028	-	(1,603)	-	-	4,425
Other nonoperating revenues	220,546	-	40,068	-	-	260,614
Interest expense	(2,442,855)	(181,483)	(933,304)	-	(64,441)	(3,622,083)
Other nonoperating expenses	(66,437)	(2,839)	(18,315)	-	(46,799)	(134,390)
Total nonoperating revenue/(expenses)	<u>373,517</u>	<u>5,323,490</u>	<u>2,315,735</u>	<u>177,240</u>	<u>(93,744)</u>	<u>8,096,238</u>
Income/(loss) before contributions and transfers	<u>773,881</u>	<u>4,788,274</u>	<u>2,652,503</u>	<u>(1,006,142)</u>	<u>139,604</u>	<u>7,348,120</u>
Capital contributions	6,205,972	-	-	80,828	-	6,286,800
Transfers in	-	-	946,689	-	-	946,689
Transfers out	(7,319,110)	(81,326)	(784,192)	(30,000)	-	(8,214,628)
Change in net assets	(339,257)	4,706,948	2,815,000	(955,314)	139,604	6,366,981
Total net assets - beginning	<u>83,321,734</u>	<u>24,118,644</u>	<u>10,354,336</u>	<u>52,746,427</u>	<u>(975,254)</u>	<u>169,565,887</u>
Total net assets - ending	<u>\$ 82,982,477</u>	<u>\$ 28,825,592</u>	<u>\$ 13,169,336</u>	<u>\$ 51,791,113</u>	<u>\$ (835,650)</u>	<u>\$ 175,932,868</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, 2006

Business-type Activities - Enterprise Funds						
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary Funds	Total
Cash flows from operating activities:						
Receipts from customers and users	\$11,203,038	\$ 991,572	\$ 3,098,132	\$ 805,199	\$1,762,031	\$ 17,859,972
Receipts from other sources	1,026,001	-	-	-	-	1,026,001
Payments to vendors	(5,018,518)	(704,225)	(1,943,423)	(272,018)	(849,676)	(8,787,860)
Payments to employees	(3,339,915)	(245,406)	(457,880)	(270,043)	(624,132)	(4,937,376)
Net cash provided (used) by operating activities	<u>3,870,606</u>	<u>41,941</u>	<u>696,829</u>	<u>263,138</u>	<u>288,223</u>	<u>5,160,737</u>
Cash flows from noncapital financing activities:						
Transfers out	(7,319,110)	(81,326)	(784,192)	(30,000)	-	(8,214,628)
Operating subsidy	-	-	-	-	15,115	15,115
Due to other funds	-	-	-	-	196,362	196,362
Net cash provided (used) by noncapital financing activities	<u>(7,319,110)</u>	<u>(81,326)</u>	<u>(784,192)</u>	<u>(30,000)</u>	<u>211,477</u>	<u>(8,003,151)</u>
Cash flows from capital and related financing activities:						
Capital contributions	6,205,972	-	-	80,828	-	6,286,800
Intergovernmental payments	63,064	821,684	3,316,654	163,738	-	4,365,140
Capital asset acquisitions	(20,516,964)	(5,336,358)	(11,722,283)	(478,805)	(15,338)	(38,069,748)
Transfer in for capital asset acquisition	-	-	946,689	-	-	946,689
Proceeds from debt issue	51,367,386	-	20,808,999	-	-	72,176,385
Principal payments	(1,294,715)	(158,943)	(356,974)	-	(398,649)	(2,209,281)
Interest payments	(1,499,259)	(182,004)	(552,484)	-	(67,271)	(2,301,018)
Estimated arbitrage earnings	64,635	-	28,772	-	(750)	92,657
Proceeds from sale of capital assets	1,105	-	-	-	-	1,105
Due to other funds	-	4,206,229	-	-	-	4,206,229
Other debt related costs	(282,581)	(775)	(110,510)	-	-	(393,866)
Net cash provided (used) by capital and related financing activities	<u>34,108,643</u>	<u>(650,167)</u>	<u>12,358,863</u>	<u>(234,239)</u>	<u>(482,008)</u>	<u>45,101,092</u>
Cash flows from investing activities:						
Interest earned	2,437,677	8,388	662,159	13,502	2,382	3,124,108
Net cash provided (used) by investing activities	<u>2,437,677</u>	<u>8,388</u>	<u>662,159</u>	<u>13,502</u>	<u>2,382</u>	<u>3,124,108</u>
Net increase (decrease) in cash equivalents	33,097,816	(681,164)	12,933,659	12,401	20,074	45,382,786
Cash equivalents - beginning	23,601,500	681,164	2,403,171	438,561	62,314	27,186,710
Cash equivalents - ending	<u>\$56,699,316</u>	<u>\$ -</u>	<u>\$15,336,830</u>	<u>\$ 450,962</u>	<u>\$ 82,388</u>	<u>\$ 72,569,496</u>

(continued)

The City of Frederick, Maryland
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary Funds	Total
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income	\$ 400,364	\$ (535,216)	\$ 336,768	\$ (1,183,382)	\$ 233,348	\$ (748,118)
Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities.	123,216	-	-	-	-	123,216
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	2,992,596	609,289	413,429	1,459,301	136,138	5,610,753
(Increase)/decrease in accounts receivable	(527,501)	(41,025)	516	4,550	617	(562,843)
(Increase)/decrease in inventory	(34,853)	-	-	-	(31,210)	(66,063)
(Increase)/decrease in prepaids	-	5,990	-	-	500	6,490
Decrease in net pension asset	280	3	48	(8,895)	22	(8,542)
(Decrease)/increase in accounts payable	1,035,053	26,554	(25,619)	2,382	(21,674)	1,016,696
(Decrease)/increase in deferred revenue	4,966	(3,839)	(10,799)	-	4,354	(5,318)
(Decrease)/increase in deposits	21,641	(8,872)	-	-	4	12,773
(Decrease)/increase in wages payable	(129,098)	(9,993)	(18,516)	(10,155)	(33,481)	(201,243)
(Decrease)/increase in compensated absences	(16,058)	(950)	1,002	(663)	(395)	(17,064)
Total adjustments	3,347,026	577,157	360,061	1,446,520	54,875	5,785,639
Net cash provided (used) by operating activities	<u>\$ 3,870,606</u>	<u>\$ 41,941</u>	<u>\$ 696,829</u>	<u>\$ 263,138</u>	<u>\$ 288,223</u>	<u>\$ 5,160,737</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, 2006

	<u>Pension Trust Fund</u>
ASSETS:	
Cash and short-term investments	\$ 6,260,781
Receivables	
Accounts receivable - employee	<u>142,856</u>
Total receivables	<u>142,856</u>
Investments, at fair value:	
Equities	46,616,883
Fixed income	<u>12,229,746</u>
Total investments	<u>58,846,629</u>
Total assets	<u>65,250,266</u>
 NET ASSETS	
Held in trust for pension benefits	<u><u>\$65,250,266</u></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, 2006

	Pension Trust Fund
ADDITIONS:	
Contributions - employer	\$ 6,090,349
Contributions - employees	1,299,454
Interest	1,600,180
Net appreciation/(depreciation)	<u>3,783,658</u>
Total Additions	<u>12,773,641</u>
DEDUCTIONS:	
Pension benefits	4,308,568
Service charges	<u>494,567</u>
Total Deductions	<u>4,803,135</u>
Change in net assets	7,970,506
Net assets - beginning	<u>57,279,760</u>
Net assets - ending	<u><u>\$65,250,266</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, 2006

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.

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 *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 CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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.
4. Investments

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of 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, 2006

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, 2006, 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 \$ 633,166 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.

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, 2006

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

Long-term obligations

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

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

Fund balance

In the fund financial statements, governmental funds report 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, 2006

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 \$98,118,615 difference are as follows:

Capital assets	\$ 145,260,558
Less: Accumulated depreciation	<u>(47,141,943)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 98,118,615</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 \$50,386,851 difference are as follows:

Bonds payable	\$ 48,837,542
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(514,620)
Add: Issuance premium (to be amortized over life of debt)	96,844
Add: Compensated absences	<u>1,967,085</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 50,386,851</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 \$ 8,185,369 difference are as follows:

Capital outlay	\$ 13,086,420
Depreciation expense	<u>(4,901,051)</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>\$ 8,185,369</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this \$ 984,089 difference are as follows:

In the statement of activities, only the <i>gain/loss</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the remaining book value of the capital assets sold.	\$ (276,367)
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.	<u>1,260,456</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>\$ 984,089</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

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 \$ 2,830,587 difference are as follows:

Debt issued or incurred	\$ (1,194,043)
Principal repayments	<u>4,024,630</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>2,830,587</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 \$ 78,325 difference are as follows:

Compensated absences	\$ 3,992
Pension expense resulting in a net pension asset reduction	(10,525)
Accrued interest	(7,592)
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>(78,325)</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, 2006

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 2006, the election board, recreation centers, swimming pools and debt service within the General Fund exceeded their budget allotment by \$28,998, \$22,112, \$3,948 and \$58,014 respectively. Additionally, the Weinberg Center exceeded its budget by \$13,515. The over-expenditures in the general fund were funded by budget savings within other departments. The Weinberg Center over-expenditure was funded with an increased transfer from the general fund. Supplemental budget appropriations were made during fiscal year 2006 in the amount of \$434,835 in the General Fund and \$3,000 in the Weinberg Center Fund to account for unanticipated sources and uses of funds. Moving surface parking activities from the General Fund to the Parking fund resulted in a reduction of the General Fund budget by \$812,554.

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, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Repurchase agreements	\$ 2,388,767
U. S. Treasuries	194,770
Maryland Local Government Investment Pool	<u>75,807,230</u>
	\$ 78,390,767
Pension Fund investments	<u>65,107,410</u>
Total fair value of investments	<u>\$ 143,498,177</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, 2006, 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, 2006

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 \$16,016,893, and the bank balance was \$17,571,579 with the total bank balance being collateralized.

Pension Fund investments:

Equities	
Growth equities	\$ 18,978,281
Enhanced core equities	19,354,674
Small cap equities	2,024,731
International equities	<u>6,259,197</u>
Total equities	<u>\$ 46,616,883</u>
Core Fixed income	
Fixed income	\$ 8,266,271
Total fixed income	<u>3,963,475</u>
	<u>\$ 12,229,746</u>
Cash and short-term investments	
Cash management fund	\$ 5,497,718
Disbursement payment account	<u>763,063</u>
Total cash and short-term investments	<u>\$ 6,260,781</u>
Total pension fund investments	<u>\$ 65,107,410</u>

The average quality of the core fixed income investments is Aa2, with yield to maturity of 5.94% and a modified duration of 4.67 years. 73.0% of the portfolio is rated AAA, 5.1% AA, 9.5% A, 11.7% BBB and 0.7% less than BBB.

For the cash management fund, the minimum maturity is 1 day and the maximum maturity is 392 days with the weighted average maturity of 17.58 days. 75% of the fund is in repurchase agreements, 12% in floating rate notes, 7% in commercial paper and 6% in corporate notes.

Petty cash amounts at June 30, 2006 totaled \$4,690.

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	\$ 541,420	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 541,420
Loans/notes	1,396,202	-	-	251,406	-	-	913,384	2,560,992
Intergovernmental	1,142,440	99,890	13,061	5,183,403	259,360	-	99,830	6,797,984
Interest	26,694	-	169,573	660	84,294	-	-	281,221
Other	<u>181,182</u>	<u>12,791</u>	<u>2,498,045</u>	<u>101,263</u>	<u>50</u>	<u>134,948</u>	<u>4,296</u>	<u>2,932,575</u>
Gross receivables	3,287,938	112,681	2,680,679	5,536,732	343,704	134,948	1,017,510	13,114,192
Less: allowance for uncollectibles	<u>(75,695)</u>	<u>(12,628)</u>	<u>(14,199)</u>	<u>(32,321)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(134,843)</u>
Net receivables	<u>\$ 3,212,243</u>	<u>\$100,053</u>	<u>\$2,666,480</u>	<u>\$5,504,411</u>	<u>\$343,704</u>	<u>\$134,948</u>	<u>\$1,017,510</u>	<u>\$12,979,349</u>

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2006 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	\$ 22,469,911	\$ 653,400	\$ 217,814	\$ -	\$ 22,905,497
Construction in progress	<u>8,551,716</u>	<u>9,463,915</u>	<u>-</u>	<u>(736,141)</u>	<u>17,279,490</u>
Total capital assets, not being depreciated	<u>31,021,627</u>	<u>10,117,315</u>	<u>217,814</u>	<u>(736,141)</u>	<u>40,184,987</u>
Capital assets, being depreciated:					
Buildings	27,660,818	154,138	8,102	-	27,806,854
Other improvements	8,049,727	926,862	-	4,127	8,980,716
Infrastructure	49,880,556	1,493,397	-	732,014	52,105,967
Machinery and equipment	<u>15,325,108</u>	<u>1,655,164</u>	<u>751,977</u>	<u>(46,261)</u>	<u>16,182,034</u>
Total capital assets, being depreciated	<u>100,916,209</u>	<u>4,229,561</u>	<u>760,079</u>	<u>(689,880)</u>	<u>105,075,571</u>
Less accumulated depreciation for:					
Buildings	11,789,349	934,038	1,013	-	12,722,374
Other improvements	2,929,735	405,166	-	-	3,334,901
Infrastructure	17,461,933	2,089,464	-	-	19,551,397
Machinery and equipment	<u>10,807,662</u>	<u>1,472,383</u>	<u>705,436</u>	<u>(41,338)</u>	<u>11,533,271</u>
Total accumulated depreciation	<u>42,988,679</u>	<u>4,901,051</u>	<u>706,449</u>	<u>(41,338)</u>	<u>47,141,943</u>
Total capital assets, being depreciated, net	<u>57,927,530</u>	<u>(671,490)</u>	<u>53,630</u>	<u>731,218</u>	<u>57,933,628</u>
Governmental activities capital assets, net	<u>\$ 88,949,157</u>	<u>\$ 9,445,825</u>	<u>\$ 271,444</u>	<u>\$ (4,923)</u>	<u>\$ 98,118,615</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 20,495,412	\$ 5,142,810	\$ -	\$ -	\$ 25,638,222
Construction in progress	<u>5,857,879</u>	<u>24,364,190</u>	<u>1,603</u>	<u>(2,262,917)</u>	<u>27,957,549</u>
Total capital assets, not being depreciated	<u>26,353,291</u>	<u>29,507,000</u>	<u>1,603</u>	<u>(2,262,917)</u>	<u>53,595,771</u>
Capital assets, being depreciated:					
Buildings	48,004,526	825,194	-	129,327	48,959,047
Other improvements	133,856,539	7,633,157	-	2,133,590	143,623,286
Machinery and equipment	<u>6,419,233</u>	<u>240,314</u>	<u>76,725</u>	<u>46,261</u>	<u>6,629,083</u>
Total capital assets, being depreciated	<u>188,280,298</u>	<u>8,698,665</u>	<u>76,725</u>	<u>2,309,178</u>	<u>199,211,416</u>
Less accumulated depreciation for:					
Buildings	17,131,468	1,249,737	-	-	18,381,205
Other improvements	24,523,759	3,624,874	-	-	28,148,633
Machinery and equipment	<u>3,507,770</u>	<u>736,142</u>	<u>76,725</u>	<u>41,338</u>	<u>4,208,525</u>
Total accumulated depreciation	<u>45,162,997</u>	<u>5,610,753</u>	<u>76,725</u>	<u>41,338</u>	<u>50,738,363</u>
Total capital assets, being depreciated, net	<u>143,117,301</u>	<u>3,087,912</u>	<u>-</u>	<u>2,267,840</u>	<u>148,473,053</u>
Business-type activities capital assets, net	<u>\$ 169,470,592</u>	<u>\$ 32,594,912</u>	<u>\$ 1,603</u>	<u>\$ 4,923</u>	<u>\$ 202,068,824</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	\$ 379,988
Public safety	552,197
Public works	2,885,304
Recreation and parks	989,000
Community development	11,222
Economic opportunity	<u>83,340</u>
Total depreciation expense – governmental activities	<u>\$ 4,901,051</u>
Business-type activities:	
Rental operations	\$ 6,811
Water and sewer	2,992,596
Golf course	129,327
Airport	609,289
Parking	413,429
Storm water	<u>1,459,301</u>
Total depreciation expense – business-type activities	<u>\$ 5,610,753</u>

Construction commitments

The City has active construction projects as of June 30, 2006. 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	\$ 994,700	\$ 1,764,849
Water Distribution Project	4,930,341	1,482,000
New Design Water Plant Expansion	11,710,630	15,289,370
Water Loss Reduction Project	930,366	1,244,609
Parking Deck #4	16,406,323	1,410,790
Carroll Creek Linear Park	16,623,781	2,730,433

The Municipal Facility, Water Distribution Project, New Design Water Plant Expansion, and Water Loss Reduction Project are primarily debt funded. Parking Deck #4 is being jointly funded by 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, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Golf Course	\$ 2,331,102
General	Airport	4,206,229

The \$2,331,102 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.

The airport purchased several pieces of property that are anticipated to be grant funded. The general fund advanced the funds to purchase the properties which resulted in the \$4,206,229 interfund balance between the airport and general funds. This payable is offset by a \$5,504,411 receivable in the airport fund.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

4. Detailed notes on all funds (continued)

Interfund transfers:	Transfers In:				Total
	General Fund	CIP Fund	Nonmajor Governmental	Parking Fund	
Transfer out:					
General fund	\$ -	\$ 1,543,315	\$ 280,406	\$ -	\$ 1,823,721
General CIP fund	-	-	-	946,689	946,689
Nonmajor government funds	77,458	-	-	-	77,458
Water and sewer fund	1,128,346	6,190,764	-	-	7,319,110
Airport fund	81,326	-	-	-	81,326
Parking fund	784,192	-	-	-	784,192
Storm water management fund	30,000	-	-	-	30,000
Total transfers out	\$ 2,101,322	\$ 7,734,079	\$ 280,406	\$ 946,689	\$ 11,062,496

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 \$664,000 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 government funds into the general fund represents general fund expenditures that are funded by special fund revenues.

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

The \$280,406 transfer by the general fund into the nonmajor governmental fund represents the annual contribution to subsidize operations of the Weinberg Center for the Arts.

The \$946,689 transfer from the General CIP fund into the Parking fund represents a shared cost for the construction of Parking Deck #4. Certain general fund departments will be located in office space within the new deck and this transfer represents a portion of the cost of that facility.

5. Capital Leases

The City has entered into several lease agreements as lessee for financing the acquisition of various equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have 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:

	2003 Lease	2005 Lease	
	General Fund	General Fund	Water & Sewer Fund
Machinery and equipment	\$ 1,113,273	\$ 996,275	\$ 108,671
Less: Accumulated depreciation	(455,142)	(158,400)	(15,525)
Total	\$ 658,131	\$ 837,875	\$ 93,146

As of June 30, 2006, \$315,054 of the 2005 lease proceeds remain unspent.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006 are as follows:

Fiscal Year Ending June 30,	2003 Lease	2005 Lease	
	General Fund	General Fund	Water & Sewer Fund
2007	\$ 272,045	\$ 261,147	\$ 49,419
2008	272,045	261,147	49,419
2009	272,044	261,147	49,419
2010	-	261,147	49,419
2011	-	261,146	49,418
Total minimum lease payments	\$ 816,134	\$ 1,305,734	\$ 247,094
Less: amount representing interest	(41,594)	(111,692)	(21,136)
Present value of minimum lease payments	\$ 774,540	\$ 1,194,042	\$ 225,958

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6. Long term obligations

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

	Date of Issue	Date of Maturity	Range of Interest Rates	Outstanding 7/1/2005	Additions FY '06	Reductions FY '06	Outstanding 6/30/2006	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	08/01/89	08/01/11	Variable	\$ 1,700,000	\$ -	\$ (300,000)	\$ 1,400,000	\$ 250,000
General Purpose	08/07/01	12/01/21	3.25-4.75	22,763,583	-	(2,417,583)	20,346,000	2,148,000
General Purpose	09/19/02	09/01/22	2.50-5.0	22,846,363	-	(912,363)	21,934,000	930,000
MILA Loan - Trading Lane	06/95	06/22	5.93	144,827	-	(5,105)	139,722	5,414
MICRF Loan - Ice Arena	12/95	01/06	5.50	7,274	-	(7,274)	-	-
MICRF Loan - MedImmune	12/96	01/17	3.00	965,550	-	(71,273)	894,277	73,465
Tax Increment Financing	12/99	06/24	5.95	2,221,084	-	(66,124)	2,154,960	70,058
Capital Lease	11/25/03	07/15/08	2.65	1,019,450	-	(244,910)	774,540	251,428
Capital Lease	12/20/05	07/20/10	3.5653%	-	1,194,043	-	1,194,043	236,314
Subtotal				51,668,131	1,194,043	(4,024,632)	48,837,542	3,964,679
Add remaining premium				102,916	-	(6,072)	96,844	6,072
Total bonds and notes payable				51,771,047	1,194,043	(4,030,704)	48,934,386	3,970,751
Other Obligations:								
Compensated Absences				1,971,076	1,795,758	(1,799,749)	1,967,085	1,571,652
Total Governmental Activity Long-term Obligations				<u>\$53,742,123</u>	<u>\$2,989,801</u>	<u>\$(5,830,453)</u>	<u>\$ 50,901,471</u>	<u>\$ 5,542,403</u>
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/01/89	08/01/11	Variable	\$ 956,000	\$ -	\$ (169,000)	\$ 787,000	\$ 140,000
Water and Sewer	08/07/01	12/01/21	3.25-4.75	8,832,443	-	(836,443)	7,996,000	759,000
Water and Sewer	09/19/02	09/01/22	2.50-5.0	1,713,637	-	(62,637)	1,651,000	70,000
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	-	49,222,000	-	49,222,000	1,788,000
Total General Obligation Bonds				11,502,080	49,222,000	(1,068,080)	59,656,000	2,757,000
State Loan Fund - BNR	08/23/01	02/01/22	2.30	4,650,211	-	(226,635)	4,423,576	231,848
Capital Lease	12/20/05	07/20/10	3.5653%	-	225,957	-	225,957	44,719
Total Water & Sewer Debt				16,152,291	49,447,957	(1,294,715)	64,305,533	3,033,567
Golf Course Facilities Bonds	07/26/04	10/01/10	2.84%	2,568,013	-	(398,649)	2,169,364	435,735
Total Golf Course Obligations				2,568,013	-	(398,649)	2,169,364	435,735
Aiport Improvement Bonds	08/07/01	12/01/21	3.25-4.75	3,675,000	-	(150,000)	3,525,000	155,000
MILA Loan - Frederick Aviation	03/98	03/23	5.42	260,349	-	(8,943)	251,406	9,444
Total Airport Debt				3,935,349	-	(158,943)	3,776,406	164,444
Parking Facilities	08/01/89	08/01/11	Variable	744,000	-	(131,000)	613,000	110,000
Parking Facilities	08/07/01	12/01/21	3.25-4.75	3,503,974	-	(225,974)	3,278,000	203,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	-	20,028,000	-	20,028,000	727,000
Total Parking Facilities				4,247,974	20,028,000	(356,974)	23,919,000	1,040,000
Total business-type activities debt				26,903,627	69,475,957	(2,209,281)	94,170,303	4,673,746
Other Obligations:								
Add remaining premium				38,783	2,700,428	(137,398)	2,601,813	137,399
Less remaining discounts				(16,403)	-	999	(15,404)	(999)
Less deferred refunding				(370,600)	-	62,426	(308,174)	(62,426)
Compensated Absences				383,218	309,585	(326,650)	366,153	294,620
Total business-type activities obligations				<u>\$26,938,625</u>	<u>\$72,485,970</u>	<u>\$(2,609,904)</u>	<u>\$ 96,814,691</u>	<u>\$ 5,042,340</u>

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, 2006

6. Long Term Obligations (continued)

The annual requirements to amortize all general long term debt, as of June 30, 2006, (an assumed rate of 4.03% 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
2007	\$ 3,406,880	\$ 1,728,049	\$ 6,629,027	\$ 4,037,632	\$ 8,035,907	\$ 5,765,681	\$ 13,801,588
2008	3,415,402	1,614,774	4,744,568	3,839,039	8,159,970	5,453,813	13,613,783
2009	3,477,144	1,471,921	4,800,652	3,628,050	8,277,796	5,099,971	13,377,767
2010	3,527,915	1,316,680	4,938,050	3,410,057	8,465,965	4,726,737	13,192,702
2011	3,615,782	1,179,150	5,016,655	3,191,667	8,632,437	4,370,817	13,003,254
2012 - 2016	12,939,493	4,222,242	21,945,291	12,867,704	34,884,784	17,089,946	51,974,730
2017 - 2021	10,200,294	2,045,404	24,193,845	7,670,988	34,394,139	9,716,392	44,110,531
2022 - 2026	<u>4,131,089</u>	<u>171,495</u>	<u>23,676,259</u>	<u>2,474,220</u>	<u>27,807,348</u>	<u>2,645,715</u>	<u>30,453,063</u>
Totals	<u>\$44,713,999</u>	<u>\$13,749,715</u>	<u>\$93,944,347</u>	<u>\$ 41,119,357</u>	<u>\$138,658,346</u>	<u>\$54,869,072</u>	<u>\$ 193,527,418</u>

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2006 are as follows:

Fiscal Year	Tax Incremental Financing Bonds		
	Principal	Interest	Total
2007	\$ 70,058	\$ 79,938	\$ 149,996
2008	74,226	77,339	151,565
2009	78,643	74,586	153,229
2010	83,322	71,669	154,991
2011	88,280	68,578	156,858
2012 - 2016	526,725	289,694	816,419
2017 - 2021	703,216	179,661	882,877
2022 - 2024	<u>530,490</u>	<u>40,115</u>	<u>570,605</u>
Totals	<u>\$2,154,960</u>	<u>\$ 881,580</u>	<u>\$3,036,540</u>

Computation of Legal Debt Margin:

Assessed value	\$4,300,796,906
Debt limit (8% of assessed value per City Charter)	\$ 344,063,752
Amount of debt applicable to debt limit:	
Total bonded debt	\$135,104,324
Other debt	<u>5,708,982</u>
	\$140,813,306
Less: Water and sewer debt	64,079,576
Total amount of debt applicable to debt limit	<u>76,733,730</u>
Legal debt margin	<u>\$ 267,330,022</u>

Schedule of Intended Source of Funds for Debt Retirement:

	<u>Debt Amount</u>
General revenue	\$ 43,819,722
Water and sewer charges	64,079,576
Airport charges	3,525,000
Parking charges and fines	23,919,000
Cash flow from golf course operations	2,169,364
MILA/MICRF Loan Repayments	1,145,684
Incremental tax revenue	<u>2,154,960</u>
	<u>\$ 140,813,306</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, 2006

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	\$ 138,658,346	100.00%	\$ 138,658,346
Frederick County	<u>449,848,809</u>	22.29	<u>100,271,300</u>
Total	<u>\$ 588,507,155</u>		<u>\$ 238,929,646</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, 2006, the interest rate was 4.03%.

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 2008 with renewal provisions. The Bank has no right of termination of this letter of credit until November 2008.

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 \$2,800,000 at June 30, 2006. 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>
2007	\$ 228,313	\$ 500,000
2008	179,562	500,000
2009	14,625	1,800,000

Interest charges under the letter of credit are prime plus 1.5% (equating to 9.75% at June 30, 2006). The City is required to pay annual fees relating to this issue which totaled approximately \$ 24,200 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, 2006	38
Vested terminated employees	86
Active employees - vested 100%	118
Active employees - nonvested	35

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

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, 2006

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	\$ 923,773
Interest on net pension assets	(20,476)
Adjustment to annual required contribution	<u>20,659</u>
Annual pension cost	923,956
Contributions made	<u>(923,773)</u>
Decrease in net pension assets	183
Net pension assets beginning of year	<u>(240,886)</u>
Net pension assets end of year	<u>\$ (240,703)</u>

Year Ended <u>June 30,</u>	<u>Three-Year Trend Information</u>		Net Pension <u>Obligation</u>
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	
2004	658,558	99.72%	(242,687)
2005	883,651	99.80%	(240,886)
2006	923,956	99.98%	(240,703)

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, 2006	129
Vested terminated employees	61
Active employees - vested 100%	132
Active employees - nonvested	50

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, 2006

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, 2006

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	\$ 2,419,945
Interest on net pension assets	(130,485)
Adjustment to annual required contribution	<u>131,653</u>
Annual pension cost	2,421,113
Contributions made	<u>(2,419,945)</u>
Decrease in net pension assets	1,168
Net pension assets beginning of year	<u>(1,535,119)</u>
Net pension assets end of year	<u>\$(1,533,951)</u>

Year Ended	<u>Three-Year Trend Information</u>		
	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
<u>June 30,</u> 2004	1,547,050	99.25%	(1,546,594)
2005	2,028,742	99.43%	(1,535,119)
2006	2,421,113	99.95%	(1,533,951)

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	32
Vested terminated employees	14
Active employees - vested 100%	100
Active employees - nonvested	31

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

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, 2006

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	\$ 2,746,631
Interest on net pension assets	(70,606)
Adjustment to annual required contribution	<u>71,238</u>
Annual pension cost	2,747,263
Contributions made	<u>(2,746,631)</u>
Decrease in net pension assets	632
Net pension assets beginning of year	<u>(830,654)</u>
Net pension assets end of year	<u>\$ (830,022)</u>

Year Ended	<u>Three-Year Trend Information</u>		Net Pension Obligation
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	
2004	2,046,995	99.69%	(836,863)
2005	2,244,906	99.72%	(803,654)
2006	2,747,263	99.98%	(830,022)

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.

	<u>30-Year Plan</u> 7/1/06	<u>25-Year Plan</u> 7/1/06	<u>22-Year Plan</u> 7/1/06
Valuation date	7/1/06	7/1/06	7/1/06
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, 2006

7. Pension plans (continued)

Statement of Fiduciary Net Assets

	Pension Trust Fund			2006 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
ASSETS:				
Cash and short-term investments	\$ 906,556	\$ 3,164,117	\$ 2,190,108	\$ 6,260,781
Receivables				
Accounts receivable – employee	-	65,336	77,520	142,856
Total receivables	-	65,336	77,520	142,856
Investments, at fair value:				
Equities	6,750,085	23,559,562	16,307,236	46,616,883
Fixed income	1,770,857	6,180,753	4,278,136	12,229,746
Total investments	8,520,942	29,740,315	20,585,372	58,846,629
Total assets	9,427,498	32,969,768	22,853,000	65,250,266
NETS ASSETS:				
Held in trust for pension benefits	\$ 9,427,498	\$ 32,969,768	\$ 22,853,000	\$ 65,250,266

Statement of Changes in Fiduciary Net Assets

	Pension Trust Fund			2006 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
ADDITIONS:				
Contributions – employer	\$ 923,773	\$ 2,419,945	\$ 2,746,631	\$ 6,090,349
Contributions – employee	2,639	598,630	698,185	1,299,454
Interest	229,827	818,695	551,658	1,600,180
Net appreciation	543,429	1,935,822	1,304,407	3,783,658
Total additions	1,699,668	5,773,092	5,300,881	12,773,641
DEDUCTIONS:				
Pension benefits	299,879	2,795,777	1,212,912	4,308,568
Service charges	71,032	253,034	170,501	494,567
Total deductions	370,911	3,048,811	1,383,413	4,803,135
Change in net assets	1,318,757	2,724,281	3,917,468	7,970,506
Net assets – beginning	8,098,741	30,245,487	18,935,532	57,279,760
Net assets – ending	\$ 9,427,498	\$ 32,969,768	\$ 22,853,000	\$ 65,250,266

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 340 retirees and dependents are eligible for health benefits and 168 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 2006, those costs totaled approximately \$1,582,000.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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 \$678,337.20 at June 30, 2006, 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, 2006, 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, 2006 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, 2006 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. 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.

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.

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, 2006

The City of Frederick Thirty-Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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%
07/01/06	9,364,339	12,144,760	2,780,421	77.11%	7,121,925	39.04%

City of Frederick Twenty-Five Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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%
07/01/06	32,728,652	55,779,275	23,050,623	58.68%	8,728,421	264.09%

The City of Frederick Twenty-Two Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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%
07/01/06	22,661,227	49,943,963	27,282,736	45.37%	8,384,676	325.39%

The City of Frederick, Maryland
 Required Supplementary Information (unaudited)
 Schedule of Employer Contributions - Pension Plans
 For the Fiscal Year Ended June 30,

The City of Frederick Thirty-Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	\$ 373,693	\$ 402,192	107.63%	\$ (182,080)
2002	397,583	428,926	107.88%	(213,153)
2003	582,657	614,003	105.38%	(244,501)
2004	658,558	656,744	99.72%	(242,687)
2005	883,651	881,850	99.80%	(240,886)
2006	923,956	923,773	99.98%	(240,703)

The City of Frederick Twenty-Five Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	\$ 623,639	\$ 686,462	110.07%	\$ (1,456,844)
2002	659,896	700,782	106.20%	(1,497,730)
2003	1,273,543	1,333,968	104.74%	(1,558,155)
2004	1,547,050	1,535,489	99.25%	(1,546,594)
2005	2,028,742	2,017,267	99.43%	(1,535,119)
2006	2,421,113	2,419,945	99.95%	(1,533,951)

The City of Frederick Twenty-Two Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	\$ 919,256	\$ 1,034,312	112.52%	\$ (687,560)
2002	945,009	1,014,765	107.38%	(757,316)
2003	1,618,944	1,704,747	105.30%	(843,119)
2004	2,046,995	2,040,739	99.69%	(836,863)
2005	2,244,906	2,238,697	99.72%	(830,654)
2006	2,747,263	2,746,631	99.98%	(830,022)

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, 2006

	<u>Special Revenue Funds</u>			
	<u>CDS Program</u>	<u>Weinberg Center</u>	<u>Community Development</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 43,639	\$ -	\$ 43,639
Equity in pooled cash/investments	162,084	27,930	82,697	272,711
Receivables (net of allowance for uncollectibles)	17	3,469	1,013,222	1,016,708
Prepaid items	-	250	-	250
Total assets	<u>\$ 162,101</u>	<u>\$ 75,288</u>	<u>\$ 1,095,919</u>	<u>\$ 1,333,308</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,480	\$ 33,074	\$ 67,222	\$ 108,776
Accrued liabilities	-	-	-	-
Deposits	39,589	-	-	39,589
Total liabilities	<u>48,069</u>	<u>33,074</u>	<u>67,222</u>	<u>148,365</u>
Fund balances:				
Reserved for:				
Encumbrances	119	-	130,759	130,878
Prepaid items	-	250	-	250
Loans	-	-	913,384	913,384
Unreserved:				
Undesignated	113,913	41,964	(15,446)	140,431
Total fund balances	<u>114,032</u>	<u>42,214</u>	<u>1,028,697</u>	<u>1,184,943</u>
Total liabilities and fund balances	<u>\$ 162,101</u>	<u>\$ 75,288</u>	<u>\$ 1,095,919</u>	<u>\$ 1,333,308</u>

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>CDS Program</u>	<u>Weinberg Center</u>	<u>Community Development</u>	
REVENUES:				
Intergovernmental	\$ -	\$ 12,500	\$ 172,569	\$ 185,069
Charges for services	-	349,744	23,900	373,644
Fines and forfeitures	61,500	-	-	61,500
Miscellaneous	6,334	205,089	30,200	241,623
Total revenues	<u>67,834</u>	<u>567,333</u>	<u>226,669</u>	<u>861,836</u>
EXPENDITURES:				
Current:				
Public safety	76,325	-	-	76,325
Recreation and parks	-	818,824	-	818,824
Community development	-	-	271,431	271,431
Total expenditures	<u>76,325</u>	<u>818,824</u>	<u>271,431</u>	<u>1,166,580</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(8,491)</u>	<u>(251,491)</u>	<u>(44,762)</u>	<u>(304,744)</u>
OTHER FINANCING SOURCES (USES):				
Insurance reimbursements	2,528	-	-	2,528
Capital asset disposition	499	-	195,000	195,499
Transfers in	-	280,406	-	280,406
Transfers out	-	-	(77,458)	(77,458)
Total Other Financing Sources (Uses)	<u>3,027</u>	<u>280,406</u>	<u>117,542</u>	<u>400,975</u>
Net Change in Fund Balances	(5,464)	28,915	72,780	96,231
Fund Balance - beginning	<u>119,496</u>	<u>13,299</u>	<u>955,917</u>	<u>1,088,712</u>
Fund Balance - ending	<u>\$ 114,032</u>	<u>\$ 42,214</u>	<u>\$ 1,028,697</u>	<u>\$ 1,184,943</u>

The City of Frederick, Maryland
 CDS Program Fund
 Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fines and forfeitures	\$ 43,500	\$ 43,500	\$ 61,500	\$ 18,000
Miscellaneous	1,750	1,750	6,334	4,584
Total Revenues	<u>45,250</u>	<u>45,250</u>	<u>67,834</u>	<u>22,584</u>
EXPENDITURES:				
CDS Enforcement	<u>87,851</u>	<u>87,851</u>	<u>76,325</u>	<u>11,526</u>
Total Expenditures	<u>87,851</u>	<u>87,851</u>	<u>76,325</u>	<u>11,526</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(42,601)</u>	<u>(42,601)</u>	<u>(8,491)</u>	<u>34,110</u>
OTHER FINANCING SOURCES (USES):				
Insurance reimbursements	-	-	2,528	2,528
Sale of capital assets	<u>1,200</u>	<u>1,200</u>	<u>499</u>	<u>(701)</u>
Total Other Financing Sources (Uses)	<u>1,200</u>	<u>1,200</u>	<u>3,027</u>	<u>1,827</u>
Net Change in Fund Balance	(41,401)	(41,401)	(5,464)	35,937
Budgetary Fund Balance - beginning	<u>41,401</u>	<u>41,401</u>	<u>119,496</u>	<u>78,095</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,032</u>	<u>\$ 114,032</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 12,500	\$ 12,500
Charges for services	436,000	436,000	349,744	(86,256)
Miscellaneous	153,000	156,000	205,089	49,089
Total Revenues	<u>589,000</u>	<u>592,000</u>	<u>567,333</u>	<u>(24,667)</u>
EXPENDITURES:				
Weinberg Center	<u>802,049</u>	<u>805,049</u>	<u>818,824</u>	<u>(13,775)</u>
Total Expenditures	<u>802,049</u>	<u>805,049</u>	<u>818,824</u>	<u>(13,775)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(213,049)</u>	<u>(213,049)</u>	<u>(251,491)</u>	<u>(38,442)</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	<u>200,000</u>	<u>200,000</u>	<u>280,406</u>	<u>80,406</u>
Total Other Financing Sources (Uses)	<u>200,000</u>	<u>200,000</u>	<u>280,406</u>	<u>80,406</u>
Net Change in Fund Balance	(13,049)	(13,049)	28,915	41,964
Budgetary Fund Balance - beginning	<u>13,049</u>	<u>13,049</u>	<u>13,299</u>	<u>250</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,214</u>	<u>\$ 42,214</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 1,074,725	\$ 1,074,725	\$ 172,569	\$ (902,156)
Charges for services	-	-	23,900	23,900
Miscellaneous	50,000	50,000	30,200	(19,800)
Total Revenues	<u>1,124,725</u>	<u>1,124,725</u>	<u>226,669</u>	<u>(898,056)</u>
EXPENDITURES:				
Community development	<u>1,250,322</u>	<u>1,250,322</u>	<u>271,431</u>	<u>978,891</u>
Total Expenditures	<u>1,250,322</u>	<u>1,250,322</u>	<u>271,431</u>	<u>978,891</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(125,597)</u>	<u>(125,597)</u>	<u>(44,762)</u>	<u>80,835</u>
OTHER FINANCING SOURCES (USES):				
Fixed asset disposition	-	-	195,000	195,000
Transfers in	-	-	-	-
Transfers out	<u>(75,000)</u>	<u>(75,000)</u>	<u>(77,458)</u>	<u>(2,458)</u>
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>117,542</u>	<u>192,542</u>
Net Change in Fund Balance	(200,597)	(200,597)	72,780	273,377
Budgetary Fund Balance - beginning	<u>200,597</u>	<u>200,597</u>	<u>955,917</u>	<u>755,320</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,028,697</u>	<u>\$ 1,028,697</u>

Nonmajor Proprietary Funds

Proprietary Funds

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

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

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

The City of Frederick, Maryland
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,000	\$ -	\$ 1,000
Investments	-	5,047	5,047
Equity in pooled cash/investments	-	76,341	76,341
Receivables (net of allowance of uncollectibles)	21	781	802
Inventories	146,193	-	146,193
Prepays	2,500	-	2,500
Deferred charges	34,498	-	34,498
Total current assets	<u>184,212</u>	<u>82,169</u>	<u>266,381</u>
Noncurrent assets:			
Net pension asset	32,485	-	32,485
Capital assets:			
Land	-	30,650	30,650
Buildings and systems	-	180,795	180,795
Improvements other than buildings	4,566,268	-	4,566,268
Machinery and equipment	452,724	16,040	468,764
Less accumulated depreciation	(1,732,496)	(135,691)	(1,868,187)
Total noncurrent assets	<u>3,318,981</u>	<u>91,794</u>	<u>3,410,775</u>
Total assets	<u>3,503,193</u>	<u>173,963</u>	<u>3,677,156</u>
LIABILITIES			
Current liabilities:			
Accounts payable	49,468	89	49,557
Accrued liabilities	21,067	-	21,067
Deposits	-	757	757
Unearned revenue	35,498	-	35,498
Advances from other funds	2,331,102	-	2,331,102
Compensated absences	26,917	-	26,917
Bonds, notes, and loans payable	397,803	-	397,803
Total current liabilities	<u>2,861,855</u>	<u>846</u>	<u>2,862,701</u>
Noncurrent liabilities:			
Compensated absences	39,754	-	39,754
Bonds, notes, and loans payable	1,610,351	-	1,610,351
Total noncurrent liabilities	<u>1,650,105</u>	<u>-</u>	<u>1,650,105</u>
Total liabilities	<u>4,511,960</u>	<u>846</u>	<u>4,512,806</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,278,342	91,794	1,370,136
Unrestricted	(2,287,109)	81,323	(2,205,786)
Total net assets	<u>\$ (1,008,767)</u>	<u>\$ 173,117</u>	<u>\$ (835,650)</u>

The City of Frederick, Maryland
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
Operating revenues:			
Charges for services:			
Golf course fees	\$ 1,727,652	\$ -	\$ 1,727,652
Miscellaneous	11,549	17,855	29,404
Total operating revenues	<u>1,739,201</u>	<u>17,855</u>	<u>1,757,056</u>
Operating expenses:			
Public housing	-	15,622	15,622
Golf course maintenance	473,148	-	473,148
Golf course clubhouse	613,657	-	613,657
Golf course restaurant	285,143	-	285,143
Depreciation	129,327	6,811	136,138
Total operating expenses	<u>1,501,275</u>	<u>22,433</u>	<u>1,523,708</u>
Operating income/(loss)	<u>237,926</u>	<u>(4,578)</u>	<u>233,348</u>
Nonoperating revenues/(expenses)			
Intergovernmental	-	15,115	15,115
Interest income	-	2,381	2,381
Interest expense	(64,441)	-	(64,441)
Other nonoperating expenses	(46,799)	-	(46,799)
Total nonoperating revenue/(expenses)	<u>(111,240)</u>	<u>17,496</u>	<u>(93,744)</u>
Income/(loss) before contributions and transfers	126,686	12,918	139,604
Change in net assets	126,686	12,918	139,604
Total net assets - beginning	<u>(1,135,453)</u>	<u>160,199</u>	<u>(975,254)</u>
Total net assets - ending	<u><u>\$(1,008,767)</u></u>	<u><u>\$ 173,117</u></u>	<u><u>\$ (835,650)</u></u>

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,743,534	\$ 18,497	\$ 1,762,031
Payments to vendors	(843,137)	(6,539)	(849,676)
Payments to employees	(614,651)	(9,481)	(624,132)
Net cash provided (used) by operating activities	<u>285,746</u>	<u>2,477</u>	<u>288,223</u>
Cash flows from noncapital financing activities:			
Operating subsidy	-	15,115	15,115
Due to other funds	196,362	-	196,362
Net cash provided (used) by noncapital financing activities	<u>196,362</u>	<u>15,115</u>	<u>211,477</u>
Cash flows from capital and related financing activities:			
Capital asset acquisitions	(15,338)	-	(15,338)
Principal payments	(398,649)	-	(398,649)
Interest payments	(67,271)	-	(67,271)
Other debt related costs	(750)	-	(750)
Net cash provided (used) by capital and related financing activities	<u>(482,008)</u>	<u>-</u>	<u>(482,008)</u>
Cash flows from investings activities:			
Interest earned	-	2,382	2,382
Net cash provided (used) by investing activities	<u>-</u>	<u>2,382</u>	<u>2,382</u>
Net increase (decrease) in cash equivalents	100	19,974	20,074
Cash equivalents - beginning	<u>900</u>	<u>61,414</u>	<u>62,314</u>
Cash equivalents - ending	<u>\$ 1,000</u>	<u>\$ 81,388</u>	<u>\$ 82,388</u>

(continued)

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	<u>\$ 237,926</u>	<u>\$ (4,578)</u>	<u>\$ 233,348</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	129,327	6,811	136,138
(Increase)/decrease in accounts receivable	(21)	638	617
(Increase)/decrease in inventory	(31,210)	-	(31,210)
(Increase)/decrease in prepaids	500	-	500
Decrease in net pension asset	22	-	22
(Decrease)/increase in accounts payable	(21,670)	(4)	(21,674)
(Decrease)/increase in deferred revenue	4,354	-	4,354
(Decrease)/increase in deposits	-	4	4
(Decrease)/increase in wages payable	(33,087)	(394)	(33,481)
(Decrease)/increase in compensated absences	(395)	-	(395)
Total adjustments	<u>47,820</u>	<u>7,055</u>	<u>54,875</u>
Net cash provided (used) by operating activities	<u>\$ 285,746</u>	<u>\$ 2,477</u>	<u>\$ 288,223</u>

STATISTICAL SECTION

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 64,563,229	\$104,435,028	\$ 54,856,404	\$ 55,805,720
Restricted	145,572	113,014	820,341	795,991
Unrestricted	11,696,089	8,910,173	7,839,494	20,230,961
Total governmental activities net assets	\$ 76,404,890	\$113,458,215	\$ 63,516,239	\$ 76,832,672
Business-type activities				
Invested in capital assets, net of related debt	\$ 68,202,650	\$ 86,625,237	\$143,574,323	\$144,403,887
Restricted	446,635	3,252,369	6,490,579	12,695,679
Unrestricted	23,304,139	23,727,578	19,500,985	18,833,302
Total business-type activities net assets	\$ 91,953,424	\$113,605,184	\$169,565,887	\$175,932,868
Primary government				
Invested in capital assets, net of related debt	\$132,765,879	\$191,060,265	\$198,430,727	\$200,209,607
Restricted	592,207	3,365,383	7,310,920	13,491,670
Unrestricted	35,000,228	32,637,751	27,340,479	39,064,263
Total primary government net assets	\$168,358,314	\$227,063,399	\$233,082,126	\$252,765,540

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

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 7,719,643	\$ 7,857,792	\$ 7,811,588	\$ 7,381,790
Public safety	16,114,175	17,670,546	18,969,032	20,289,857
Public works	10,405,465	12,977,426	12,666,210	13,955,935
Recreation and parks	5,317,760	5,585,375	5,513,056	5,334,442
Community development	667,175	787,758	1,102,406	711,756
Economic opportunity	2,055,864	1,964,282	2,194,580	2,323,843
Interest on long-term debt	2,087,187	2,186,093	2,097,849	1,999,391
Miscellaneous	62,839	59,002	61,126	15,216
Total governmental activities expenses	44,430,108	49,088,274	50,415,847	52,012,230
Business-type activities:				
Rental operations	27,017	33,412	63,547	22,433
Water and sewer	9,461,124	10,991,499	14,262,777	14,709,615
Golf course	1,731,567	1,629,269	1,660,229	1,612,515
Airport	1,069,779	1,711,743	1,685,136	1,764,846
Parking	1,382,570	1,588,800	1,899,409	3,724,869
Storm water	-	-	1,942,658	1,984,030
Total business-type activities expenses	13,672,057	15,954,723	21,513,756	23,818,308
Total primary government expenses	\$ 58,102,165	\$ 65,042,997	\$ 71,929,603	\$ 75,830,538
Program Revenues				
Government activities:				
Charges for services:				
Public safety	\$ 633,197	\$ 1,121,937	\$ 1,966,838	\$ 2,731,753
Recreation and parks	1,383,679	1,336,374	1,265,644	1,347,786
Other activities	1,416,155	1,310,454	1,985,858	1,616,970
Operating grants and contributions	5,307,237	4,794,391	6,409,566	6,413,053
Capital grants and contributions	5,591,748	1,852,181	2,678,857	3,074,822
Total governmental activities program revenues	14,332,016	10,415,337	14,306,763	15,184,384
Business-type activities:				
Charges for services:				
Water and sewer	9,606,540	10,097,461	10,937,738	12,827,261
Golf course	1,414,023	1,593,098	1,615,152	1,739,201
Airport	820,820	995,699	1,138,627	1,045,308
Parking	2,034,922	2,163,631	2,987,254	3,148,483
Other activities	10,391	14,086	817,109	818,503
Operating grants and contributions	136,919	99,610	109,830	103,762
Capital grants and contributions	3,487,957	11,907,542	7,346,014	14,414,700
Total business-type activities program revenues	17,511,572	26,871,127	24,951,724	34,097,218
Total primary government revenues	\$ 31,843,588	\$ 37,286,464	\$ 39,258,487	\$ 49,281,602
Net (expense)/revenue				
Governmental activities	\$ (30,098,092)	\$ (38,672,937)	\$ (36,109,084)	\$ (36,827,846)
Business-type activities	3,839,515	10,916,404	3,437,968	10,278,910
Total primary government net expense	\$ (26,258,577)	\$ (27,756,533)	\$ (32,671,116)	\$ (26,548,936)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 24,256,535	\$ 24,873,386	\$ 27,784,135	\$ 31,426,436
Income taxes	4,774,771	4,561,415	4,907,806	5,166,640
Other taxes	491,614	575,344	387,408	389,999
Unrestricted grants and contributions	2,706,746	3,092,151	3,341,584	3,728,364
Interest earnings	574,113	352,445	506,950	886,927
Gain/(loss) on sale of capital assets	403,980	264,778	1,036,837	1,221,775
Miscellaneous	141,320	74,783	58,991	56,199
Transfers	907,800	1,870,044	1,518,921	7,267,939
Transfer of capital assets	-	-	(53,375,524)	-
Total governmental activities	34,256,879	35,664,346	(13,832,892)	50,144,279
Business-type activities:				
Interest earnings	700,093	467,727	666,132	3,356,010
Transfers	(907,800)	(1,870,044)	(1,518,921)	(7,267,939)
Transfer of capital assets	-	-	53,375,524	-
Total business-type activities	(207,707)	(1,402,317)	52,522,735	(3,911,929)
Total primary government	\$ 34,049,172	\$ 34,262,029	\$ 38,689,843	\$ 46,232,350
Change in Net Assets				
Governmental activities	\$ 4,158,787	\$ (3,008,591)	\$ (49,941,976)	\$ 13,316,433
Business-type activities	3,631,808	9,514,087	55,960,703	6,366,981
Total primary government	\$ 7,790,595	\$ 6,505,496	\$ 6,018,727	\$ 19,683,414

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 4,249,320	\$ 4,406,617	\$ 4,739,867	\$ 5,136,148	\$ 4,748,462	\$ 4,957,004	\$ 5,108,192	\$ 5,290,273	\$ 4,956,617	\$ 5,288,664
Unreserved	6,160,905	5,781,654	7,346,499	8,494,765	10,622,140	8,910,188	6,283,232	2,452,159	4,771,476	10,317,530
Total general fund	<u>\$10,410,225</u>	<u>\$10,188,271</u>	<u>\$12,086,366</u>	<u>\$13,630,913</u>	<u>\$15,370,602</u>	<u>\$13,867,192</u>	<u>\$11,391,424</u>	<u>\$ 7,742,432</u>	<u>\$ 9,728,093</u>	<u>\$15,606,194</u>
All other governmental funds										
Reserved	\$ 2,679,397	\$ 3,958,034	\$ 2,436,652	\$ 2,128,300	\$ 5,379,048	\$ 8,863,766	\$ 4,552,956	\$ 9,631,509	\$11,388,067	\$ 7,225,118
Unreserved, reported in:										
Special revenue funds	1,034,753	890,429	1,104,020	1,094,295	1,262,616	2,261,087	188,943	(55,409)	30,209	140,431
Capital projects funds	2,091,540	1,956,855	217,487	6,982,818	(2,851,816)	(2,699,382)	17,707,505	10,265,668	4,864,579	4,427,961
Total all other governmental funds	<u>\$ 5,805,690</u>	<u>\$ 6,805,318</u>	<u>\$ 3,758,159</u>	<u>\$10,205,413</u>	<u>\$ 3,789,848</u>	<u>\$ 8,425,471</u>	<u>\$22,449,404</u>	<u>\$19,841,768</u>	<u>\$16,282,855</u>	<u>\$11,793,510</u>

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes:										
Property taxes	\$ 17,518,588	\$ 17,778,518	\$ 18,778,957	\$ 19,864,880	\$ 20,864,965	\$ 21,897,619	\$ 24,256,535	\$ 24,984,483	\$ 27,784,135	\$ 31,426,435
Income taxes	1,775,124	1,899,172	2,333,697	3,135,332	3,505,717	4,437,718	4,774,771	4,561,415	4,907,806	5,166,640
Other taxes	2,064,984	2,450,915	2,668,698	2,813,950	2,842,069	3,108,501	491,614	464,247	387,408	389,999
Licenses and permits	647,119	738,849	757,837	1,104,845	1,136,046	830,568	811,367	1,160,087	1,965,138	2,693,743
Intergovernmental	8,885,170	6,713,898	5,646,779	5,649,460	7,143,695	11,127,878	8,271,637	9,226,953	10,627,614	11,162,584
Charges for services	981,527	981,986	1,166,484	1,139,518	1,289,396	1,241,508	1,233,540	1,490,066	1,774,069	1,745,271
Fines and forfeitures	95,061	48,833	48,441	105,432	26,663	73,437	122,942	71,864	116,690	444,404
Miscellaneous	2,217,786	2,152,060	2,698,855	2,904,243	1,838,062	1,322,387	1,631,836	2,471,717	2,236,450	2,363,280
Total revenues	<u>34,185,359</u>	<u>32,764,231</u>	<u>34,099,748</u>	<u>36,717,660</u>	<u>38,646,613</u>	<u>44,039,616</u>	<u>41,594,242</u>	<u>44,430,832</u>	<u>49,799,310</u>	<u>55,392,356</u>
Expenditures										
General government	2,668,580	3,520,687	4,410,578	5,187,944	5,770,291	6,506,390	7,201,732	7,291,826	7,544,954	7,081,328
Public safety	8,693,027	9,939,157	10,764,585	11,862,193	12,835,731	13,910,720	15,590,211	17,350,095	18,469,066	20,019,582
Public works	7,306,635	6,954,718	6,818,799	7,065,302	7,788,576	8,358,712	9,439,703	9,678,425	9,146,013	10,251,810
Recreation and parks	2,679,949	3,133,426	3,222,561	3,426,829	3,870,892	4,019,936	4,456,581	4,569,933	4,671,167	4,585,333
Urban development and housing	2,502,106	1,843,518	375,555	424,800	361,913	455,294	803,601	793,812	1,437,530	776,877
Economic opportunity	890,492	984,531	1,108,220	1,262,933	1,515,764	1,878,996	2,085,198	1,982,785	2,152,705	2,231,192
Miscellaneous	30,959	25,902	295,228	217,433	43,984	65,294	62,839	59,002	61,126	3,931
Capital projects	9,266,742	2,681,967	6,347,194	4,144,028	11,400,191	18,648,319	3,952,098	7,056,923	8,071,281	13,219,554
Debt service:										
Principal	2,417,289	2,022,076	1,907,100	1,902,533	2,314,554	2,312,770	2,222,479	3,328,662	4,042,885	4,024,631
Interest	1,828,574	1,748,447	1,664,714	1,555,470	1,558,760	1,204,392	1,712,226	2,096,685	2,016,215	1,908,433
Other charges	39,634	21,072	61,378	28,283	32,039	160,846	107,891	40,159	25,268	19,166
Total expenditures	<u>38,323,987</u>	<u>32,875,501</u>	<u>36,975,912</u>	<u>37,077,748</u>	<u>47,492,695</u>	<u>57,521,669</u>	<u>47,634,559</u>	<u>54,248,307</u>	<u>57,638,210</u>	<u>64,121,837</u>
Excess (deficiency) of revenues over expenditures	<u>(4,138,628)</u>	<u>(111,270)</u>	<u>(2,876,164)</u>	<u>(360,088)</u>	<u>(8,846,082)</u>	<u>(13,482,053)</u>	<u>(6,040,317)</u>	<u>(9,817,475)</u>	<u>(7,838,900)</u>	<u>(8,729,481)</u>
Other financing sources (uses)										
Capital asset disposition	5,082	19,746	540,642	4,666,095	2,801,753	22,990	923,416	420,803	3,347,897	1,588,366
Insurance reimbursements	-	-	-	-	-	-	-	-	-	67,774
Debt proceeds	1,400,000	300,000	-	2,500,000	-	34,808,309	24,689,331	1,270,000	1,398,945	1,194,043
Transfers in	1,811,881	2,497,096	2,090,296	7,461,635	3,524,021	3,183,363	3,516,462	3,586,580	3,610,205	10,115,807
Transfers out	(764,756)	(2,219,866)	(1,291,831)	(6,738,471)	(2,709,324)	(2,574,422)	(2,608,662)	(1,716,536)	(2,091,284)	(2,847,868)
Payment to refunded bond escrow	-	-	-	-	-	(19,759,093)	-	-	-	-
Total other financing sources (uses)	<u>2,452,207</u>	<u>596,976</u>	<u>1,339,107</u>	<u>7,889,259</u>	<u>3,616,450</u>	<u>15,681,147</u>	<u>26,520,547</u>	<u>3,560,847</u>	<u>6,265,763</u>	<u>10,118,122</u>
Net change in fund balances	<u>\$ (1,686,421)</u>	<u>\$ 485,706</u>	<u>\$ (1,537,057)</u>	<u>\$ 7,529,171</u>	<u>\$ (5,229,632)</u>	<u>\$ 2,199,094</u>	<u>\$ 20,480,230</u>	<u>\$ (6,256,628)</u>	<u>\$ (1,573,137)</u>	<u>\$ 1,368,641</u>
Debt service as a percentage of noncapital expenditures	15.1%	12.9%	12.1%	10.9%	11.2%	9.4%	9.3%	11.8%	12.6%	12.0%

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		
	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	
1997	\$ 2,484,726,088	\$ 993,890,435	1.61	\$ 280,312,712	\$ 105,117,267	1.61	\$ 2,765,038,800	\$ 1,099,007,702	39.75%
1998	2,583,146,383	1,033,258,553	1.59	282,909,349	106,091,006	1.59	2,866,055,732	1,139,349,559	39.75%
1999	2,676,844,498	1,070,737,799	1.59	324,529,309	121,698,491	1.59	3,001,373,807	1,192,436,290	39.73%
2000	2,763,715,410	1,105,486,164	1.59	377,381,971	141,518,239	1.59	3,141,097,381	1,247,004,403	39.70%
2001	2,940,378,980	1,176,151,592	1.57	406,754,819	152,533,057	1.57	3,347,133,799	1,328,684,649	39.70%
2002	3,118,925,484	3,118,925,484	0.62	431,091,957	161,659,484	1.55	3,550,017,441	3,280,584,968	92.41%
2003	3,356,541,848	3,356,541,848	0.64	459,129,176	172,173,441	1.55	3,815,671,024	3,528,715,289	92.48%
2004	3,500,070,576	3,500,070,576	0.64	437,145,803	163,929,676	1.55	3,937,216,379	3,664,000,252	93.06%
2005	3,644,565,359	3,644,565,359	0.69	441,113,224	165,417,459	1.55	4,085,678,583	3,809,982,818	93.25%
2006	4,138,633,781	4,138,633,781	0.69	432,435,000	162,163,125	1.55	4,571,068,781	4,300,796,906	94.09%

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
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
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%
2006	31,023,926	30,834,951	99.4%	271,246	31,106,197	100.3%

* 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			Rate	Levy	Rate	Levy	Rate	Levy
1997	Real \$ 1.61	Personal \$ 1.61	Levy \$ 17,694,024	Rate \$ 2.440	Levy \$ 24,250,927	Rate 0.210	Levy \$ 2,087,170	Rate \$ 4.260	Levy \$ 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
2006	0.69	1.55	31,023,926	1.135	46,973,493	0.132	5,462,997	1.957	83,460,416

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
Current Year and Nine Years Ago

Real Property Tax:

Taxpayer	2006			1997		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
State Farm Mutual Auto Insurance	\$ 40,982,700	1	0.99%	\$ 6,279,814	4	0.63%
First Real Estate Investment Trust	27,217,200	2	0.66%	8,865,714	2	0.89%
Frederick Partners LLP	21,350,800	3	0.52%	6,440,745	3	0.65%
Oakwood Atlanta, LLC	20,598,633	4	0.50%	-	-	-
Homewood Retirement Centers	16,467,500	5	0.40%	-	-	-
Frederick Shopping Center LLC	16,376,507	6	0.40%	-	-	-
Waverly Limited Partnership	15,200,300	7	0.37%	5,103,043	7	0.51%
Costco Wholesale Corp.	14,743,200	8	0.36%	-	-	-
Fredericktowne Mall Assoc.	14,135,700	9	0.34%	17,209,379	1	1.73%
Frederick Commons, LLC	13,554,700	10	0.33%	-	-	-
Avalon Properties, Inc.	-	-	-	5,996,335	5	0.60%
Washington Real Estate Inv. Trust	-	-	-	5,303,478	6	0.53%
Rosenfeld, Samuel J., etal	-	-	-	4,500,994	8	0.45%
Carrolton Associates Ltd.	-	-	-	4,166,335	9	0.42%
Willowdale Garden Associates	-	-	-	4,064,161	10	0.41%
	<u>\$ 200,627,240</u>		<u>4.85%</u>	<u>\$ 67,929,998</u>		<u>6.83%</u>

Personal Property Tax:

Taxpayer	2006			1997		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
BPSolar International, LLC	\$ 11,091,210	1	6.84%	\$ -	-	-
Mid Atlantic Medical Services, Inc.	5,781,130	2	3.57%	-	-	-
Intracel Resources, LLC	3,521,990	3	2.17%	-	-	-
GS Cable, LLC	3,211,620	4	1.98%	-	-	-
MedImmune, Inc.	2,928,970	5	1.81%	-	-	-
State Farm Mutual Automobile Insurance Co.	2,418,030	6	1.49%	3,602,912	1	3.43%
Von Hoffman Corporation	2,182,700	7	1.35%	-	-	-
Giant Food Stores, Inc.	1,886,750	8	1.16%	826,064	10	0.79%
Randall Family, LLC	1,798,000	9	1.11%	-	-	-
Signature Special Event Services, LLC	1,257,050	10	0.78%	-	-	-
Galaxy Registration, Inc.	-	-	-	2,278,749	2	2.17%
PAM Engineering, Inc.	-	-	-	1,892,225	3	1.80%
Aircraft Owners and Pilots Assn.	-	-	-	1,175,321	4	1.12%
Bancroft Dairy Maryland	-	-	-	1,058,245	5	1.01%
Frederick Cablevision, Inc.	-	-	-	1,038,915	6	0.99%
Weis Markets, Inc.	-	-	-	958,383	7	0.91%
North American Philips Co.	-	-	-	873,480	8	0.83%
Philips Electronics North	-	-	-	841,442	9	0.80%
	<u>\$ 36,077,450</u>		<u>22.25%</u>	<u>\$ 14,545,736</u>		<u>13.84%</u>

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

Fiscal Year	Governmental Activities					Business-Type Activities					Percentage of Estimated Personal Income (1)		Per Capita (2)
	General Obligation Bonds	Tax Incremental Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Notes Payable	Leases	Total Primary Government	Income (1)	Per Capita (2)		
1997	\$ 36,304,000	-	\$ 2,616,935	-	\$ 17,771,000	-	\$ 48,506	\$ -	\$ 56,740,441	4.31%	\$ 1,167.72		
1998	33,819,000	-	2,924,260	-	16,711,000	-	-	-	53,454,260	3.73%	1,074.76		
1999	31,474,000	-	2,873,438	-	15,481,000	-	-	-	49,828,438	3.25%	976.45		
2000	29,151,000	2,500,000	2,814,379	-	14,209,000	-	-	240,340	48,914,719	2.84%	926.99		
2001	26,835,000	2,450,472	2,368,089	-	12,900,000	-	-	174,749	44,728,310	2.47%	847.66		
2002	40,921,000	2,397,997	1,656,603	-	16,614,000	3,785,000	-	137,936	65,512,536	3.39%	1,164.01		
2003	52,738,000	2,342,399	1,290,333	-	26,907,000	5,365,105	-	97,250	88,740,087	4.35%	1,532.14		
2004	49,553,000	2,283,494	1,205,576	1,270,000	25,157,000	5,140,568	-	-	84,609,638	3.83%	1,442.62		
2005	45,611,646	2,221,084	1,117,651	1,019,450	21,993,067	4,910,560	-	-	76,873,458	N/A	1,302.65		
2006	43,680,000	2,154,960	1,033,999	1,968,583	89,269,364	4,674,983	-	225,957	143,007,846	N/A	2,355.01		

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) - See Selected Demographic Statistics for personal income data.

(2) - See Ratios of General Bonded Debt Outstanding below for population data.

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

Fiscal Year	General Obligation Bonds	Tax Incremental Financing Bonds	Total General Bonded Debt	Assessed Value Of Taxable Property	Percentage of Total General Bonded Debt to Assessed Value of Taxable Property	Population	Total General Bonded Debt Per Capita
1997	\$ 36,304,000	-	\$ 36,304,000	\$ 1,099,007,702	3.30%	48,591	\$ 747.13
1998	33,819,000	-	33,819,000	1,139,349,559	2.97%	49,736	679.97
1999	31,474,000	-	31,474,000	1,192,436,290	2.64%	51,030	616.77
2000	29,151,000	2,500,000	31,651,000	1,247,004,403	2.54%	52,767	599.83
2001	26,835,000	2,450,472	29,285,472	1,328,684,649	2.20%	52,767	555.00
2002	40,921,000	2,397,997	43,318,997	3,280,584,968	1.32%	56,282	769.68
2003	52,738,000	2,342,399	55,080,399	3,528,715,289	1.56%	57,919	950.99
2004	49,553,000	2,283,494	51,836,494	3,664,000,252	1.41%	58,650	883.83
2005	45,611,646	2,221,084	47,832,730	3,809,982,818	1.26%	59,013	810.55
2006	43,680,000	2,154,960	45,834,960	4,300,796,906	1.07%	60,725	754.80

THE CITY OF FREDERICK, MARYLAND
 DIRECT AND OVERLAPPING DEBT
 as of June 30, 2006

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Frederick County	\$ 449,848,809	22.29%	\$ 100,271,300
The City of Frederick direct debt			138,658,346
			<u>\$ 238,929,646</u>

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

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

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

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

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Ratio of Total Net Debt Applicable to Limit to Debt Limit
1997	\$ 87,920,616	\$ 43,808,749	\$ 44,111,867	49.83%
1998	91,147,964	41,464,170	49,683,794	45.49%
1999	95,394,903	38,808,069	56,586,834	40.68%
2000	99,760,352	38,629,923	61,130,429	38.72%
2001	106,294,771	35,498,561	70,796,210	33.40%
2002	262,446,797	48,460,600	213,986,197	18.46%
2003	282,297,223	69,725,527	212,571,696	24.70%
2004	293,120,020	65,525,887	227,594,133	22.35%
2005	304,798,625	61,400,017	243,398,608	20.14%
2006	344,063,752	76,733,730	267,330,022	22.30%

In fiscal year 2002, the assessed value of real property was changed from 40% to 100% of estimated actual value. However, no adjustment was made to the debt limit restriction rate of 8% that is established by City charter.

THE CITY OF FREDERICK, MARYLAND
 COMPUTATION OF LEGAL DEBT MARGIN
 June 30, 2006

Assessed valuations		\$ 4,300,796,906
Debt limit (8% of assessed value per City Charter)		\$ 344,063,752
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 135,104,324	
Other debt	5,708,982	
	\$ 140,813,306	
Less: Water and sewer debt	64,079,576	
Total amount of debt applicable to debt limit		76,733,730
Legal debt margin		\$ 267,330,022

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

THE CITY OF FREDERICK, MARYLAND
 PLEDGED-REVENUE COVERAGE
 Last Six Fiscal Years

	Real Property Tax Increment Financing Bonds									
	Pledged Revenues					Expenditures				
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total	Coverage		
2001	\$ 43,252	\$ 81,723	\$ 124,975	\$ 49,528	\$ 74,375	\$ 3,500	\$ 127,403	98.00%		
2002	65,325	140,000	205,325	52,475	145,803	14,169	212,447	97.00%		
2003	113,772	105,000	218,772	55,597	142,672	6,511	204,780	107.00%		
2004	124,781	110,000	234,781	58,905	139,391	6,470	204,766	115.00%		
2005	167,679	-	167,679	62,410	135,839	2,356	200,605	84.00%		
2006	195,074	-	195,074	66,124	56,668	5,866	128,658	152.00%		

THE CITY OF FREDERICK, MARYLAND
 SELECTED DEMOGRAPHIC STATISTICS
 June 30, 2006
 For the years ended June 30,

Fiscal Year	(1) Population	(2) Household Mean Income	(3) Per Capita Personal Income	(1 x 3) Estimated Personal Income (000s)	(4) School Enrollment	(5) Estimated Unemployment Rate - June
1997	48,591	\$ 63,600	\$ 27,089	\$ 1,316,282	33,942	4.20%
1998	49,736	67,600	28,800	1,432,397	34,742	3.10%
1999	51,030	69,950	29,999	1,530,849	35,383	2.40%
2000	52,767	75,650	32,695	1,725,217	36,074	4.50%
2001	52,767	79,600	34,257	1,807,639	36,961	5.10%
2002	56,282	80,900	34,324	1,931,823	38,122	5.70%
2003	57,919	83,050	35,201	2,038,807	38,621	5.80%
2004	58,650	88,650	37,632	2,207,117	39,003	5.40%
2005	59,013	93,900	N/A	N/A	39,564	4.80%
2006	60,725	N/A	N/A	N/A	38,741	4.50%

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

- Sources: (1) 1996 - 1999 Estimate by Frederick County Planning Department
 2000 - 2001 - U.S. Census Bureau
 2002 - 2006 - The City of Frederick Planning Department
 (2) Maryland Department of Planning Data Services, June 2006, (current dollars)
 (3) Regional Economic Information System, Bureau of Economic Analysis, April 2006
 (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
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	2006			1997		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Fort Detrick	7,900	1	N/A	4,700	1	N/A
Frederick County Board of Education	5,046	2	N/A	3,571	2	N/A
Frederick County Government	2,526	3	N/A	1,934	3	N/A
Frederick Memorial Hospital	2,350	4	N/A	1,400	4	N/A
SAIC	2,000	5	N/A	-	-	-
United Health Care	1,565	6	N/A	-	-	-
Frederick Community College	1,141	7	N/A	520	6	N/A
State Farm Insurance Company	950	8	N/A	675	5	N/A
Frederick City Government	851	9	N/A	403	8	N/A
BP Solar	500	10	N/A	-	-	-
H. L. Hartz & Son	-	-	-	488	7	N/A
Hood College	-	-	-	375	9	N/A
Phillips Technologies	-	-	-	350	10	N/A

Frederick County Economic and Community Development Commission 1997, 2006
Total City employment figures are not readily available to make calculation.

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

Function:	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government	38.57	51.20	71.81	80.75	71.29	80.76	89.51	80.93	80.27	77.30
Public safety	145.32	149.41	160.70	177.63	176.23	181.86	187.00	197.30	197.40	194.24
Public works	92.95	85.69	80.33	78.64	77.91	84.88	85.02	90.52	89.35	84.77
Recreation and parks	58.95	58.73	57.64	59.10	64.36	66.50	68.70	69.34	64.52	60.44
Community development	4.00	4.20	1.30	1.80	1.80	3.00	5.00	6.00	6.00	6.00
Economic opportunity	26.77	29.19	32.06	33.72	31.08	37.57	36.68	37.84	41.56	38.27
Rental operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.35	0.50
Water and sewer	72.59	67.16	63.83	61.04	66.21	66.21	66.11	68.54	75.58	76.83
Golf course	18.80	18.48	18.66	18.50	17.91	21.94	22.47	22.37	22.08	21.01
Airport	1.50	1.75	2.00	2.00	2.00	2.00	2.00	3.13	3.50	3.50
Parking	10.62	11.74	11.40	11.46	11.52	11.82	11.96	13.05	15.73	15.74
Storm water	4.81	3.81	3.60	3.28	4.62	4.62	4.62	4.82	7.15	7.00
Total	474.88	481.36	503.33	527.92	524.93	561.16	579.07	593.84	603.49	585.60

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

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function:										
Public safety										
Police:										
Stations	2	2	2	2	2	2	2	2	2	2
Public works:										
Miles of paved streets	150	170	170	170	170	168	180	180	183	184
Miles of sidewalks	87	260	260	260	323	320	344	344	350	350
Number of street lights	6,632	6,736	6,793	6,875	6,986	7,164	7,506	7,790	7,959	8,131
Number of traffic signals	65	71	71	72	73	74	71	71	72	71
Recreation and parks:										
Number of parks	40	57	57	57	57	58	63	63	63	59
Parks acreage	530	600	600	421	275	300	465	465	443	464
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	24	24	24	26	32	32	32	32	25	26
Number of municipal stadiums	2	2	2	2	2	2	2	2	2	2
Economic opportunity:										
Number of transitional shelters	1	1	1	1	1	1	1	1	1	1
Number of transitional apartments	3	3	3	3	3	3	3	3	3	3
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Water and sewer:										
Miles of water main	199	199	199	205	215	250	250	250	255	215
Number of fire hydrants	N/A	N/A	N/A	2,300	2,500	2,600	2,600	2,600	2,675	2,500
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Miles of sanitary sewer	172	180	180	180	200	200	157	157	162	161
Number of sewage treatment plants	1	1	1	1	1	1	1	1	1	1
Golf course:										
Number of golf courses	1	1	1	1	1	1	1	1	1	1
Airport:										
Number of runways	2	2	2	2	2	2	2	2	2	2
Number of T-hangars	45	45	45	45	45	125	125	125	125	125
Number of corporate hangars	0	0	0	0	0	0	1	1	1	1
Parking:										
Number of parking areas	4	6	6	8	5	3	5	5	3	3
Number of parking area spaces	N/A	N/A	N/A	362	357	234	250	250	156	156
Number of parking garages	3	3	3	3	3	3	3	3	3	3
Number of parking garage spaces	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,470
Stormwater:										
Miles of storm drain	N/A	210								

N/A - information is not readily available
 Information provided by various City departments

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

Function:	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public safety										
Police:										
Calls for service	49,874	50,413	57,989	54,946	57,533	59,901	59,586	58,396	64,876	65,227
Physical arrests	4,022	4,377	3,852	2,932	3,582	3,938	3,739	3,442	3,693	2,897
Traffic violations	N/A	10,698	10,518	8,992	9,192	9,819	9,819	9,819	12,684	8,750
Water and sewer:										
Number of water service connections	13,725	13,747	13,756	14,667	15,000	16,520	16,600	16,600	17,100	17,587
Avg. daily water consumption (thousands of gallons)	6,088	6,450	6,450	6,649	6,209	6,798	6,412	6,412	6,500	5,780
Number of sewer service connections	N/A	N/A	N/A	13,158	15,000	15,000	14,300	14,300	14,729	14,713
Avg. daily sewage treatment (thousands of gallons)	N/A	N/A	N/A	6,040	6,380	6,500	6,610	6,610	7,000	6,450
Golf course:										
Number of rounds of golf	N/A	N/A	N/A	N/A	N/A	N/A	32,298	34,816	33,979	35,260
Airport:										
Number of Operations	130,000	130,000	130,000	131,712	131,800	134,436	156,627	159,562	150,441	154,107
Parking:										
Number of parking violations	N/A	N/A	N/A	31,746	31,614	36,390	40,816	40,816	48,094	30,272

N/A - information is not readily available
 Information from various City departments

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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 8, 2006. 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. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

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 reportable condition described above is not a material weakness. We also noted certain matters that we have reported to management of the City in a separate letter dated September 8, 2006.

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.



Frederick, Maryland
September 8, 2006

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

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, 2006. 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, 2006.

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 8, 2006.

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 8, 2006

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Cash Received July 1, 2005 - June 30, 2006	Adjustment to Accrual Basis	Revenue Recognized July 1, 2005 - June 30, 2006	Total Cash Received Through June 30, 2006	Accrual Basis Revenue Through June 30, 2006	Cash Disbursements July 1, 2005 - June 30, 2006	Adjustment To Accrual Basis	Disbursements July 1, 2005 - June 30, 2006	Total Cash Disbursements Through June 30, 2006	Accrual Basis Disbursements Through June 30, 2006
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT													
Direct Programs:													
Community Development Block Grant - Entitlement Program	B-03-MC-240013	14.218	\$ 480,000	\$ 11,886	\$ (11,886)	\$ -	\$ 480,000	\$ 480,000	\$ -	\$ -	\$ -	\$ 480,000	\$ 480,000
Community Development Block Grant - Entitlement Program	B-04-MC-240013	14.218	469,000	82,303	87,266	169,569	82,303	182,134	124,875	44,694	169,569	137,019	182,134
Community Development Block Grant - Entitlement Program Plus Program Income Total Program	B-05-MC-240013	14.218	444,338	325,262 419,451	- 75,380	325,262 494,831	- 562,303	- 662,134	325,254 450,129	8 44,702	325,262 494,831	617,019	662,134
Supportive Housing Program Grant	MD06B93-1227	14.235	934,134	154,481	(18,945)	135,536	1,435,014	1,483,244	135,536	-	135,536	1,483,244	1,483,244
Supportive Housing Program Grant Total Program	MD06B94-0552	14.235	439,565	82,938 237,419	(17,041) (35,986)	65,897 201,433	587,565 2,022,579	601,742 2,084,986	65,897 201,433	-	65,897 201,433	601,742 2,084,986	601,742 2,084,986
Emergency Shelter Grant	2004-ESG-BOS-09	14.231	36,250	36,250	(36,250)	-	36,250	36,250	-	-	-	36,250	36,250
Emergency Shelter Grant Total Program	2005-ESG-BOS-09	14.231	36,250	4,250 40,500	17,451 (18,799)	21,701 21,701	4,250 40,500	21,701 57,951	21,701 21,701	-	21,701 21,701	21,701 57,951	21,701 57,951
HUD Housing Counseling Grant		14.169	29,001	-	-	-	49,001	43,898	-	-	-	43,898	43,898
Passed Through Maryland DHCD: Lead-Based Paint Hazard Control	MDLHB 0252-03	14.900	(A)	67,812	-	67,812	67,812	67,812	67,812	-	67,812	67,812	67,812
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT													
DEPARTMENT OF HEALTH AND HUMAN SERVICES													
Passed Through Maryland State Department of Human Resources:													
Community Services Block Grant	01-00-B1MD COSR	93.031	\$ 208,662	\$ -	\$ -	\$ -	\$ 217,403	\$ 214,911	\$ -	\$ -	\$ -	\$ 214,911	\$ 214,911
Community Services Block Grant	01-04-B1MD COSR	93.031	246,592	61,648	19,787	81,435	246,592	246,592	81,435	-	81,435	246,592	246,592
Community Services Block Grant Total Program	01-05-B1MD COSR	93.031	246,592	183,711 245,359	(16,051) 3,736	167,660 249,095	183,711 647,706	167,660 629,163	167,660 249,095	-	167,660 249,095	167,660 629,163	167,660 629,163
Passed Through Healthcare for the Homeless, Inc.:													
Healthcare for the Homeless	03-H-002.325-03	93.151	121,000	56,508	(20,367)	36,141	123,134	123,134	36,141	-	36,141	123,134	123,134
Healthcare for the Homeless Total Program	03-H-002.325-03	93.151	121,000	56,936 113,444	33,881 13,514	90,817 126,958	56,936 180,070	90,817 213,951	90,817 126,958	-	90,817 126,958	90,817 213,951	90,817 213,951
Passed Through Maryland State Department of Health and Mental Hygiene:													
McKinney PATH Grant	MH-263-OTH	93.150	42,000	13,901	(13,901)	-	41,999	41,999	-	-	-	41,999	41,999
McKinney PATH Grant Total Program	MH-263-OTH	93.150	77,400	29,699 43,600	47,701 33,800	77,400 77,400	29,699 71,698	77,400 119,399	77,400 77,400	-	77,400 77,400	77,400 119,399	77,400 119,399
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	6,673	6,673	(912)	5,761	6,673	5,761	5,761	-	5,761	5,761	5,761
Community Food Nutrition Program Total Program				6,673	(912)	5,761	6,673	5,761	5,761	-	5,761	5,761	5,761
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES													
DEPARTMENT OF ENERGY													
Passed Through Maryland Department of Housing and Community Development: Weatherization Assistance Program		81.042	(A)	\$ 107,665	\$ 6,826	\$ 114,491	\$ 947,849	\$ 981,508	\$ 114,491	\$ -	\$ 114,491	\$ 981,508	\$ 981,508

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, 2006

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Cash Received July 1, 2005 - June 30, 2006	Adjustment to Accrual Basis	Revenue Recognized July 1, 2005 - June 30, 2006	Total Cash Received Through June 30, 2006	Accrual Basis Revenue Through June 30, 2006	Cash Disbursements July 1, 2005 - June 30, 2006	Adjustment To Accrual Basis	Disbursements July 1, 2005 - June 30, 2006	Total Cash Disbursements Through June 30, 2006	Accrual Basis Disbursements Through June 30, 2006
DEPARTMENT OF JUSTICE													
<u>Direct Programs</u>													
Local Law Enforcement Block Grant	2004-LB-BX-0697	16.592	23,753	-	1,897	1,897	23,753	23,753	2,803	(906)	1,897	23,753	23,753
Edward Byrne Justice Assistance Grant	2005-DJ-BX-0665	16.738	83,601	-	41,801	41,801	-	41,801	41,801	-	41,801	41,801	41,801
Edward Byrne Justice Assistance Grant	2006-DJ-BX-0269	16.738	42,122	-	41,801	41,801	-	41,801	41,801	-	41,801	41,801	41,801
COPS Universal Hiring Grant	2003-UM-WX-0055	16.710	525,000	174,340	(34,340)	140,000	525,000	525,000	140,000	-	140,000	525,000	525,000
COPS Secure Our Schools Initiative	2004-CK-SX-0620	16.710	30,000	30,000	-	30,000	30,000	30,000	30,000	-	30,000	30,000	30,000
Total Program				204,340	(34,340)	170,000	555,000	555,000	170,000	-	170,000	555,000	555,000
Bulletproof Vest Partnership Program	2002BUBX02012552	16.607	15,753	534	-	534	15,753	15,753	534	-	534	15,753	15,753
Bulletproof Vest Partnership Program	2003BUBX03018450	16.607	8,302	8,302	-	8,302	8,302	8,302	8,302	-	8,302	8,302	8,302
Bulletproof Vest Partnership Program	2004BUBX04021956	16.607	4,365	4,276	-	4,276	4,276	4,276	4,276	-	4,276	4,276	4,276
Bulletproof Vest Partnership Program	2005BUBX04021956	16.607	8,750	-	-	-	-	-	-	-	-	-	-
Total Program				13,112	-	13,112	28,331	28,331	13,112	-	13,112	28,331	28,331
Passed Through Frederick County Health Department:													
Tobacco Enforcement Grant		16.542	(B)	4,607	(630)	3,977	20,969	20,969	3,977	-	3,977	20,969	20,969
				4,607	(630)	3,977	20,969	20,969	3,977	-	3,977	20,969	20,969
TOTAL DEPARTMENT OF JUSTICE			\$	222,059	\$ 8,728	\$ 230,787	\$ 628,053	\$ 669,854	\$ 231,693	\$ (906)	\$ 230,787	\$ 669,854	\$ 669,854
DEPARTMENT OF TRANSPORTATION													
<u>Direct Program:</u>													
Airport Development Aid Program	3-24-0017-017	20.106	\$ 4,723,482	\$ 335,214	\$ (335,214)	\$ -	\$ 4,552,555	\$ 4,552,555	\$ -	\$ -	\$ -	\$ 4,552,555	\$ 4,552,555
Airport Development Aid Program	3-24-0017-018	20.106	357,840	-	-	-	284,040	284,040	-	-	-	284,040	284,040
Airport Development Aid Program	3-24-0017-019	20.106	3,130,380	120,079	(120,079)	-	2,197,967	2,197,967	-	-	-	2,197,967	2,197,967
Airport Development Aid Program	3-24-0017-021	20.106	405,080	48,987	71,569	120,556	188,361	259,930	120,556	-	120,556	259,930	259,930
Airport Development Aid Program	3-24-0017-022	20.106	284,208	11,258	-	11,258	279,458	279,458	11,258	-	11,258	279,458	279,458
Airport Development Aid Program	3-24-0017-023	20.106	86,070	10,328	-	10,328	10,328	10,328	10,328	-	10,328	10,328	10,328
Airport Development Aid Program	3-24-0017-024	20.106	241,799	172,729	51,829	224,558	172,729	224,558	224,558	-	224,558	224,558	224,558
Airport Development Aid Program	3-24-0017-025	20.106	4,445,788	12,201	2,864,813	2,877,014	12,201	2,877,014	2,869,948	7,066	2,877,014	2,869,948	2,877,014
Airport Development Aid Program	N/A	20.106	-	710,796	4,531,845	5,242,641	7,697,639	12,684,777	5,242,641	7,066	1,998,927	12,677,711	12,684,777
Passed through the Maryland State Highway Administration:													
Transportation Enhancement Program	5260020033	20.205	\$ 470,000	\$ 447,308	\$ (408,854)	\$ 38,454	\$ 447,308	\$ 447,308	\$ 38,454	\$ -	\$ 38,454	\$ 447,308	\$ 447,308
TOTAL DEPARTMENT OF TRANSPORTATION			\$	1,158,104	\$ 4,122,991	\$ 5,281,095	\$ 8,144,947	\$ 13,132,085	\$ 5,274,029	\$ 7,066	\$ 5,281,095	\$ 13,125,019	\$ 13,132,085
DEPARTMENT OF AGRICULTURE													
Passed Through Maryland State Dept. of Education													
Summer Food Service Program		10.559	(C)	\$ 11,789	\$ (1,046)	\$ 10,743	\$ 39,574	\$ 41,840	\$ 10,743	\$ -	\$ 10,743	\$ 41,840	\$ 41,840
DEPARTMENT OF HOMELAND SECURITY													
Passed Through Frederick County Fire and Rescue Services Division													
LETPP Grant	G21655	97.074	\$ 125,243	\$ 125,185	\$ -	\$ 125,185	\$ 125,185	\$ 125,185	\$ 125,185	\$ -	\$ 125,185	\$ 125,185	\$ 125,185
TOTAL DEPARTMENT OF HOMELAND SECURITY			\$	125,185	\$ -	\$ 125,185	\$ 125,185	\$ 125,185	\$ 125,185	\$ -	\$ 125,185	\$ 125,185	\$ 125,185
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$	2,799,060	\$ 4,208,232	\$ 7,007,292	\$ 13,533,950	\$ 18,835,527	\$ 6,956,430	\$ 50,862	\$ 7,007,292	\$ 18,783,346	\$ 18,835,527

(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, 2006

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, 2006.

3. Pass-Through Funds

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

4. Summary of Significant Accounting Policies

a. Basis of Presentation

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

b. Revenue Recognized

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

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2006

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 no
Reportable condition(s) identified that are
not considered to be material weakness(es)? yes _____none reported

Noncompliance material to financial statements noted? _____yes no

Federal Awards:

Internal control over major programs:
Material weakness(es) identified? _____yes no
Reportable condition(s) identified that are
not considered to be material weakness(es)? _____yes 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 no

Identification major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
20.106	Airport Development Aid Program
14.218	Community Development Block Grant

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

Auditee qualified as low-risk auditee? yes _____no

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2006

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 to 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.

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2006

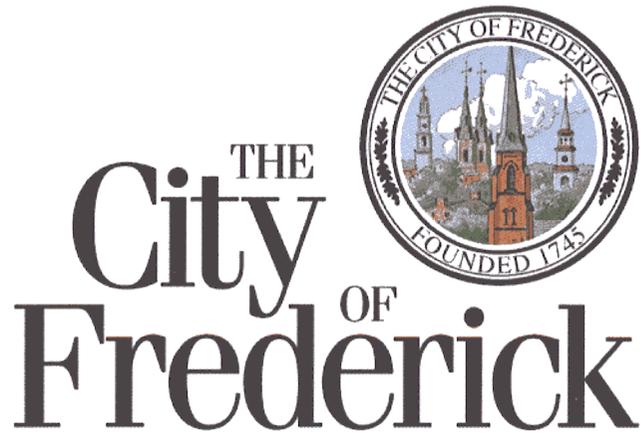
Section III – Federal Award Findings and Questioned Costs

No matters were reported.

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2006

No matters were reported in the prior year relative to federal awards.



WLLIAM J. HOLTZINGER, MAYOR

ALDERMEN

MARCIA HALL, *PRESIDENT PRO TEM*

DAVID "KIP" KOONTZ

ALAN IMHOFF

C. PAUL SMITH

DONNA RAMSBURG

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**COVER PHOTO: CARROLL CREEK LINEAR PARK,
SEPTEMBER 2006**