

***THE CITY OF FREDERICK***  
***FREDERICK, MARYLAND***



***COMPREHENSIVE ANNUAL***  
***FINANCIAL REPORT***

Fiscal Year  
July 1, 2007—June 30, 2008

# THE CITY OF FREDERICK, MARYLAND

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by the Department of Finance

Gerald D.Kolbfleisch  
Director of Finance

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

THE CITY OF FREDERICK, MARYLAND  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 YEAR ENDED JUNE 30, 2008

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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 28, 2008

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, 2008. 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 generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Frederick's financial statements have been audited by McGladrey & 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, 2008, 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, 2008, 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 an estimated population of 61,781. 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, airport, storm water, golf and rental operation facilities are provided by the City under the enterprise fund concept. Provisions are made for public capital improvements through the City's capital improvement program.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the Mayor prior to March 15<sup>th</sup>. The mayor uses these requests as the starting point for developing a proposed budget. The mayor presents the proposed budget prior to May 30<sup>th</sup>. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29<sup>th</sup>. The budget is prepared by fund, function and department. The Mayor may make transfers or appropriations within a department. Transfers between departments require the special approval of the board. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 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 62.

## **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 61,781, 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 61% of Frederick's population falls between the ages of 20 and 64, with the estimated median age of Frederick residents coming in at 36. 49% of Frederick's total number of jobs is in professional and managerial levels. The average household income holds at \$72,268. Some of the larger employers in the City are Fort Detrick Campus, Frederick Memorial Hospital, Wells Fargo Home Mortgage and Frederick Community College.

Abundant, diverse housing is a primary attraction among new residents moving to Frederick. The City includes 24,951 households, a third of all those located in Frederick County. In 2008, the average resale price of a single-family home in Frederick County was \$338,043, 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 \$2,465,461 with realized gains of \$2,532,516 and unrealized losses of \$8,989,549.

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 4.58%, with total investment interest of \$2,748,753.

The City also invested unspent bond proceeds during the fiscal year. The average rate for these investments was 4.04%. Total investment interest earnings on these proceeds for the fiscal year were \$990,622.

Total interest on all investments other than pension funds for fiscal year 2008 was \$3,730,028.

## **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 490 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**

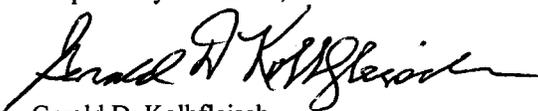
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the twenty fifth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



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, 2007

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



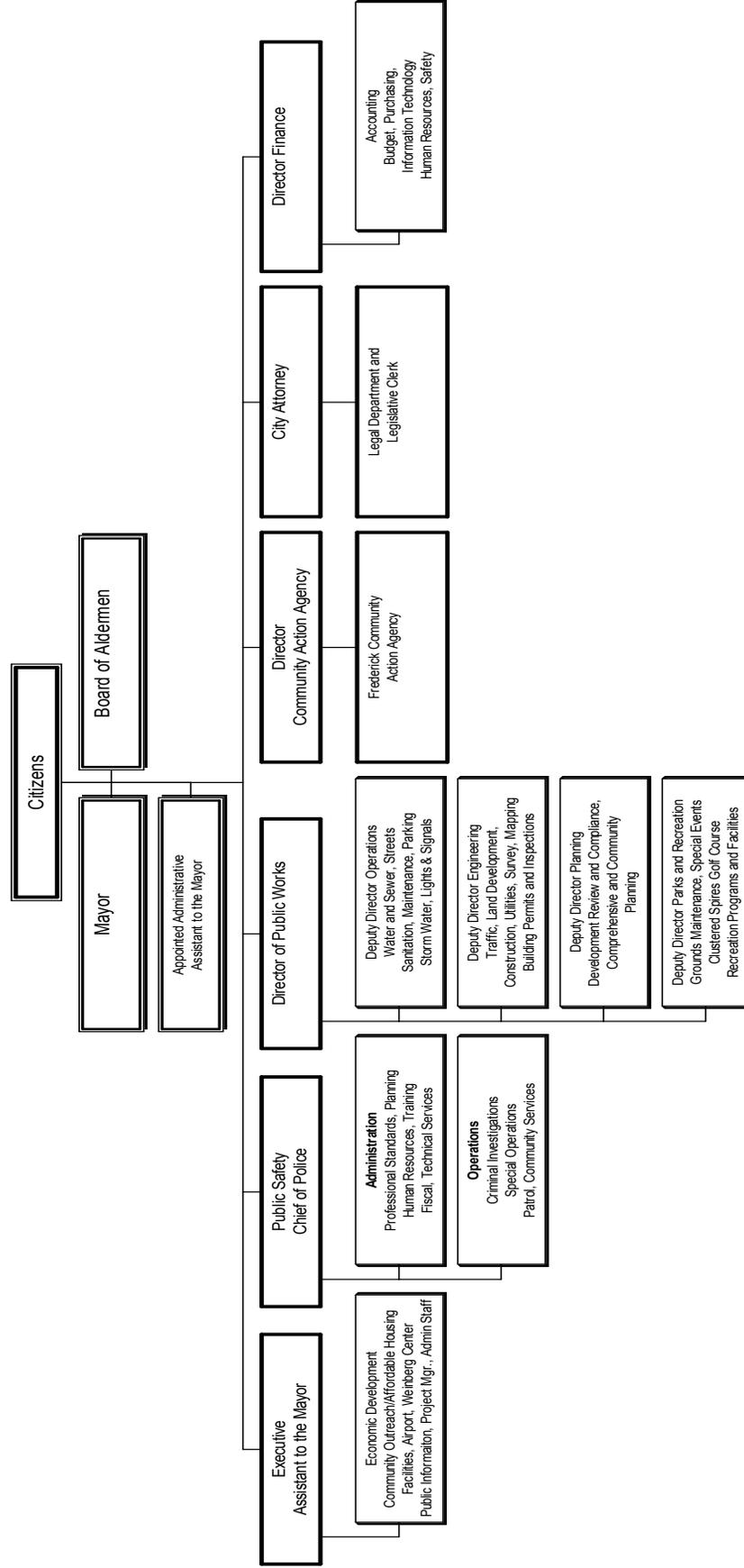
President

Executive Director

# The City of Frederick

## Organizational Chart

June 30, 2008



THE CITY OF FREDERICK, MARYLAND  
SUMMARY OF ELECTED AND APPOINTED OFFICIALS  
June 30, 2008

MAYOR

William J. Holtzinger

BOARD OF ALDERMEN

Marcia A. Hall  
President Pro Tem

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

APPOINTED OFFICIALS

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

Colonel Kim C. Dine  
Saundra A. Nickols  
Zachary J. Kershner  
Roelkey I. Myers  
Joseph A. Adkins  
Thomas E. Davis  
Jonathan M. Angel  
Michael R. Spurrier  
Richard G. Griffin  
Gerald D. Kolbfleisch  
Earl R. Reed  
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, 2008, 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, 2008, 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 October 24, 2008, 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 59 and the "Schedule of Employer Contributions – Pension Plans" on page 60 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.

*McGladrey & Pullen, LLP*

Frederick, Maryland  
October 24, 2008

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# 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, 2008. The Management's Discussion and Analysis (MD&A) is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its' ability to address the next and subsequent years challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 4 –7 of this report, and the City's financial statements.

### Financial Highlights

The assets of The City of Frederick exceeded its liabilities at the close of the most recent fiscal year by \$276,194,631 (net assets). Of this amount, \$47,703,950 (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 \$8,464,804, or 3.16%. The governmental net assets increased by \$6,045,669 and the business-type net assets increased by \$2,419,135.

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 \$28,838,861, an increase of \$2,704,780 in comparison to the prior year. An increase of \$850,493 in the fund balance was attributable to non-major governmental funds, \$445,961 was attributable to the capital improvement program and the remaining change in fund balance was due to an increase of \$1,408,326 in the general fund.

At June 30, 2008, the total governmental fund unreserved fund balance was \$6,668,660. The unreserved fund balance for the general fund was \$10,655,117, or 18.11% 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements can be found on pages 21 and 22 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the general fund and general capital improvements program fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 23 - 25 of this report.

**Proprietary funds.** The City maintains six enterprise funds that are used to report the same functions presented as business-type activities in the government-wide financial statements; specifically, water and sewer, 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 - 58 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 59 - 60 of this report.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 61 - 69 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 \$276,194,631 at the close of the most recent fiscal year.

**The City of Frederick’s Net Assets**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 37,220,841	\$ 33,512,277	\$ 52,406,685	\$ 71,587,097	\$ 89,627,526	\$ 105,099,374
Capital assets	<u>98,314,002</u>	<u>99,734,506</u>	<u>228,857,351</u>	<u>211,232,633</u>	<u>327,171,353</u>	<u>310,967,139</u>
Total assets	<u>135,534,843</u>	<u>133,246,783</u>	<u>281,264,036</u>	<u>282,819,730</u>	<u>416,798,879</u>	<u>416,066,513</u>
Long-term liabilities outstanding	42,386,267	47,174,876	86,924,709	91,834,862	129,310,976	139,009,738
Other liabilities	<u>6,247,030</u>	<u>5,216,030</u>	<u>5,046,242</u>	<u>4,110,918</u>	<u>11,293,272</u>	<u>9,326,948</u>
Total liabilities	<u>48,633,297</u>	<u>52,390,906</u>	<u>91,970,951</u>	<u>95,945,780</u>	<u>140,604,248</u>	<u>148,336,686</u>
Net assets:						
Invested in capital assets, net of related debt	57,992,552	55,591,683	162,281,588	158,629,713	220,274,140	214,221,396
Restricted	1,873,394	1,190,033	6,343,147	9,463,659	8,216,541	10,653,692
Unrestricted	<u>27,035,600</u>	<u>24,074,161</u>	<u>20,668,350</u>	<u>18,780,578</u>	<u>47,703,950</u>	<u>42,854,739</u>
Total net assets	<u>\$ 86,901,546</u>	<u>\$ 80,855,877</u>	<u>\$ 189,293,085</u>	<u>\$ 186,873,950</u>	<u>\$ 276,194,631</u>	<u>\$ 267,729,827</u>

By far the largest portion of the City’s net assets (80 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 (\$8,216,541) represents resources that are restricted on how they may be used. The remaining balance of net assets (\$47,703,949) 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 \$3,367,647.

The City’s net assets increased by \$8,464,804 during the current fiscal year.

**Governmental activities.** Governmental activities increased the City’s net assets by \$6,045,669 in the current fiscal year with total revenues from governmental activities increasing by \$2,795,780 and total governmental activities expenses increasing by \$5,131,717.

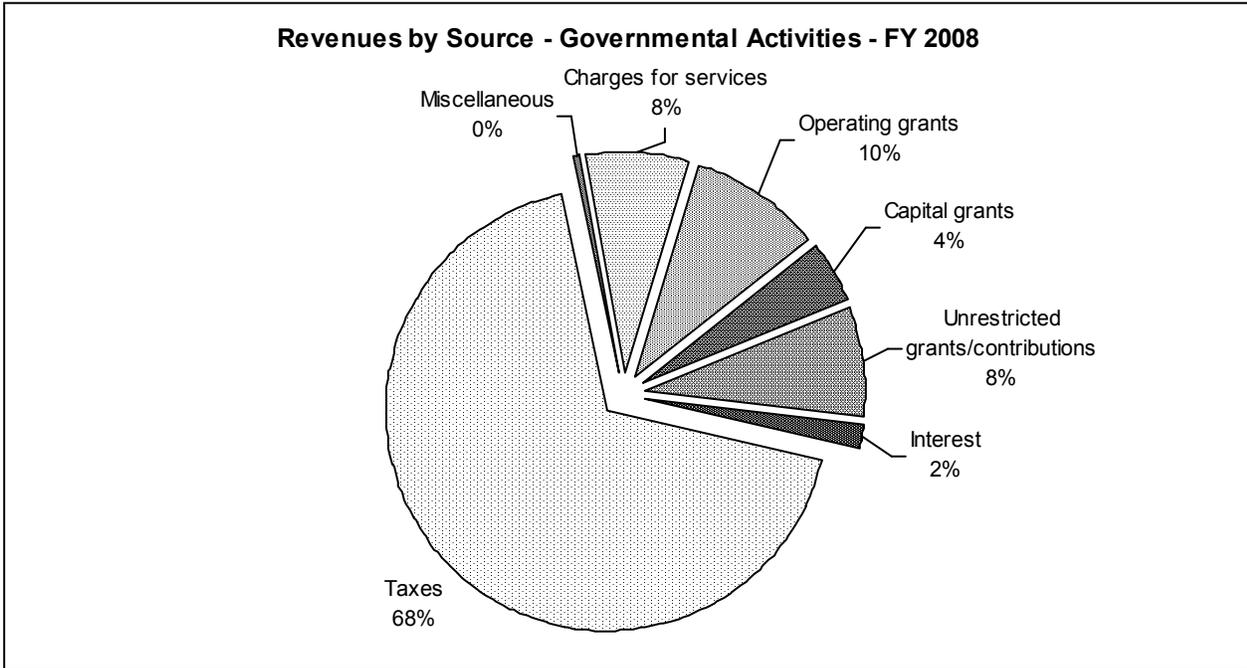
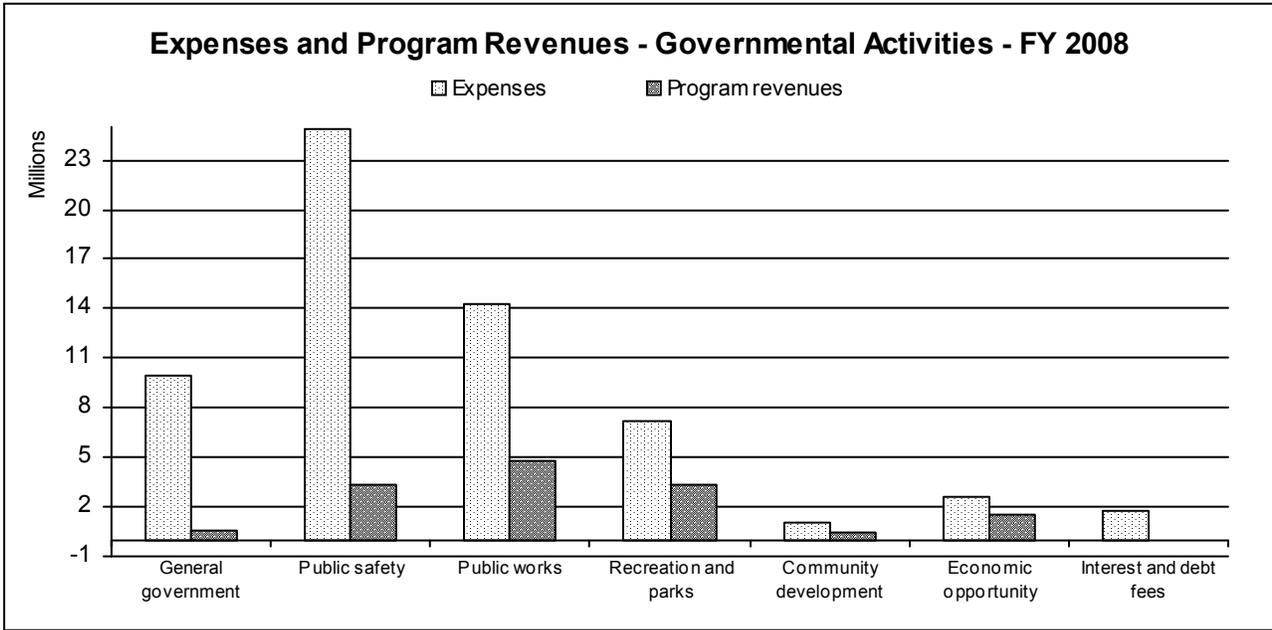
Taxes increased by \$3,267,817 with the primary increase in property taxes resulting from continued assessment growth within the City. Licenses and permits decreased by \$800,349 with decreased building activity being reflected in lower building permit fees. Intergovernmental revenues increased by only \$26,986. Intergovernmental operating grants decreased by approximately 117,000 (1.07%) while grants to assist with capital project outlays increased by approximately \$144,000. County tax differential revenue (determined by formula) increased by \$451,116 and community development block grant revenues decreased by \$358,717. This decrease in the block grant revenues reflects a large influx of program income during the fiscal year. Fines and forfeitures decreased by \$92,061 and was a result of decreased red light camera violations.

Total expenses increased by \$5,131,717 in fiscal year 2008. The significant increases were in salaries with a \$2,114,449 (9.2%) increase, personnel benefits with an increase of \$1,797,268 (13.9%) and other services and charges with a \$376,261 increase (5.07%). The large increase in salaries was primarily due to the implementation of results from a salary study that recommended an increase of six-percent (6.0%) in salaries plus an annual performance increase. The personnel benefits increase was due primarily to increased contributions to the City's pension plans (\$894,216), increased health insurance costs (\$598,856) and FICA contribution on the salary increases. Additionally, other services and charges increased by \$376,261, with \$213,140 of the increase attributable to disposal costs.

The net transfer from business-type activities to the governmental activities totaled \$2,738,153. Transfers to the business-type activities, in the amount of \$44,783, were for capital outlay in the business-type funds. \$923,297 of the transfer from the business-type activities was a contribution toward capital improvements and \$1,859,639 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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 4,963,076	\$ 5,804,448	\$ 22,342,983	\$ 22,011,718	\$ 27,306,059	\$ 27,816,166
Operating grants/contributions	6,226,986	6,796,260	166,747	177,585	6,393,733	6,973,845
Capital grants/contributions	2,850,668	2,633,527	4,699,256	8,667,779	7,549,924	11,301,306
General revenues:						
Taxes	44,375,293	41,107,476	-	-	44,375,293	41,107,476
Non-restricted grants/contributions	5,259,594	4,695,551	-	-	5,259,594	4,695,551
Other	<u>1,414,019</u>	<u>1,257,594</u>	<u>2,601,009</u>	<u>3,487,354</u>	<u>4,015,028</u>	<u>4,744,948</u>
Total revenues	<u>65,089,636</u>	<u>62,294,856</u>	<u>29,809,995</u>	<u>34,344,436</u>	<u>94,899,631</u>	<u>96,639,292</u>
Expenses:						
General government	9,921,865	8,442,242	-	-	9,921,865	8,442,242
Public safety	24,930,778	22,335,882	-	-	24,930,778	22,335,882
Public works	14,258,037	14,025,384	-	-	14,258,037	14,025,384
Recreation and parks	7,218,619	6,473,547	-	-	7,218,619	6,473,547
Community development	1,030,103	1,035,084	-	-	1,030,103	1,035,084
Economic opportunity	2,665,212	2,413,856	-	-	2,665,212	2,413,856
Interest and long-term debt	1,757,506	1,924,408	-	-	1,757,506	1,924,408
Rental operations	-	-	47,628	36,695	47,628	36,695
Water and sewer	-	-	15,719,737	16,114,447	15,719,737	16,114,447
Golf course	-	-	1,848,767	1,758,967	1,848,767	1,758,967
Airport	-	-	1,501,508	1,332,623	1,501,508	1,332,623
Parking	-	-	3,447,433	3,792,464	3,447,433	3,792,464
Storm water	-	-	<u>2,087,634</u>	<u>1,989,406</u>	<u>2,087,634</u>	<u>1,989,406</u>
Total expenses	<u>61,782,120</u>	<u>56,650,403</u>	<u>24,652,707</u>	<u>25,024,602</u>	<u>86,434,827</u>	<u>81,675,005</u>
Increase/(decrease) in net assets						
before transfers	3,307,516	5,644,453	5,157,288	9,319,834	8,464,804	14,964,287
Transfers	<u>2,738,153</u>	<u>(1,621,248)</u>	<u>(2,738,153)</u>	<u>1,621,248</u>	-	-
Increase/(decrease) in net assets	6,045,669	4,023,205	2,419,135	10,941,082	8,464,804	14,964,287
Net assets, July 1	<u>80,855,877</u>	<u>76,832,672</u>	<u>186,873,950</u>	<u>175,932,868</u>	<u>267,729,827</u>	<u>252,765,540</u>
Net assets, June 30	\$ <u>86,901,546</u>	\$ <u>80,855,877</u>	\$ <u>189,293,085</u>	\$ <u>186,873,950</u>	\$ <u>276,194,631</u>	\$ <u>267,729,82</u>



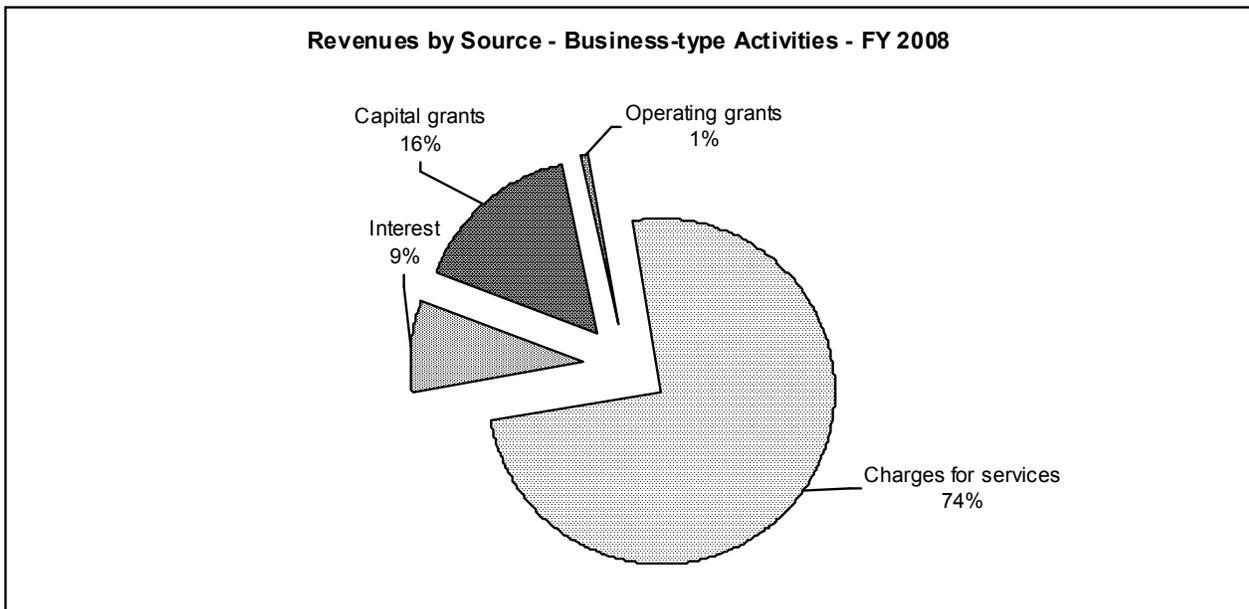
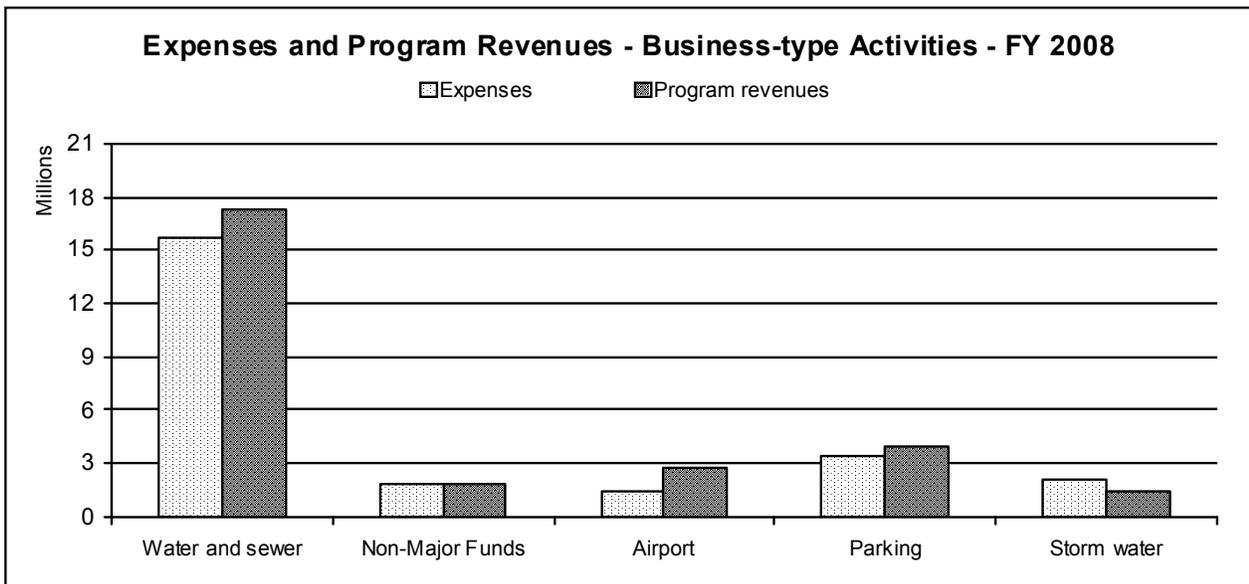
**Business-type activities.** Business-type activities increased the City's net assets by \$2,419,135 in the current fiscal year. Total revenues decreased by \$4,534,441 while expenses decreased by \$371,895.

Charges for services increased by \$331,265, which includes a twelve percent (12%) increase in storm-water management rates.

There was a \$3,968,523 decrease in capital grants and contributions. Impact fees from developers decreased by \$3,347,925, demonstrating a slow down in development within the City. The value of donated assets decreased in fiscal year 2008 by approximately \$364,000.

Total expenses decreased by 371,895 in fiscal year 2008. Salaries and benefits expense increased by approximately \$850,000 and was due primarily to the implementation of results from a salary study that recommended an increase of six-percent (6.0%) in salaries plus an annual performance increase. Other services and charges were approximately \$225,000 less in FY 2008 due to a major repair that was performed in the prior fiscal year. Non-capitalized items associated with improvements were approximately \$420,000 less in fiscal year 2008 and debt service related expenses were approximately \$223,000 less in FY 2008.

Business-type activities transferred \$2,782,936 into governmental activities in FY 2008 and received a transfer of \$44,783 from governmental activities for a net amount of \$2,738,153. The transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The \$44,783 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, 2008, the City's governmental funds reported combined ending fund balances of \$28,838,861, an increase of \$2,704,780 over the prior fiscal year. Revenues increased by 4.0% in the current year. Expenditures increased by \$4,037,309, or 6.74% over the preceding year. Spending for capital projects decreased by \$822,935 in the current fiscal year, while other operating costs increased by \$4,860,244. Salaries increased by \$2,491,985 and benefits increased by \$1,824,545. The salaries increase was due primarily to the implementation of results from a salary study that recommended an increase of six-percent (6.0%) in salaries plus an annual performance increase. Increased retirement contributions of \$894,216 and increased health care costs of \$598,857 were the main change in the benefit category.

Of the ending fund balance, \$6,668,660 is unreserved and available for the City's use. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been 1) committed to liquidate encumbrances (\$11,882,546), 2) loaned to other entities or funds (\$9,819,691), or 3) used to purchase inventory or other prepaid items (\$467,964).

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 \$10,655,117, while total fund balance was \$20,868,337. 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 18.1 percent of total general fund expenditures, while total fund balance represents 35.4 percent of that same amount.

The fund balance of the City's general fund increased by \$1,408,326 during the current fiscal year. Revenues increased by 4.93 percent and expenditures increased by 9.94 percent.

The general capital improvements project fund has a total fund balance of \$5,980,154, 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 an increase of \$60,525 and is summarized as follows:

Increase in general government activities	\$ 175,600
Increase in public safety	75,525
Increase in public works	83,000
Decrease in miscellaneous activities	<u>(273,600)</u>
Total change in budget	<u>\$ 60,525</u>

Of this increase, \$47,800 was to be funded by an increase in intergovernmental revenue and \$12,725 from insurance reimbursements. 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 \$60,525.

During the year actual revenues exceeded the amended budget by \$42,339. Taxes were \$1,148,980 greater than estimated. License and permit fees were \$560,065 less than budgeted due to slower than anticipated development. Intergovernmental revenues were \$759,680 less than budgeted. The City's share of highway users revenue was \$144,268

less than budgeted for FY 2008. Additionally, the community action agency estimated that they would be able to acquire approximately \$363,000 in new grant sources that did not materialize. The police department also budgeted for \$125,548 in federal grants that were not secured. Since these are reimbursement type grants, less expenditures means less revenue.

Expenditures were less than the final budgetary estimates by \$6,620,843 or 10.1%. Of this amount, \$1,573,106 was encumbered at year end. Additionally, \$4,200,000 was budgeted for the HOPE VI project that was delayed.

**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, 2008, amounts to \$327,171,353 (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 5.2 percent. Capital assets for governmental activities decreased by 1.44 percent and increased by 8.34 percent for business type activities.

Major capital asset events during the current fiscal year include:

- 1) Developer provided improvements of streets, curbs, sidewalks, streetlights, water lines, sewer lines and storm drains totaled approximately \$3,017,218.
- 2) Expenditures for parking facilities totaled \$1,385,278 in FY 2008.
- 3) Expenditures for the water and sewer projects for FY 2008 totaled \$14,913,158.
- 4) Airport improvements, to include land acquisition and construction, totaled \$5,946,282.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 23,901,174	\$ 27,022,515	\$ 50,923,689
Buildings	13,796,515	47,634,148	61,430,663
Other improvements	22,509,717	112,456,209	134,965,926
Infrastructure	31,088,668	-	31,088,668
Machinery and equipment	5,021,864	2,773,329	7,795,193
Construction in progress	<u>1,996,064</u>	<u>38,971,150</u>	<u>40,967,214</u>
Total	<u>\$ 98,314,002</u>	<u>\$ 228,857,351</u>	<u>\$ 327,171,353</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 \$123,595,507. Of this amount, \$121,584,831 carried the full faith, credit and taxing power of the City. The remaining \$2,010,676 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	\$ 37,246,103	\$ 84,338,728	\$ 121,584,831
Tax increment financing debt	2,010,676	-	2,010,676
Capital leases	979,971	154,029	1,134,000
Compensated absences	<u>2,064,816</u>	<u>301,665</u>	<u>2,366,481</u>
Total	<u>\$ 42,301,566</u>	<u>\$ 84,794,422</u>	<u>\$ 127,095,988</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 \$436,461,678 and the legal debt margin of the City is \$370,914,719.

Additional information on the City's long-term debt can be found in notes 5 and 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 2009 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 2008 was 3.9 percent, which is a slight increase from June 2007. The estimated rate for June 2008 for the county was 3.6 percent, the state was 4.0 percent and the nation was 5.5 percent.

The fiscal year 2009 budget calls for maintaining the same level of key services. The City was able to reduce the real estate tax rate of \$.67 per \$100 of assessed value to \$.65 per \$100 of assessed value. Water and sewer rates were not increased and stormwater management rates were increased by 20 percent.

The general fund unreserved fund balance at June 30, 2008 was \$10,655,117. The City has estimated that \$13,069,331 would be available for spending in the FY 2009 budget, with \$7,352,539 of that amount being used for a budgeted fund balance.

### **Requests for information**

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

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# BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland  
Statement of Net Assets  
June 30, 2008

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 93,208	\$ 19,860	\$ 113,068
Investments	2,787	5,081	7,868
Equity in pooled cash/investments	20,278,089	35,380,999	55,659,088
Receivables (net of allowance of uncollectibles)	3,621,216	3,362,417	6,983,633
Inventories	453,869	562,455	1,016,324
Prepays	14,095	99,717	113,812
Deposit for asset acquisition	-	386,176	386,176
Deferred charges	386,220	422,350	808,570
Internal balances	8,369,828	(8,369,828)	-
Temporarily restricted assets:			
Cash and cash equivalents	1,890,992	20,047,282	21,938,274
Net pension asset	2,110,537	490,176	2,600,713
Capital assets (net of accumulated depreciation):			
Land	23,901,174	27,022,515	50,923,689
Buildings and systems	13,796,515	47,634,148	61,430,663
Improvements other than buildings	22,509,717	112,456,209	134,965,926
Infrastructure	31,088,668	-	31,088,668
Machinery and equipment	5,021,864	2,773,329	7,795,193
Construction in progress	1,996,064	38,971,150	40,967,214
Total assets	<u>135,534,843</u>	<u>281,264,036</u>	<u>416,798,879</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	1,283,406	3,226,751	4,510,157
Accrued liabilities	1,740,468	1,588,523	3,328,991
Deposits	1,807,444	61,681	1,869,125
Deferred revenue	1,415,712	169,287	1,584,999
Noncurrent liabilities:			
Due within one year	5,625,637	5,158,560	10,784,197
Due in more than one year	36,760,630	81,766,149	118,526,779
Total liabilities	<u>48,633,297</u>	<u>91,970,951</u>	<u>140,604,248</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	58,077,252	164,411,876	222,489,128
Restricted for:			
Water/sewer improvements	-	6,343,147	6,343,147
Parks improvements	992,196	-	992,196
Debt service	881,198	-	881,198
Unrestricted	26,950,900	18,538,062	45,488,962
Total net assets	<u>\$ 86,901,546</u>	<u>\$ 189,293,085</u>	<u>\$ 276,194,631</u>

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

The City of Frederick, Maryland  
Statement of Activities  
For the Year Ended June 30, 2008

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues			Primary Government		Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary Government</b>	<b>Expenses</b>					
Governmental activities:						
General government	\$ 9,921,865	\$ 615,249	\$ 8,000	\$ (9,298,616)	\$ -	\$ (9,298,616)
Public safety	24,930,778	1,966,484	1,378,670	(21,585,624)	-	(21,585,624)
Public works	14,258,037	245,100	3,004,118	(9,488,280)	-	(9,488,280)
Recreation and parks	7,218,619	1,974,985	52,150	(3,861,355)	-	(3,861,355)
Community development	1,030,103	44,527	366,120	(619,456)	-	(619,456)
Economic opportunity	2,665,212	116,731	1,417,928	(1,130,553)	-	(1,130,553)
Interest and long-term debt	1,757,506	-	-	(1,757,506)	-	(1,757,506)
Total governmental activities	61,782,120	4,963,076	6,226,986	(47,741,390)	-	(47,741,390)
<b>Business-type activities:</b>						
Rental operations	47,628	16,442	19,698	-	(11,488)	(11,488)
Water and sewer	15,719,737	14,510,771	-	-	1,596,558	1,596,558
Golf course	1,848,767	1,758,726	-	-	(90,041)	(90,041)
Airport	1,501,508	1,164,930	49,500	-	1,237,223	1,237,223
Parking	3,447,433	3,808,048	97,549	-	458,164	458,164
Storm water	2,087,634	1,084,066	-	-	(634,137)	(634,137)
Total business-type activities	24,652,707	22,342,983	166,747	-	2,556,279	2,556,279
Total primary government	\$ 86,434,827	\$ 27,306,059	\$ 6,393,733	\$ (47,741,390)	\$ 2,556,279	\$ (45,185,111)
<b>General revenues:</b>						
Property taxes				37,948,719	-	37,948,719
Income taxes				5,995,166	-	5,995,166
Other taxes				431,408	-	431,408
Grants/contributions not restricted to specific programs				5,259,594	-	5,259,594
Interest earnings				1,129,019	2,601,009	3,730,028
Gain/(loss) on sale of capital assets				232,107	-	232,107
Miscellaneous revenues				52,893	-	52,893
Transfers				2,738,153	(2,738,153)	-
Total general revenues and transfers				53,787,059	(137,144)	53,649,915
Change in net assets				6,045,669	2,419,135	8,464,804
Net assets - beginning				80,855,877	186,873,950	267,729,827
Net assets - ending				\$ 86,901,546	\$ 189,293,085	\$ 276,194,631

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, 2008

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,794	\$ -	\$ 91,414	\$ 93,208
Investments	2,787	-	-	2,787
Equity in pooled cash/investments	14,450,330	5,517,459	310,300	20,278,089
Receivables (net of allowance for uncollectibles)	986,526	-	1,648,205	2,634,731
Inventories	453,869	-	-	453,869
Prepaid items	13,845	-	250	14,095
Advances to other funds	8,369,828	-	-	8,369,828
Cash - restricted	898,796	992,196	-	1,890,992
Intergovernmental receivable	906,240	19,649	60,596	986,485
<b>Total assets</b>	<b>\$ 26,084,015</b>	<b>\$ 6,529,304</b>	<b>\$ 2,110,765</b>	<b>\$ 34,724,084</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 691,393	\$ 548,929	\$ 43,084	\$ 1,283,406
Accrued liabilities	1,378,661	-	-	1,378,661
Deposits	1,729,912	221	77,311	1,807,444
Deferred revenue	1,415,712	-	-	1,415,712
<b>Total liabilities</b>	<b>5,215,678</b>	<b>549,150</b>	<b>120,395</b>	<b>5,885,223</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Encumbrances	1,573,106	10,293,237	16,203	11,882,546
Inventory	453,869	-	-	453,869
Prepaid items	13,845	-	250	14,095
Loans	8,172,400	-	1,647,291	9,819,691
<b>Unreserved, reported in:</b>				
General fund	10,655,117	-	-	10,655,117
Special revenue funds	-	-	326,626	326,626
Capital projects funds	-	(4,313,083)	-	(4,313,083)
<b>Total fund balances</b>	<b>20,868,337</b>	<b>5,980,154</b>	<b>1,990,370</b>	<b>28,838,861</b>
<b>Total liabilities and fund balances</b>	<b>\$ 26,084,015</b>	<b>\$ 6,529,304</b>	<b>\$ 2,110,765</b>	

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.	98,314,002
Deferred bond issuance costs are not available to pay of current period expenditures, and therefore, are deferred in the funds.	386,221
Accrued interest payable is not recorded in the funds.	(361,808)
Net pension asset is not included in the governmental funds.	2,110,537
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(42,386,267)
<b>Net assets of governmental activities</b>	<b>\$ 86,901,546</b>

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, 2008

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 37,830,517	\$ -	\$ -	\$ 37,830,517
Payment in lieu of taxes	1,270	-	-	1,270
Income taxes	5,995,166	-	-	5,995,166
Business taxes	431,408	-	-	431,408
Discount allowance	(253,508)	-	-	(253,508)
Penalties/interest on delinquent taxes	370,440	-	-	370,440
Licenses and permits	1,911,285	-	-	1,911,285
Intergovernmental	10,365,053	430,897	399,770	11,195,720
Charges for services	1,526,766	-	628,588	2,155,354
Fines and forfeitures	465,404	-	20,428	485,832
Miscellaneous	1,817,042	326,378	347,925	2,491,345
Total revenues	<u>60,460,843</u>	<u>757,275</u>	<u>1,396,711</u>	<u>62,614,829</u>
<b>EXPENDITURES</b>				
Current:				
General government	8,807,373	-	-	8,807,373
Public safety	24,511,007	-	55,683	24,566,690
Public works	10,978,191	-	-	10,978,191
Recreation and parks	4,624,662	-	954,737	5,579,399
Community development	615,454	-	177,940	793,394
Economic opportunity	2,765,476	-	-	2,765,476
Miscellaneous	59,477	-	-	59,477
Debt service:				
Principal	4,735,368	-	-	4,735,368
Interest	1,713,343	-	-	1,713,343
Other fees	18,567	-	-	18,567
Capital projects	-	3,932,281	-	3,932,281
Total expenditures	<u>58,828,918</u>	<u>3,932,281</u>	<u>1,188,360</u>	<u>63,949,559</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,631,925</u>	<u>(3,175,006)</u>	<u>208,351</u>	<u>(1,334,730)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,948,777	3,665,750	81,281	5,695,808
Transfers out	(2,823,734)	(44,783)	(89,139)	(2,957,656)
Proceeds from debt	99,255	-	-	99,255
Insurance reimbursements	99,734	-	-	99,734
Capital asset disposition	452,369	-	650,000	1,102,369
Total other financing sources (uses)	<u>(223,599)</u>	<u>3,620,967</u>	<u>642,142</u>	<u>4,039,510</u>
Net change in fund balances	1,408,326	445,961	850,493	2,704,780
Fund balances - beginning	19,460,011	5,534,193	1,139,877	26,134,081
Fund balances - ending	<u>\$ 20,868,337</u>	<u>\$ 5,980,154</u>	<u>\$ 1,990,370</u>	<u>\$ 28,838,861</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, 2008

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

Net change in fund balances - total governmental funds	\$ 2,704,780
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exc	(2,166,605)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets.	746,100
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	4,571,913
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.	183,409
Change in net assets of governmental activities	<u>\$ 6,045,669</u>

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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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 37,275,113	\$ 37,275,113	\$ 37,830,517	\$ 555,404
Payment in lieu of taxes	1,200	1,200	1,270	70
Income taxes	5,500,000	5,500,000	5,995,166	495,166
Business taxes	450,000	450,000	431,408	(18,592)
Discount allowance	(235,000)	(235,000)	(253,508)	(18,508)
Penalties/interest on delinquent taxes	235,000	235,000	370,440	135,440
Licenses and permits	2,471,350	2,471,350	1,911,285	(560,065)
Intergovernmental	11,076,933	11,124,733	10,365,053	(759,680)
Charges for services	1,529,430	1,529,430	1,526,766	(2,664)
Fines and forfeitures	503,025	503,025	465,404	(37,621)
Miscellaneous	1,563,653	1,563,653	1,817,042	253,389
Total revenues	<u>60,370,704</u>	<u>60,418,504</u>	<u>60,460,843</u>	<u>42,339</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Executive and legislative	1,056,661	1,056,661	1,034,316	22,345
Legal services	673,976	673,976	586,808	87,168
Registration and election	1,504	1,504	502	1,002
Finance and accounting	1,053,612	1,053,612	949,627	103,985
Purchasing	518,965	518,965	509,774	9,191
Information technology	996,105	1,071,105	954,604	116,501
Geographic information system	112,952	122,952	103,484	19,468
Human resources	626,772	708,772	696,897	11,875
Safety	159,606	159,606	159,640	(34)
Planning and zoning	1,167,217	1,167,217	1,088,069	79,148
Code enforcement	480,259	480,259	481,631	(1,372)
Facilities maintenance	738,755	742,355	777,612	(35,257)
Asset management	675,612	675,612	622,460	53,152
Municipal Annex	407,539	407,539	397,582	9,957
Community promotion	4,385,410	4,385,410	179,417	4,205,993
Special events	249,892	254,892	264,950	(10,058)
Total general government	<u>13,304,837</u>	<u>13,480,437</u>	<u>8,807,373</u>	<u>4,673,064</u>
Public safety:				
Police department	22,792,565	22,853,090	22,348,466	504,624
Fire and rescue services	319,202	319,202	320,076	(874)
Building inspection	1,167,294	1,167,294	1,111,517	55,777
Electrical inspection	258,662	273,662	273,942	(280)
Construction inspection	434,916	434,916	457,006	(22,090)
Total public safety	<u>24,972,639</u>	<u>25,048,164</u>	<u>24,511,007</u>	<u>537,157</u>
Public works:				
General administration	1,085,571	1,085,571	1,043,566	42,005
Machinery & equipment maintenance	839,255	839,255	816,713	22,542
Engineering	1,298,873	1,298,873	1,040,347	258,526
Waste collection and disposal	3,712,118	3,712,118	3,418,997	293,121
Streets, roadways and alleys	2,051,347	2,051,347	1,907,887	143,460
Snow removal	463,097	463,097	355,208	107,889
Street lighting	1,915,763	1,915,763	1,853,754	62,009
Traffic lines	406,595	489,595	488,126	1,469
Bus service	53,343	53,343	53,593	(250)
Total public works	<u>11,825,962</u>	<u>11,908,962</u>	<u>10,978,191</u>	<u>930,771</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Recreation and parks:				
Municipal parks	3,371,868	3,371,868	2,981,118	390,750
Harry Grove stadium	115,000	115,000	108,620	6,380
Recreation centers	1,162,755	1,162,755	1,186,261	(23,506)
Recreation commission	135,027	135,027	107,457	27,570
Swimming pools	252,453	252,453	241,206	11,247
Total recreation and parks	<u>5,037,103</u>	<u>5,037,103</u>	<u>4,624,662</u>	<u>412,441</u>
Community development:				
Community development	71,399	71,399	73,349	(1,950)
Economic development	558,591	558,591	542,105	16,486
Total community development	<u>629,990</u>	<u>629,990</u>	<u>615,454</u>	<u>14,536</u>
Economic opportunity:				
Community Action Agency	3,035,025	3,035,025	2,765,476	269,549
Total economic opportunity	<u>3,035,025</u>	<u>3,035,025</u>	<u>2,765,476</u>	<u>269,549</u>
Miscellaneous	<u>775,546</u>	<u>501,946</u>	<u>59,477</u>	<u>442,469</u>
Debt service:				
Principal	3,991,688	3,991,688	4,735,368	(743,680)
Interest	1,776,021	1,776,021	1,713,343	62,678
Other fees	40,425	40,425	18,567	21,858
Total debt service	<u>5,808,134</u>	<u>5,808,134</u>	<u>6,467,278</u>	<u>(659,144)</u>
Total expenditures	<u>65,389,236</u>	<u>65,449,761</u>	<u>58,828,918</u>	<u>6,620,843</u>
Excess (deficiency) of revenues over (under)	<u>(5,018,532)</u>	<u>(5,031,257)</u>	<u>1,631,925</u>	<u>6,663,182</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,766,784	2,766,784	1,948,777	(818,007)
Transfers out	(2,967,453)	(2,967,453)	(2,823,734)	143,719
Proceeds from debt	4,200,000	4,200,000	99,255	(4,100,745)
Insurance reimbursements	25,000	37,725	99,734	62,009
Capital asset disposition	4,600	4,600	452,369	447,769
Total other financing sources (uses)	<u>4,028,931</u>	<u>4,041,656</u>	<u>(223,599)</u>	<u>(4,265,255)</u>
Net change in fund balances	<u>(989,601)</u>	<u>(989,601)</u>	<u>1,408,326</u>	<u>2,397,927</u>
Fund balance - beginning	<u>9,117,421</u>	<u>9,117,421</u>	<u>19,460,011</u>	<u>10,342,590</u>
Fund balance - ending	<u>\$ 8,127,820</u>	<u>\$ 8,127,820</u>	<u>\$ 20,868,337</u>	<u>\$ 12,740,517</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, 2008

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ 18,860	\$ -	\$ 1,000	\$ 19,860
Investments	-	-	-	-	5,081	5,081
Equity in pooled cash/investments	31,153,001	-	3,614,645	525,045	88,308	35,380,999
Receivables (net of allowance of uncollectibles)	2,708,337	347,420	104,001	199,125	3,534	3,362,417
Inventories	408,768	-	-	-	153,687	562,455
Prepays	96,717	-	-	-	3,000	99,717
Deposit for asset acquisition	-	-	386,176	-	-	386,176
Deferred charges	261,784	14,292	128,010	-	18,264	422,350
Total current assets	<u>34,628,607</u>	<u>361,712</u>	<u>4,251,692</u>	<u>724,170</u>	<u>272,874</u>	<u>40,239,055</u>
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	13,401,050	-	6,646,232	-	-	20,047,282
Net pension asset	400,693	2,135	46,060	8,865	32,423	490,176
Capital assets:						
Land	3,503,338	20,560,179	2,917,598	10,750	30,650	27,022,515
Buildings and systems	30,294,924	8,387,065	31,020,119	-	180,795	69,882,903
Improvements other than buildings	78,275,312	6,699,285	43,404	58,158,604	4,803,823	147,980,428
Machinery and equipment	5,797,083	559,198	689,412	605,487	678,987	8,330,167
Construction in progress	29,970,447	7,099,799	1,631,122	250,183	19,599	38,971,150
Less accumulated depreciation	<u>(38,726,361)</u>	<u>(4,614,482)</u>	<u>(8,720,500)</u>	<u>(9,091,003)</u>	<u>(2,177,466)</u>	<u>(63,329,812)</u>
Total noncurrent assets	<u>122,916,486</u>	<u>38,693,179</u>	<u>34,273,447</u>	<u>49,942,886</u>	<u>3,568,811</u>	<u>249,394,809</u>
Total assets	<u>157,545,093</u>	<u>39,054,891</u>	<u>38,525,139</u>	<u>50,667,056</u>	<u>3,841,685</u>	<u>289,633,864</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	3,007,347	29,166	103,798	15,347	71,093	3,226,751
Accrued liabilities	1,138,327	32,759	391,743	5,720	19,974	1,588,523
Deposits	4,529	56,455	-	-	697	61,681
Unearned revenue	45,971	12,953	67,573	-	42,790	169,287
Advances from other funds	-	4,994,612	-	-	3,375,216	8,369,828
Compensated absences	197,699	6,957	19,034	6,831	14,390	244,911
Bonds, notes, and loans payable	3,248,521	169,001	1,113,574	-	382,553	4,913,649
Total current liabilities	<u>7,642,394</u>	<u>5,301,903</u>	<u>1,695,722</u>	<u>27,898</u>	<u>3,906,713</u>	<u>18,574,630</u>
Noncurrent liabilities:						
Compensated absences	-	-	-	3,301	53,452	56,753
Bonds, notes, and loans payable	56,785,989	3,022,594	21,096,533	-	804,280	81,709,396
Total noncurrent liabilities	<u>56,785,989</u>	<u>3,022,594</u>	<u>21,096,533</u>	<u>3,301</u>	<u>857,732</u>	<u>81,766,149</u>
Total liabilities	<u>64,428,383</u>	<u>8,324,497</u>	<u>22,792,255</u>	<u>31,199</u>	<u>4,764,445</u>	<u>100,340,779</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	64,313,216	35,486,044	12,414,387	49,934,021	2,264,208	164,411,876
Restricted for:						
Other improvements	6,343,147	-	-	-	-	6,343,147
Unrestricted	22,460,347	(4,755,650)	3,318,497	701,836	(3,186,968)	18,538,062
Total net assets	<u>\$ 93,116,710</u>	<u>\$ 30,730,394</u>	<u>\$ 15,732,884</u>	<u>\$ 50,635,857</u>	<u>\$ (922,760)</u>	<u>\$ 189,293,085</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, 2008

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Operating revenues:						
Charges for services:						
Water and sewer charges	\$ 14,058,626	\$ -	\$ -	\$ -	\$ -	\$ 14,058,626
Golf course fees	-	-	-	-	1,742,638	1,742,638
Airport fees	-	1,164,930	-	-	-	1,164,930
Parking fees	-	-	2,578,623	-	-	2,578,623
Stormwater management fees	-	-	-	1,083,447	-	1,083,447
Licenses and permits	142,446	-	105,606	-	-	248,052
Fines and forfeitures	16,682	-	733,113	-	-	749,795
Miscellaneous	46,328	-	365,852	24	28,930	441,134
Total operating revenues	<u>14,264,082</u>	<u>1,164,930</u>	<u>3,783,194</u>	<u>1,083,471</u>	<u>1,771,568</u>	<u>22,067,245</u>
Operating expenses:						
Finance	166,140	-	-	-	-	166,140
Plumbing inspection	294,641	-	-	-	-	294,641
Water service	2,132,167	-	-	-	-	2,132,167
Water chemicals	295,697	-	-	-	-	295,697
Water treatment	2,570,517	-	-	-	-	2,570,517
Sewage collection/disposal	2,806,937	-	-	-	-	2,806,937
Sewage maintenance/house connections	611,761	-	-	-	-	611,761
Inflow and infiltration	272,818	-	-	-	-	272,818
Plant maintenance	840,846	-	-	-	-	840,846
Public housing	-	-	-	-	40,817	40,817
Golf course maintenance	-	-	-	-	572,089	572,089
Golf course clubhouse	-	-	-	-	682,861	682,861
Golf course restaurant	-	-	-	-	347,397	347,397
Airport	-	715,767	-	-	-	715,767
Parking facilities	-	-	1,350,151	-	-	1,350,151
Stormwater management activities	-	-	-	580,629	-	580,629
Miscellaneous	758,827	-	-	-	-	758,827
Depreciation	3,079,036	628,073	1,106,188	1,507,005	167,001	6,487,303
Total operating expenses	<u>13,829,387</u>	<u>1,343,840</u>	<u>2,456,339</u>	<u>2,087,634</u>	<u>1,810,165</u>	<u>21,527,365</u>
Operating income/(loss)	<u>434,695</u>	<u>(178,910)</u>	<u>1,326,855</u>	<u>(1,004,163)</u>	<u>(38,597)</u>	<u>539,880</u>
Nonoperating revenues/(expenses)						
Intergovernmental	-	1,573,801	97,549	-	19,698	1,691,048
Interest income	2,408,419	-	167,351	21,307	3,932	2,601,009
Gain/(Loss) on disposal of capital assets	610	-	1,280	595	-	2,485
Other nonoperating revenues	246,079	-	23,574	-	3,600	273,253
Interest expense	(1,824,229)	(154,829)	(972,893)	-	(39,406)	(2,991,357)
Other nonoperating expenses	(66,121)	(2,839)	(18,201)	-	(46,824)	(133,985)
Total nonoperating revenue/(expenses)	<u>764,758</u>	<u>1,416,133</u>	<u>(701,340)</u>	<u>21,902</u>	<u>(59,000)</u>	<u>1,442,453</u>
Income/(loss) before contributions and transfers	1,199,453	1,237,223	625,515	(982,261)	(97,597)	1,982,333
Capital contributions	2,805,524	-	-	369,431	-	3,174,955
Transfers in	-	-	44,783	-	-	44,783
Transfers out	(2,476,672)	(64,816)	(193,004)	(48,444)	-	(2,782,936)
Change in net assets	1,528,305	1,172,407	477,294	(661,274)	(97,597)	2,419,135
Total net assets - beginning	91,588,405	29,557,987	15,255,590	51,297,131	(825,163)	186,873,950
Total net assets - ending	<u>\$ 93,116,710</u>	<u>\$ 30,730,394</u>	<u>\$ 15,732,884</u>	<u>\$ 50,635,857</u>	<u>\$ (922,760)</u>	<u>\$ 189,293,085</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, 2008

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Cash flows from operating activities:						
Receipts from customers and users	\$ 13,791,494	\$ 1,168,392	\$ 3,740,280	\$ 1,063,961	\$ 1,773,408	\$ 21,537,535
Receipts from other sources	672,362	-	-	-	3,600	675,962
Payments to vendors	(6,455,640)	(457,526)	(798,900)	(301,755)	(956,632)	(8,970,453)
Payments to employees	(3,851,650)	(250,111)	(578,379)	(292,995)	(690,478)	(5,663,613)
Net cash provided by operating activities	<u>4,156,566</u>	<u>460,755</u>	<u>2,363,001</u>	<u>469,211</u>	<u>129,898</u>	<u>7,579,431</u>
Cash flows from noncapital financing activities:						
Transfers out	(2,476,672)	(64,816)	(193,004)	(48,444)	-	(2,782,936)
Transfers in	-	-	-	-	-	-
Operating subsidy	-	-	-	-	19,698	19,698
Due to other funds	-	-	-	-	729,567	729,567
Net cash provided (used) by noncapital financing activities	<u>(2,476,672)</u>	<u>(64,816)</u>	<u>(193,004)</u>	<u>(48,444)</u>	<u>749,265</u>	<u>(2,033,671)</u>
Cash flows from capital and related financing activities:						
Capital contributions	2,805,524	-	-	369,431	-	3,174,955
Intergovernmental payments	-	4,099,776	279,777	-	-	4,379,553
Capital asset acquisitions	(15,105,726)	(5,926,870)	(1,566,264)	(720,531)	(382,063)	(23,701,454)
Transfer in for capital asset acquisition	-	-	44,783	-	-	44,783
Reallocation of proceeds from debt issue	15,748	-	-	-	-	15,748
Capital lease payments	(42,957)	-	-	-	-	(42,957)
Principal payments	(3,042,180)	(165,000)	(1,066,000)	-	(461,449)	(4,734,629)
Interest payments	(1,871,167)	(155,379)	(991,109)	-	(42,683)	(3,060,338)
Estimated arbitrage earnings	20,077	-	-	-	(775)	19,302
Proceeds from sale of capital assets	5,092	-	1,280	595	-	6,967
Due to other funds	-	1,752,309	-	-	-	1,752,309
Other debt related costs	(23,803)	(775)	(5,228)	-	-	(29,806)
Net cash used by capital and related financing activities	<u>(17,239,392)</u>	<u>(395,939)</u>	<u>(3,302,761)</u>	<u>(350,505)</u>	<u>(886,970)</u>	<u>(22,175,567)</u>
Cash flows from investments activities:						
Interest earned	2,462,301	-	200,720	21,307	3,932	2,688,260
Net cash provided by investing activities	<u>2,462,301</u>	<u>-</u>	<u>200,720</u>	<u>21,307</u>	<u>3,932</u>	<u>2,688,260</u>
Net increase (decrease) in cash equivalents	(13,097,197)	-	(932,044)	91,569	(3,875)	(13,941,547)
Cash equivalents - beginning	<u>57,651,248</u>	<u>-</u>	<u>11,211,782</u>	<u>433,476</u>	<u>98,264</u>	<u>69,394,770</u>
Cash equivalents - ending	<u>\$ 44,554,051</u>	<u>\$ -</u>	<u>\$ 10,279,738</u>	<u>\$ 525,045</u>	<u>\$ 94,389</u>	<u>\$ 55,453,223</u>

(continued)

The City of Frederick, Maryland  
Statement of Cash Flows (continued)  
Proprietary Funds  
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income/(loss)	\$ 434,695	\$ (178,910)	\$ 1,326,855	\$ (1,004,163)	\$ (38,597)	\$ 539,880
Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities.	132,255	-	-	-	3,600	135,855
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	3,079,036	628,073	1,106,188	1,507,005	167,001	6,487,303
(Increase)/decrease in accounts receivable	49,305	(1,903)	(76,675)	(19,510)	(2,199)	(50,982)
(Increase)/decrease in inventory	2,582	-	-	-	(20,866)	(18,284)
(Increase)/decrease in prepaids	1,010	-	-	-	-	1,010
Decrease in net pension asset	267	2	43	13	35	360
(Decrease)/increase in accounts payable	391,559	11,516	(27,254)	(23,548)	10,949	363,222
(Decrease)/increase in deferred revenue	10,842	2,030	33,760	-	4,037	50,669
(Decrease)/increase in deposits	7,372	3,335	-	-	2	10,709
(Decrease)/increase in wages payable	101,280	20,086	2,480	5,720	4,460	134,026
(Decrease)/increase in compensated absences	(53,637)	(23,474)	(2,396)	3,694	1,476	(74,337)
Total adjustments	3,589,616	639,665	1,036,146	1,473,374	164,895	6,903,696
Net cash provided by operating activities	\$ 4,156,566	\$ 460,755	\$ 2,363,001	\$ 469,211	\$ 129,898	\$ 7,579,431

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, 2008

	<u>Pension Trust Fund</u>
<b>ASSETS:</b>	
Cash and short-term investments	\$ 4,674,978
Receivables	
Accounts receivable - employee	116,050
Total receivables	<u>116,050</u>
Investments, at fair value:	
Equities	58,067,894
Fixed income	16,399,636
Total investments	<u>74,467,530</u>
Total assets	<u>79,258,558</u>
<b>LIABILITIES:</b>	
Benefits payable	<u>9,301,319</u>
Total liabilities	<u>9,301,319</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	<u>\$ 69,957,239</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, 2008

	<u>Pension Trust Fund</u>
ADDITIONS:	
Contributions - employer	\$ 7,737,135
Contributions - employees	1,457,102
Interest	2,465,461
Net appreciation/(depreciation)	<u>(6,457,033)</u>
Total Additions	<u>5,202,665</u>
DEDUCTIONS:	
Pension benefits	14,375,275
Service charges	<u>600,155</u>
Total Deductions	<u>14,975,430</u>
Change in net assets	(9,772,765)
Net assets - beginning	<u>79,730,004</u>
Net assets - ending	<u><u>\$ 69,957,239</u></u>

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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, 2008

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

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

Blended Component Units:

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

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

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

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

Separate financial statements for the component units are not available.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

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) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

The *parking 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, 2008

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, 2008

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 re-evaluation of all property is required to be completed every third year. Any increase in assessed value is phased in over a three-year period.

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

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

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

Inventories and prepaid items

Inventories are valued at cost, determined by the moving average method, in the governmental fund and at the lower of cost or market in the proprietary funds. Inventory consists of expendable supplies held for consumption or items for resale. Inventory in the general fund is recorded under the consumption method, as an expenditure when used, and is equally offset 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, 2008, 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 \$ 1,415,712 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, 2008

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	3-25 years
Other improvements	10-50 years
Infrastructure	20-40 years

Compensated absences

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

Long-term obligations

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

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

Fund balance

In the fund financial statements, governmental funds report 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.

The City first applies 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, 2008

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 \$98,314,002 difference are as follows:

Capital assets	\$ 155,944,614
Less: Accumulated depreciation	<u>(57,630,612)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>98,314,002</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 \$42,386,267 difference are as follows:

Bonds payable	\$ 40,236,751
Add: Issuance premium (to be amortized over life of debt)	84,700
Add: Compensated absences	<u>2,064,816</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>42,386,267</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 \$ 2,166,605 difference are as follows:

Capital outlay	\$ 4,047,060
Depreciation expense	<u>(6,213,665)</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>2,166,605</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 \$ 746,100 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.	\$ (1,390,794)
Donation of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not capitalized.	<u>2,136,894</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>746,100</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

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 \$ 4,571,913 difference are as follows:

Principal repayments	\$ 4,735,368
Issuance of debt	(99,255)
Amortization of issuance costs	<u>(64,200)</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>\$ 4,571,913</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 \$ 183,409 difference are as follows:

Compensated absences	\$ 146,425
Pension expense resulting in a net pension asset reduction	(1,621)
Accrued interest	<u>38,605</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>\$ 183,409</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, 2008

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 2008, the mayor's office (\$7,027), human resources (\$16,002), safety (\$130), code enforcement (\$2,540), facility maintenance (\$36,695), special events (\$10,995), police department (\$337,115), fire (\$874), electrical inspection (\$681), construction inspection (\$22,259), traffic lines (\$14,636), bus maintenance (\$250), recreation centers (\$35,936), community development (\$1,950) and debt service for state loans (\$720,944) departments within the General Fund exceeded their budget allotment. The primary reasons for the over-expenditures were an early retirement incentive program offered by the City and greater than anticipated health care costs. Additionally, the City prepaid an outstanding pass-through state loan because the City received an early payoff on the pass-through loan. The over-expenditures in the general fund were funded by budget savings within other departments and the prepayment of a pass-through loan in the amount of \$745,152. Supplemental budget appropriations were made during fiscal year 2008 in the amount of \$60,525 in the General Fund to account for unanticipated sources and uses of funds.

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

4. Detailed notes on all funds

Deposits and investments

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

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

As of June 30, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Repurchase agreements	\$ 2,310,324
U. S. Treasuries	881,198
Maryland Local Government Investment Pool	<u>38,765,082</u>
	\$ 41,956,604
Pension Fund investments	<u>79,142,508</u>
Total fair value of investments	<u>\$ 121,099,112</u>

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

*Credit risk.* The City of Frederick's investment does not specifically address credit risk. As of June 30, 2008, 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.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

4. Detailed notes on all funds (continued)

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

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year end, the carrying amount of the City's deposits was \$35,534,205, and the bank balance was \$35,666,848. As of June 30, 2008, all of the City's deposits were either covered by federal depository insurance or were covered by collateral held by the City's agent in the City's name.

Pension Fund investments:

Equities	
Large cap equities	\$ 48,676,939
Small cap equities	2,390,419
International equities	<u>7,000,536</u>
Total equities	<u>\$ 58,067,894</u>
Core Fixed income	
Fixed income	\$ 12,777,130
Total fixed income	<u>3,622,506</u>
	<u>\$ 16,399,636</u>
Cash and short-term investments	
Cash management fund	\$ 26,056
Disbursement payment account	<u>4,648,922</u>
Total cash and short-term investments	<u>\$ 4,674,978</u>
Total pension fund investments	<u>\$ 79,142,508</u>

The average quality of the core fixed income investments is AA2, with yield to maturity of 6.40% and a modified duration of 4.92 years. 70.7% of the portfolio is rated AAA, 6.9% AA, 9.0% A and 13.4% BBB.

Petty cash amounts at June 30, 2008 totaled \$22,235.

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 &amp; Sewer</u>	<u>Airport</u>	<u>Parking</u>	<u>Storm Water Management</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Taxes	\$ 780,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 780,892
Loans/notes	103,514	-	-	-	-	-	1,647,291	1,750,805
Intergovernmental	906,240	19,649	113,233	306,627	62,913	-	60,596	1,469,258
Interest	-	-	39,154	-	-	-	-	39,154
Other	<u>327,246</u>	<u>-</u>	<u>2,576,812</u>	<u>61,298</u>	<u>41,088</u>	<u>199,125</u>	<u>4,448</u>	<u>3,210,017</u>
Gross receivables	2,117,892	19,649	2,729,199	367,925	104,001	199,125	1,712,335	7,250,126
Less: allowance for uncollectibles	<u>(225,126)</u>	<u>-</u>	<u>(20,862)</u>	<u>(20,505)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(266,493)</u>
Net receivables	<u>\$ 1,892,766</u>	<u>\$ 19,649</u>	<u>\$ 2,708,337</u>	<u>\$ 347,420</u>	<u>\$ 104,001</u>	<u>\$ 199,125</u>	<u>\$ 1,712,335</u>	<u>\$ 6,983,633</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2008 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	\$ 23,472,615	\$ 759,609	\$ 331,050	\$ -	\$ 23,901,174
Construction in progress	<u>2,353,640</u>	<u>1,100,834</u>	<u>-</u>	<u>(1,458,410)</u>	<u>1,996,064</u>
Total capital assets, not being depreciated	<u>25,826,255</u>	<u>1,860,443</u>	<u>331,050</u>	<u>(1,458,410)</u>	<u>25,897,238</u>
Capital assets, being depreciated:					
Buildings	28,888,632	544,781	1,251,443	30,180	28,212,150
Other improvements	26,512,631	684,441	-	1,301,623	28,498,695
Infrastructure	53,604,830	1,263,044	-	126,607	54,994,481
Machinery and equipment	<u>17,455,755</u>	<u>1,831,246</u>	<u>944,951</u>	<u>-</u>	<u>18,342,050</u>
Total capital assets, being depreciated	<u>126,461,848</u>	<u>4,323,512</u>	<u>2,196,394</u>	<u>1,458,410</u>	<u>130,047,376</u>
Less accumulated depreciation for:					
Buildings	13,691,330	959,110	234,805	-	14,415,635
Other improvements	4,613,729	1,375,249	-	-	5,988,978
Infrastructure	21,702,434	2,203,379	-	-	23,905,813
Machinery and equipment	<u>12,546,104</u>	<u>1,675,927</u>	<u>901,845</u>	<u>-</u>	<u>13,320,186</u>
Total accumulated depreciation	<u>52,553,597</u>	<u>6,213,665</u>	<u>1,136,650</u>	<u>-</u>	<u>57,630,612</u>
Total capital assets, being depreciated, net	<u>73,908,251</u>	<u>(1,890,153)</u>	<u>1,059,744</u>	<u>1,458,410</u>	<u>72,416,764</u>
Governmental activities capital assets, net	<u>\$ 99,734,506</u>	<u>\$ (29,710)</u>	<u>\$ 1,390,794</u>	<u>\$ -</u>	<u>\$ 98,314,002</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 26,599,610	\$ 422,905	\$ -	\$ -	\$ 27,022,515
Construction in progress	<u>18,073,531</u>	<u>20,990,376</u>	<u>-</u>	<u>(92,757)</u>	<u>38,971,150</u>
Total capital assets, not being depreciated	<u>44,673,141</u>	<u>21,413,281</u>	<u>-</u>	<u>(92,757)</u>	<u>65,993,665</u>
Capital assets, being depreciated:					
Buildings	69,163,691	638,483	7,191	87,920	69,882,903
Other improvements	146,849,315	1,126,277	-	4,837	147,980,429
Machinery and equipment	<u>7,638,705</u>	<u>938,463</u>	<u>247,002</u>	<u>-</u>	<u>8,330,166</u>
Total capital assets, being depreciated	<u>223,651,711</u>	<u>2,703,223</u>	<u>254,193</u>	<u>92,757</u>	<u>226,193,498</u>
Less accumulated depreciation for:					
Buildings	20,292,558	1,958,906	2,709	-	22,248,755
Other improvements	31,822,446	3,701,774	-	-	35,524,220
Machinery and equipment	<u>4,977,215</u>	<u>826,624</u>	<u>247,002</u>	<u>-</u>	<u>5,556,837</u>
Total accumulated depreciation	<u>57,092,219</u>	<u>6,487,304</u>	<u>249,711</u>	<u>-</u>	<u>63,329,812</u>
Total capital assets, being depreciated, net	<u>166,559,492</u>	<u>(3,784,081)</u>	<u>4,482</u>	<u>92,757</u>	<u>162,863,686</u>
Business-type activities capital assets, net	<u>\$ 211,232,633</u>	<u>\$ 17,629,200</u>	<u>\$ 4,482</u>	<u>\$ -</u>	<u>\$ 228,857,351</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	\$ 432,253
Public safety	544,335
Public works	3,161,288
Recreation and parks	1,984,720
Economic opportunity	<u>91,069</u>
Total depreciation expense – governmental activities	<u>\$ 6,213,665</u>
Business-type activities:	
Rental operations	\$ 6,811
Water and sewer	3,079,036
Golf course	160,190
Airport	628,073
Parking	1,106,189
Storm water	<u>1,507,005</u>
Total depreciation expense – business-type activities	<u>\$ 6,487,304</u>

Construction commitments

The City has active construction projects as of June 30, 2008. 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>
Gas House Pike Improvements	\$ 437,578	\$ 5,737,066
New Design Water Plant Expansion	20,021,195	40,702,628
Patrick Street Water Main	4,509,399	2,334,810
Wastewater Treatment Plant Improvements	2,612,479	5,540,468
Carroll Creek Linear Park	17,978,660	708,949

The Gas House Pike Improvements, New Design Water Plant Expansion and Patrick Street Water Main Project are primarily debt funded. The Wastewater Treatment plant Improvements and 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, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Golf Course	\$ 3,375,216
General	Airport	4,994,612

The \$3,375,216 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 \$4,994,612 inter-fund balance between the airport and general fund. This payable is partially offset by \$300,941 in receivables in the airport fund.

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

4. Detailed notes on all funds (continued)

Interfund transfers:	Transfers In:				Total
	General Fund	CIP Fund	Nonmajor Governmental	Parking Fund	
Transfer out:					
General fund	\$ -	\$ 2,742,453	\$ 81,281	\$ -	\$ 2,823,734
General CIP fund	-	-	-	44,783	44,783
Nonmajor government funds	89,139	-	-	-	89,139
Water and sewer fund	1,553,374	923,297	-	-	2,476,671
Airport fund	64,816	-	-	-	64,816
Parking fund	193,004	-	-	-	193,004
Storm water management fund	48,444	-	-	-	48,444
Total transfers out	<u>\$ 1,948,777</u>	<u>\$ 3,665,750</u>	<u>\$ 81,281</u>	<u>\$ 44,783</u>	<u>\$ 5,740,591</u>

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

The \$81,281 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 \$44,783 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 are 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	\$ 1,178,295	\$ 247,663
Less: Accumulated depreciation	<u>(760,432)</u>	<u>(489,924)</u>	<u>(97,295)</u>
Total	<u>\$ 352,841</u>	<u>\$ 688,371</u>	<u>\$ 150,368</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008 are as follows:

Fiscal Year Ending June 30,	2003 Lease	2005 Lease	
	General Fund	General Fund	Water & Sewer Fund
2009	\$ 272,044	\$ 255,519	\$ 55,047
2010	-	255,519	55,047
2011	-	<u>255,519</u>	<u>55,047</u>
Total minimum lease payments	\$ 272,044	\$ 766,557	\$ 165,141
Less: amount representing interest	<u>(7,053)</u>	<u>(51,577)</u>	<u>(11,111)</u>
Present value of minimum lease payments	<u>\$ 264,991</u>	<u>\$ 714,980</u>	<u>\$ 154,030</u>

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

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

	Date of Issue	Date of Maturity	Range of Interest Rates	Outstanding 7/1/2007	Transfers/ Additions FY '08	Reductions FY '08	Outstanding 6/30/2008	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	08/01/89	08/01/11	Variable	\$ 1,150,000	\$ -	\$ (250,000)	\$ 900,000	\$ 250,000
General Purpose	08/07/01	12/01/21	3.25-4.75	18,198,000	-	(2,131,000)	16,067,000	2,162,000
General Purpose	09/19/02	09/01/22	2.50-5.0	21,004,000	-	(953,000)	20,051,000	981,000
MILA Loan - Trading Lane	06/95	06/22	5.93	134,308	-	(5,743)	128,565	6,091
MICRF Loan - MedImmune	12/96	01/17	3.00	820,812	-	(820,812)	-	-
CELP Loan	12/21/05	06/01/14	2.00	-	115,003	(15,465)	99,538	15,775
Tax Increment Financing	12/99	06/24	5.95	2,084,902	-	(74,226)	2,010,676	78,643
Capital Lease	11/25/03	07/15/08	2.65	523,112	-	(258,121)	264,991	264,991
Capital Lease	12/20/05	07/20/10	3.5653%	957,729	(15,748)	(227,001)	714,980	230,028
Subtotal				44,872,863	99,255	(4,735,368)	40,236,750	3,988,528
Add remaining premium				90,772	-	(6,071)	84,701	6,072
Total bonds and notes payable				44,963,635	99,255	(4,741,439)	40,321,451	3,994,600
Other Obligations:								
Compensated Absences				2,211,241	2,123,134	(2,269,559)	2,064,816	1,631,037
Total Governmental Activity Long-term Obligations				\$ 47,174,876	\$ 2,222,389	\$ (7,010,998)	\$ 42,386,267	\$ 5,625,637
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/01/89	08/01/11	Variable	\$ 647,000	\$ -	\$ (140,000)	\$ 507,000	\$ 140,000
Water and Sewer	08/07/01	12/01/21	3.25-4.75	7,237,000	-	(756,000)	6,481,000	769,000
Water and Sewer	09/19/02	09/01/22	2.50-5.0	1,581,000	-	(72,000)	1,509,000	74,000
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	47,434,000	-	(1,837,000)	45,597,000	1,884,000
Total General Obligation Bonds				56,899,000	-	(2,805,000)	54,094,000	2,867,000
State Loan Fund - BNR	08/23/01	02/01/22	2.30	4,191,728	-	(237,180)	3,954,548	242,635
Capital Lease	12/20/05	07/20/10	3.5653%	181,238	15,748	(42,957)	154,029	49,555
Total Water & Sewer Debt				61,271,966	15,748	(3,085,137)	58,202,577	3,159,190
Golf Course Facilities Bonds	07/26/04	10/01/10	2.84%	1,733,629	-	(461,449)	1,272,180	420,485
Total Golf Course Obligations				1,733,629	-	(461,449)	1,272,180	420,485
Aiport Improvement Bonds	08/07/01	12/01/21	3.25-4.75	3,370,000	-	(165,000)	3,205,000	170,000
Total Aiport Debt				3,370,000	-	(165,000)	3,205,000	170,000
Parking Facilities	08/01/89	08/01/11	Variable	503,000	-	(110,000)	393,000	110,000
Parking Facilities	08/07/01	12/01/21	3.25-4.75	3,075,000	-	(208,000)	2,867,000	214,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	19,301,000	-	(748,000)	18,553,000	766,000
Total Parking Facilities				22,879,000	-	(1,066,000)	21,813,000	1,090,000
Total business-type activities debt				89,254,595	15,748	(4,777,586)	84,492,757	4,839,675
Other Obligations:								
Add remaining premium				2,464,415		(137,400)	2,327,015	137,398
Less remaining discounts				(14,405)	-	999	(13,406)	(999)
Less deferred refunding				(245,748)	-	62,426	(183,322)	(62,426)
Compensated Absences				376,004	334,347	(408,686)	301,665	244,912
Total business-type activities obligations				\$ 91,834,861	\$ 350,095	\$ (5,260,247)	\$ 86,924,709	\$ 5,158,560

Ninety-seven percent of the compensated absences in the governmental activities will be paid out of the general fund. The remaining three 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, 2008

6. Long term obligations (continued)

The annual requirements to amortize all general long term debt, as of June 30, 2008, (an assumed rate of 1.62% 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
2009	\$ 3,414,866	\$ 1,434,876	\$ 4,790,120	\$ 3,598,342	\$ 8,204,986	\$ 5,055,004	\$ 13,338,044
2010	3,463,553	1,287,745	4,926,928	3,386,966	8,390,481	4,694,095	13,165,030
2011	3,549,268	1,158,392	5,004,908	3,175,224	8,554,176	4,350,525	12,987,631
2012	3,228,013	1,035,276	4,510,765	2,966,626	7,738,778	4,016,298	11,840,519
2013	2,415,790	928,917	4,199,740	2,767,971	6,615,530	3,708,617	10,412,257
2014 - 2018	10,684,567	3,288,401	22,262,239	10,764,184	32,946,806	14,071,746	47,348,715
2019 - 2023	10,490,046	1,144,467	24,809,028	5,543,386	35,299,073	6,687,853	41,986,925
2024 - 2026	-	-	13,835,000	897,494	13,835,000	897,494	14,732,494
Totals	<u>\$37,246,103</u>	<u>\$10,278,074</u>	<u>\$84,338,728</u>	<u>\$ 33,100,193</u>	<u>\$121,584,831</u>	<u>\$43,481,632</u>	<u>\$ 165,811,615</u>

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2008 are as follows:

Fiscal Year	Tax Incremental Financing Bonds		
	Principal	Interest	Total
2009	\$ 78,643	\$ 74,586	\$ 153,229
2010	83,322	71,669	154,991
2011	88,280	68,578	156,858
2012	93,532	65,303	158,835
2013	99,098	61,834	160,932
2014 - 2018	591,270	249,453	840,723
2019 - 2023	789,388	125,938	915,326
2024	187,143	6,942	194,085
Totals	<u>\$2,010,676</u>	<u>\$ 724,303</u>	<u>\$2,734,979</u>

Computation of Legal Debt Margin:

Assessed value	\$5,455,770,970
Debt limit (8% of assessed value per City Charter)	\$ 436,461,678
Amount of debt applicable to debt limit:	
Total bonded debt	\$119,412,856
Other debt	<u>4,182,651</u>
	\$123,595,507
Less: Water and sewer debt	58,048,548
Total amount of debt applicable to debt limit	<u>65,546,959</u>
Legal debt margin	<u>\$ 370,914,719</u>

Schedule of Intended Source of Funds for Debt Retirement:

	Debt Amount
General revenue	\$ 37,246,103
Water and sewer charges	58,048,548
Airport charges	3,205,000
Parking charges and fines	21,813,000
Cash flow from golf course operations	1,272,180
Incremental tax revenue	<u>2,010,676</u>
	<u>\$ 123,595,507</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, 2008

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	\$ 121,584,831	100.00%	\$ 121,584,831
Frederick County	<u>586,334,705</u>	24.22%	<u>142,010,266</u>
Total	<u>\$ 707,919,536</u>		<u>\$ 263,595,097</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, 2008, the interest rate was 1.62%.

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 \$1,800,000 at June 30, 2008. 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>
2009	30,875	1,800,000

Interest charges under the letter of credit are prime plus 1.5% (equating to 6.5% at June 30, 2008). The City is required to pay annual fees relating to this issue which totaled approximately \$ 22,550 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, 2008	73
Vested terminated employees	84
Active employees - vested 100%	92
Active employees - nonvested	56

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

7. Pension plans (continued)

Eligibility - Work at least twenty hours a week, attain the age of 18 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 – RP2000 Combined 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 30 years of service,  
 age 62 with 5 years of service,  
 age 63 with 4 years of service,  
 age 64 with 3 years of service, or  
 age 64 with 2 years of service.

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

<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, 2008

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	\$ 846,175
Interest on net pension assets	(20,444)
Adjustment to annual required contribution	<u>20,627</u>
Annual pension cost	846,358
Contributions made	<u>(846,175)</u>
Decrease in net pension assets	183
Net pension assets beginning of year	<u>(240,520)</u>
Net pension assets end of year	<u>\$ (240,337)</u>

Three-Year Trend Information

Year Ended <u>June 30</u>	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2006	923,956	99.98%	(240,703)
2007	835,131	99.98%	(240,520)
2008	846,358	99.98%	(240,337)

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, 2008	171
Vested terminated employees	64
Active employees - vested 100%	101
Active employees - nonvested	71

Eligibility - Work at least twenty hours a week, attain the age of 18 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, 2008

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 – RP2000 Combined 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 25 years of service,  
 age 62 with 5 years of service,  
 age 63 with 4 years of service,  
 age 64 with 3 years of service, or  
 age 65 with 2 years of service.

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

<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, 2008

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	\$ 2,764,732
Interest on net pension assets	(130,287)
Adjustment to annual required contribution	<u>131,454</u>
Annual pension cost	2,765,899
Contributions made	<u>(2,764,732)</u>
Decrease in net pension assets	1,167
Net pension assets beginning of year	<u>(1,532,784)</u>
Net pension assets end of year	<u>\$(1,531,617)</u>

Year Ended	<u>Three-Year Trend Information</u>		Net Pension Obligation
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	
<u>June 30,</u>			
2006	2,421,113	99.95%	(1,533,951)
2007	2,722,939	99.96%	(1,532,784)
2008	2,765,899	99.96%	(1,531,617)

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, 2008	38
Vested terminated employees	17
Active employees - vested 100%	105
Active employees - nonvested	33

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

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 –RP2000 Blue Collar 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 22 years of service,  
 age 62 with 5 years of service,  
 age 63 with 4 years of service,  
 age 64 with 3 years of service, or  
 age 65 with 2 years of service.

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

<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, 2008

7. Pension Plans (continued)

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

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

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	\$ 4,126,228
Interest on net pension assets	(70,498)
Adjustment to annual required contribution	<u>71,129</u>
Annual pension cost	4,126,859
Contributions made	<u>(4,126,228)</u>
Decrease in net pension assets	631
Net pension assets beginning of year	<u>(829,390)</u>
Net pension assets end of year	<u>\$ (828,759)</u>

Three-Year Trend Information

<u>Year Ended June 30.</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	2,747,263	99.98%	(830,022)
2007	3,287,913	99.98%	(829,390)
2008	4,126,859	99.98%	(828,759)

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

7. Pension plans (continued)

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

	<u>30-Year Plan</u>	<u>25-Year Plan</u>	<u>22-Year Plan</u>
Valuation date	7/1/08	7/1/08	7/1/08
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%
Actuarial value of assets -	8,929,471	33,881,990	32,852,717
Actuarial accrued liability -	16,749,251	63,336,029	58,162,448
Total unfunded actuarial accrued liability -	7,819,780	29,454,039	25,309,731
Actuarial value of assets as a percentage of actuarial accrued liability (funded ratio) -	53.31%	53.50%	56.48%
Annual covered payroll -	7,160,069	8,238,801	9,118,974
Ratio of the unfunded actuarial liability to annual covered payroll -	109.21%	357.50%	277.55%

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

THE CITY OF FREDERICK, MARYLAND  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

7. Pension plans (continued)

Statement of Fiduciary Net Assets

	Pension Trust Fund			2008 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
<b>ASSETS:</b>				
Cash and short-term investments	\$ 678,275	\$ 2,192,394	\$ 1,804,310	\$ 4,674,979
Receivables				
Accounts receivable – employee	—	56,686	59,364	116,050
Total receivables	—	56,686	59,364	116,050
Investments, at fair value:				
Equities	8,424,849	27,231,719	22,411,325	58,067,893
Fixed income	2,379,361	7,690,830	6,329,446	16,399,637
Total investments	10,804,210	34,922,549	28,740,771	74,467,530
Total assets	11,482,485	37,171,629	30,604,445	79,258,559
<b>LIABILITIES:</b>				
Benefits payable	3,372,670	5,928,649	—	9,301,319
<b>NETS ASSETS:</b>				
Held in trust for pension benefits	\$ 8,109,815	\$ 31,242,980	\$ 30,604,445	\$ 69,957,240

Statement of Changes in Fiduciary Net Assets

	Pension Trust Fund			2008 Total
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	
<b>ADDITIONS:</b>				
Contributions – employer	\$ 846,175	\$ 2,764,732	\$ 4,126,228	\$ 7,737,135
Contributions – employee	1,380	683,044	772,678	1,457,102
Interest 354,206	1,166,515	944,740	2,465,461	
Net appreciation/(depreciation)	(927,665)	(3,055,098)	(2,474,270)	(6,457,033)
Total additions	274,096	1,559,193	3,369,376	5,202,665
<b>DEDUCTIONS:</b>				
Pension benefits	3,621,891	8,838,243	1,915,141	14,375,275
Service charges	86,222	283,959	229,973	600,154
Total deductions	3,708,113	9,122,202	2,145,114	14,975,429
Change in net assets	(3,434,017)	(7,563,009)	1,224,262	(9,772,764)
Net assets – beginning	11,543,832	38,805,989	29,380,183	79,730,004
Net assets – ending	\$ 8,109,815	\$ 31,242,980	\$ 30,604,445	\$ 69,957,240

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 \$3,000 life insurance benefit is provided to retirees with at least 10 years of service and hired prior to July 1, 2003. Currently 490 retirees and dependents are eligible for health benefits and 238 of those are also eligible for life insurance coverage. The City provides point of service types of health coverage for pre-Medicare retirees and their dependents. Retirees over 65 are enrolled in a plan that coordinates benefits with Medicare. The cost of retiree health care and life insurance benefits is recognized as an expenditure when claims are accrued. For fiscal year 2008, those costs totaled approximately \$1,644,864.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

9. Commitments and contingencies

Grant Compliance The City participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits of some of these programs through June 30, 2008, 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, 2008 there were thirteen series of Industrial/Economic Revenue Bonds outstanding. The aggregate principal amount payable for these issues could not be determined; however, their original issue amounts totaled \$53,074,353.

11. Risk Management

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

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

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

12. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2008 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the city beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid will create a liability (asset) similar to the net pension obligations.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, will be effective for the City beginning with its year ending June 30, 2009. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, will be effective for fiscal year 2010 for the City. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

GASB Statement No. 52, *Accounting and Financial Reporting for Land and Other Real Estate Held as Investments by Endowments*, will be effective for the City in fiscal year 2009. This Statement establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments.

THE CITY OF FREDERICK, MARYLAND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

12) New Governmental Accounting Standards Board Standards (continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, will be effective for fiscal year 2010 for the City. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

13) Subsequent Events

In fiscal year 2008, the City offered an early retirement incentive option to qualified members of the City's Twenty-Five and Thirty Year pension plans. To qualify, a member must (a) have earned at least five years of eligibility service as an employee of the City as of July 1, 2008, (b) reach a normal retirement date no later than June 1, 2013, (c) elects to receive the special normal retirement benefit and (d) is a covered employee as of June 30, 2008.

The City would credit additional years of service to an eligible participant to enable the eligible participant to reach a normal retirement date on July 1, 2008.

The special normal retirement benefit would be the normal retirement benefit, taking into account any additional credited years of service granted under the early retirement incentive program, plus an amount equal to two times the eligible participants annual base salary as of June 30, 2008.

It is estimated that the early retirement incentive program increased the plan liabilities by approximately \$4,700,000 in the thirty-year plan and by approximately \$6,850,000 in the twenty five-year plan. Benefits paid under this program will be paid from the respective retire plan assets.

Based on actuarial evaluations performed at June 30, 2008, the funding percentage for the thirty-year plan dropped from 80.0% to 53.3% and the twenty five-Year plan decreased from 61.2% to 53.5%. The recommended annual contribution for the thirty-year plan increased by \$456,472 and by \$704,891 for the twenty five-year plan.

In October 2008, the \$1,300,000 outstanding 1989 Variable Rate Demand/Fixed Rate Bonds of the City were "put" by the bondholder and the City's remarketing agent was unable to remarket the bonds. As a result, the registrar/paying agent made a draw on the letter of credit that backed the bonds and the bonds became bank bonds. The City is anticipating the issuance of \$10,000,000 in general obligation installment bonds, of which \$1,300,000 will be used to refinance the 1989 Variable Rate Demand/Fixed Rated Bonds, and \$8,700,000 will be used to finance additional capital improvement projects and closing costs of the issue.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the City's retirement plans' investments may have incurred a significant decline in fair value since June 30, 2008.

# REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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

The City of Frederick Thirty-Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/99	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%
07/01/07	10,835,413	13,547,104	2,711,691	79.98%	7,888,669	34.37%
07/01/08	8,929,471	16,749,251	7,819,780	53.31%	7,160,069	109.21%

City of Frederick Twenty-Five Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/99	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%
07/01/07	36,308,180	59,312,422	23,004,242	61.22%	8,913,644	258.08%
07/01/08	33,881,990	63,336,029	29,454,039	53.50%	8,238,801	357.50%

The City of Frederick Twenty-Two Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/99	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%
07/01/07	27,609,635	53,545,904	25,936,269	51.56%	8,357,560	310.33%
07/01/08	32,852,717	58,162,448	25,309,731	56.48%	9,118,974	277.55%

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
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)
2007	835,131	834,948	99.98%	(240,520)
2008	846,358	846,175	99.98%	(240,337)

The City of Frederick Twenty-Five Year Pension System

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
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)
2007	2,722,939	2,721,772	99.96%	(1,532,784)
2008	2,765,898	2,764,732	99.96%	(1,531,617)

The City of Frederick Twenty-Two Year Pension System

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
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)
2007	3,287,913	3,287,281	99.98%	(829,390)
2008	4,126,859	4,126,228	99.98%	(828,759)

# 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, 2008

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>CDS Program</u>	<u>Weinberg Center</u>	<u>Community Development</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 91,414	\$ -	\$ 91,414
Equity in pooled cash/investments	169,694	22,717	117,889	310,300
Receivables (net of allowance for uncollectibles)	-	914	1,707,887	1,708,801
Prepaid items	-	250	-	250
<b>Total assets</b>	<b><u>\$ 169,694</u></b>	<b><u>\$ 115,295</u></b>	<b><u>\$ 1,825,776</u></b>	<b><u>\$ 2,110,765</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 118	\$ 12,910	\$ 30,056	\$ 43,084
Deposits	77,311	-	-	77,311
<b>Total liabilities</b>	<b><u>77,429</u></b>	<b><u>12,910</u></b>	<b><u>30,056</u></b>	<b><u>120,395</u></b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Encumbrances	2,665	11,316	2,222	16,203
Prepaid items	-	250	-	250
Loans	-	-	1,647,291	1,647,291
<b>Unreserved:</b>				
Undesignated	89,600	90,819	146,207	326,626
<b>Total fund balances</b>	<b><u>92,265</u></b>	<b><u>102,385</u></b>	<b><u>1,795,720</u></b>	<b><u>1,990,370</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 169,694</u></b>	<b><u>\$ 115,295</u></b>	<b><u>\$ 1,825,776</u></b>	<b><u>\$ 2,110,765</u></b>

The City of Frederick, Maryland  
Combining Statement of Revenues, Expenditures, and Change in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2008

	Special Revenue Funds			Total Nonmajor Governmental Funds
	CDS Program	Weinberg Center	Community Development	
<b>REVENUES:</b>				
Intergovernmental	\$ -	\$ 33,650	\$ 366,120	\$ 399,770
Charges for services	-	607,888	20,700	628,588
Fines and forfeitures	20,428	-	-	20,428
Miscellaneous	7,119	329,466	11,340	347,925
Total revenues	<u>27,547</u>	<u>971,004</u>	<u>398,160</u>	<u>1,396,711</u>
<b>EXPENDITURES:</b>				
Current:				
Public safety	55,683	-	-	55,683
Recreation and parks	-	954,737	-	954,737
Community development	-	-	177,940	177,940
Total expenditures	<u>55,683</u>	<u>954,737</u>	<u>177,940</u>	<u>1,188,360</u>
Excess (Deficiency) of Revenues over Expenditures	<u>28,136)</u>	<u>16,267</u>	<u>220,220</u>	<u>208,351</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	-	-	650,000	650,000
Transfers in	-	81,281	-	81,281
Transfers out	-	-	(89,139)	(89,139)
Total Other Financing Sources (Uses)	<u>-</u>	<u>81,281</u>	<u>560,861</u>	<u>642,142</u>
Net Change in Fund Balances	28,136)	97,548	781,081	850,493
Fund Balance - beginning	120,401	4,837	1,014,639	1,139,877
Fund Balance - ending	<u>\$ 92,265</u>	<u>\$ 102,385</u>	<u>\$ 1,795,720</u>	<u>\$ 1,990,370</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Fines and forfeitures	\$ 34,500	\$ 34,500	\$ 20,428	\$ (14,072)
Miscellaneous	1,750	1,750	7,119	5,369
Total Revenues	<u>36,250</u>	<u>36,250</u>	<u>27,547</u>	<u>(8,703)</u>
<b>EXPENDITURES:</b>				
CDS Enforcement	93,406	93,406	55,683	37,723
Total Expenditures	<u>93,406</u>	<u>93,406</u>	<u>55,683</u>	<u>37,723</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(57,156)</u>	<u>(57,156)</u>	<u>(28,136)</u>	<u>29,020</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(57,156)	(57,156)	(28,136)	29,020
Budgetary Fund Balance - beginning	57,156	57,156	120,401	63,245
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,265</u>	<u>\$ 92,265</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 33,000	\$ 33,000	\$ 33,650	\$ 650
Charges for services	469,000	469,000	607,888	138,888
Miscellaneous	208,917	214,217	329,466	115,249
Total Revenues	<u>710,917</u>	<u>716,217</u>	<u>971,004</u>	<u>254,787</u>
<b>EXPENDITURES:</b>				
Weinberg Center	<u>940,504</u>	<u>945,804</u>	<u>954,737</u>	<u>(8,933)</u>
Total Expenditures	<u>940,504</u>	<u>945,804</u>	<u>954,737</u>	<u>(8,933)</u>
Excess (Deficiency) of Revenue over Expenditures	<u>(229,587)</u>	<u>(229,587)</u>	<u>16,267</u>	<u>245,854</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	<u>225,000</u>	<u>225,000</u>	<u>81,281</u>	<u>(143,719)</u>
Total Other Financing Sources (Uses)	<u>225,000</u>	<u>225,000</u>	<u>81,281</u>	<u>(143,719)</u>
Net Change in Fund Balance	(4,587)	(4,587)	97,548	102,135
Budgetary Fund Balance - beginning	<u>4,587</u>	<u>4,587</u>	<u>4,837</u>	<u>250</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,385</u>	<u>\$ 102,385</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 1,081,765	\$ 1,081,765	\$ 366,120	\$ (715,645)
Charges for services	15,000	15,000	20,700	5,700
Miscellaneous	6,400	6,400	11,340	4,940
Total Revenues	<u>1,103,165</u>	<u>1,103,165</u>	<u>398,160</u>	<u>(705,005)</u>
<b>EXPENDITURES:</b>				
Community development	<u>1,219,712</u>	<u>1,219,712</u>	<u>177,940</u>	<u>1,041,772</u>
Total Expenditures	<u>1,219,712</u>	<u>1,219,712</u>	<u>177,940</u>	<u>1,041,772</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(116,547)</u>	<u>(116,547)</u>	<u>220,220</u>	<u>336,767</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	200,000	200,000	650,000	450,000
Transfers out	<u>(111,332)</u>	<u>(111,332)</u>	<u>(89,139)</u>	<u>22,193</u>
Total Other Financing Sources (Uses)	<u>88,668</u>	<u>88,668</u>	<u>560,861</u>	<u>472,193</u>
Net Change in Fund Balance	(27,879)	(27,879)	781,081	808,960
Budgetary Fund Balance - beginning	<u>27,879</u>	<u>27,879</u>	<u>1,014,639</u>	<u>986,760</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,795,720</u>	<u>\$ 1,795,720</u>

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# Nonmajor Proprietary Funds

## Proprietary Funds

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

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

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

The City of Frederick, Maryland  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2008

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,000	\$ -	\$ 1,000
Investments	-	5,081	5,081
Equity in pooled cash/investments	-	88,308	88,308
Receivables (net of allowance of uncollectibles)	405	3,129	3,534
Inventories	153,687	-	153,687
Prepays	3,000	-	3,000
Deferred charges	18,264	-	18,264
Total current assets	<u>176,356</u>	<u>96,518</u>	<u>272,874</u>
Noncurrent assets:			
Net pension asset	32,423	-	32,423
Capital assets:			
Land	-	30,650	30,650
Buildings and systems	-	180,795	180,795
Improvements other than buildings	4,803,823	-	4,803,823
Machinery and equipment	662,947	16,040	678,987
Construction in progress	19,599	-	19,599
Less accumulated depreciation	<u>(2,028,153)</u>	<u>(149,313)</u>	<u>(2,177,466)</u>
Total noncurrent assets	<u>3,490,639</u>	<u>78,172</u>	<u>3,568,811</u>
Total assets	<u>3,666,995</u>	<u>174,690</u>	<u>3,841,685</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	70,604	489	71,093
Accrued liabilities	19,974	-	19,974
Deposits	-	697	697
Unearned revenue	42,790	-	42,790
Advances from other funds	3,375,216	-	3,375,216
Compensated absences	14,390	-	14,390
Bonds, notes, and loans payable	382,553	-	382,553
Total current liabilities	<u>3,905,527</u>	<u>1,186</u>	<u>3,906,713</u>
Noncurrent liabilities:			
Compensated absences	53,452	-	53,452
Bonds, notes, and loans payable	804,280	-	804,280
Total noncurrent liabilities	<u>857,732</u>	<u>-</u>	<u>857,732</u>
Total liabilities	<u>4,763,259</u>	<u>1,186</u>	<u>4,764,445</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,186,036	78,172	2,264,208
Unrestricted	<u>(3,282,300)</u>	<u>95,332</u>	<u>(3,186,968)</u>
Total net assets	<u>\$ (1,096,264)</u>	<u>\$ 173,504</u>	<u>\$ (922,760)</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, 2008

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	\$ 1,742,638	\$ -	\$ 1,742,638
Miscellaneous	12,488	16,442	28,930
Total operating revenues	<u>1,755,126</u>	<u>16,442</u>	<u>1,771,568</u>
Operating expenses:			
Public housing	-	40,817	40,817
Golf course maintenance	572,089	-	572,089
Golf course clubhouse	682,861	-	682,861
Golf course restaurant	347,397	-	347,397
Depreciation	160,190	6,811	167,001
Total operating expenses	<u>1,762,537</u>	<u>47,628</u>	<u>1,810,165</u>
Operating income/(loss)	<u>(7,411)</u>	<u>(31,186)</u>	<u>(38,597)</u>
Nonoperating revenues/(expenses)			
Intergovernmental	-	19,698	19,698
Interest income	-	3,932	3,932
Other nonoperating revenues	3,600	-	3,600
Interest expense	(39,406)	-	(39,406)
Other nonoperating expenses	(46,824)	-	(46,824)
Total nonoperating revenue/(expenses)	<u>(82,630)</u>	<u>23,630</u>	<u>(59,000)</u>
Income/(loss) before contributions and transfers	(90,041)	(7,556)	(97,597)
Change in net assets	<u>(90,041)</u>	<u>(7,556)</u>	<u>(97,597)</u>
Total net assets - beginning	(1,006,223)	181,060	(825,163)
Total net assets - ending	<u>\$ (1,096,264)</u>	<u>\$ 173,504</u>	<u>\$ (922,760)</u>

The City of Frederick, Maryland  
Combining Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,759,342	\$ 14,066	\$ 1,773,408
Receipts from other sources	3,600	-	3,600
Payments to vendors	(934,069)	(22,563)	(956,632)
Payments to employees	(671,470)	(19,008)	(690,478)
Net cash provided (used) by operating activities	<u>157,403</u>	<u>(27,505)</u>	<u>129,898</u>
Cash flows from noncapital financing activities:			
Operating subsidy	-	19,698	19,698
Due to other funds	729,567	-	729,567
Net cash provided (used) by noncapital financing activities	<u>729,567</u>	<u>19,698</u>	<u>749,265</u>
Cash flows from capital and related financing activities:			
Capital asset acquisitions	(382,063)	-	(382,063)
Principal payments	(461,449)	-	(461,449)
Interest payments	(42,683)	-	(42,683)
Other debt related costs	(775)	-	(775)
Net cash provided (used) by capital and related financing activities	<u>(886,970)</u>	<u>-</u>	<u>(886,970)</u>
Cash flows from investing activities:			
Interest earned	-	3,932	3,932
Net cash provided (used) by investing activities	<u>-</u>	<u>3,932</u>	<u>3,932</u>
Net increase (decrease) in cash equivalents	-	(3,875)	(3,875)
Cash equivalents - beginning	<u>1,000</u>	<u>97,264</u>	<u>98,264</u>
Cash equivalents - ending	<u>\$ 1,000</u>	<u>\$ 93,389</u>	<u>\$ 94,389</u>

(continued)

The City of Frederick, Maryland  
Combining Statement of Cash Flows (continued)  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	\$ (7,411)	\$ (31,186)	\$ (38,597)
Other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities	3,600	-	3,600
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	160,190	6,811	167,001
(Increase)/decrease in accounts receivable	179	(2,378)	(2,199)
(Increase)/decrease in inventory	(20,866)	-	(20,866)
(Increase)/decrease in prepaids	-	-	-
Decrease in net pension asset	35	-	35
(Decrease)/increase in accounts payable	11,703	(754)	10,949
(Decrease)/increase in deferred revenue	4,037	-	4,037
(Decrease)/increase in deposits	-	2	2
(Decrease)/increase in wages payable	4,460	-	4,460
(Decrease)/increase in compensated absences	1,476	-	1,476
Total adjustments	<u>161,214</u>	<u>3,681</u>	<u>164,895</u>
Net cash provided (used) by operating activities	<u>\$ 157,403</u>	<u>\$ (27,505)</u>	<u>\$ 129,898</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 SIX FISCAL YEARS  
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Governmental activities</b>						
Invested in capital assets, net of related debt	\$ 64,563,229	\$ 104,435,028	\$ 54,856,404	\$ 55,805,720	\$ 55,591,683	\$ 58,077,252
Restricted	145,572	113,014	820,341	795,991	1,190,033	1,873,394
Unrestricted	11,696,089	8,910,173	7,839,494	20,230,961	24,074,161	26,950,900
<b>Total governmental activities net assets</b>	<b>\$ 76,404,890</b>	<b>\$ 113,458,215</b>	<b>\$ 63,516,239</b>	<b>\$ 76,832,672</b>	<b>\$ 80,855,877</b>	<b>\$ 86,901,546</b>
<b>Business-type activities</b>						
Invested in capital assets, net of related debt	\$ 68,202,650	\$ 86,625,237	\$ 143,574,323	\$ 144,403,887	\$ 158,629,713	\$ 164,411,876
Restricted	446,635	3,252,369	6,490,579	12,695,679	9,463,659	6,343,147
Unrestricted	23,304,139	23,727,578	19,500,985	18,833,302	18,780,578	18,538,062
<b>Total business-type activities net assets</b>	<b>\$ 91,953,424</b>	<b>\$ 113,605,184</b>	<b>\$ 169,565,887</b>	<b>\$ 175,932,868</b>	<b>\$ 186,873,950</b>	<b>\$ 189,293,085</b>
<b>Primary government</b>						
Invested in capital assets, net of related debt	\$ 132,765,879	\$ 191,060,265	\$ 198,430,727	\$ 200,209,607	\$ 214,221,396	\$ 222,489,128
Restricted	592,207	3,365,383	7,310,920	13,491,670	10,653,692	8,216,541
Unrestricted	35,000,228	32,637,751	27,340,479	39,064,263	42,854,739	45,488,962
<b>Total primary government net assets</b>	<b>\$ 168,358,314</b>	<b>\$ 227,063,399</b>	<b>\$ 233,082,126</b>	<b>\$ 252,765,540</b>	<b>\$ 267,729,827</b>	<b>\$ 276,194,631</b>

Note - Information for fiscal years 1999 through 2002 is not readily available.

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Expenses</b>						
<b>Governmental activities:</b>						
General government	\$ 7,719,643	\$ 7,857,792	\$ 7,811,588	\$ 7,381,790	\$ 8,442,242	\$ 9,921,865
Public safety	16,114,175	17,670,546	18,969,032	20,289,857	22,335,882	24,930,778
Public works	10,405,465	12,977,426	12,666,210	13,955,935	14,025,384	14,258,037
Recreation and parks	5,317,760	5,585,375	5,513,056	5,334,442	6,473,547	7,218,619
Community development	667,175	787,758	1,102,406	711,756	1,035,084	1,030,103
Economic opportunity	2,055,864	1,964,282	2,194,580	2,323,843	2,413,856	2,665,212
Interest on long-term debt	2,087,187	2,186,093	2,097,849	1,999,391	1,924,408	1,757,506
Miscellaneous	62,839	59,002	61,126	15,216	-	-
Total governmental activities expenses	<u>44,430,108</u>	<u>49,088,274</u>	<u>50,415,847</u>	<u>52,012,230</u>	<u>56,650,403</u>	<u>61,782,120</u>
<b>Business-type activities:</b>						
Rental operations	27,017	33,412	63,547	22,433	36,695	47,628
Water and sewer	9,461,124	10,991,499	14,262,777	14,709,615	16,114,447	15,719,737
Golf course	1,731,567	1,629,269	1,660,229	1,612,515	1,758,967	1,848,767
Airport	1,069,779	1,711,743	1,685,136	1,764,846	1,332,623	1,501,508
Parking	1,382,570	1,588,800	1,899,409	3,724,869	3,792,464	3,447,433
Storm water	-	-	1,942,658	1,984,030	1,989,406	2,087,634
Total business-type activities expenses	<u>13,672,057</u>	<u>15,954,723</u>	<u>21,513,756</u>	<u>23,818,308</u>	<u>25,024,602</u>	<u>24,652,707</u>
Total primary government expenses	<u>\$ 58,102,165</u>	<u>\$ 65,042,997</u>	<u>\$ 71,929,603</u>	<u>\$ 75,830,538</u>	<u>\$ 81,675,005</u>	<u>\$ 86,434,827</u>
<b>Program Revenues</b>						
<b>Government activities:</b>						
<b>Charges for services:</b>						
Public safety	\$ 633,197	\$ 1,121,937	\$ 1,966,838	\$ 2,731,753	\$ 2,914,865	\$ 1,966,484
Recreation and parks	1,383,679	1,336,374	1,265,644	1,347,786	1,989,950	1,974,985
Other activities	1,416,155	1,310,454	1,985,858	1,616,970	899,633	1,021,607
Operating grants and contributions	5,307,237	4,794,391	6,409,566	6,413,053	6,796,260	6,226,986
Capital grants and contributions	5,591,748	1,852,181	2,678,857	3,074,822	2,633,527	2,850,668
Total governmental activities program revenues	<u>14,332,016</u>	<u>10,415,337</u>	<u>14,306,763</u>	<u>15,184,384</u>	<u>15,234,235</u>	<u>14,040,730</u>
<b>Business-type activities:</b>						
<b>Charges for services:</b>						
Water and sewer	9,606,540	10,097,461	10,937,738	12,827,261	14,829,193	14,510,771
Golf course	1,414,023	1,593,098	1,615,152	1,739,201	1,761,511	1,758,726
Airport	820,820	995,699	1,138,627	1,045,308	1,116,295	1,164,930
Parking	2,034,922	2,163,631	2,987,254	3,148,483	3,349,077	3,808,048
Other activities	10,391	14,086	817,109	818,503	955,642	1,100,508
Operating grants and contributions	136,919	99,610	109,830	103,762	177,585	166,747
Capital grants and contributions	3,487,957	11,907,542	7,346,014	14,414,700	8,667,779	4,699,256
Total business-type activities program revenues	<u>17,511,572</u>	<u>26,871,127</u>	<u>24,951,724</u>	<u>34,097,218</u>	<u>30,857,082</u>	<u>27,208,986</u>
Total primary government revenues	<u>\$ 31,843,588</u>	<u>\$ 37,286,464</u>	<u>\$ 39,258,487</u>	<u>\$ 49,281,602</u>	<u>\$ 46,091,317</u>	<u>\$ 41,249,716</u>
<b>Net (expense)/revenue</b>						
Governmental activities	\$ (30,098,092)	\$ (38,672,937)	\$ (36,109,084)	\$ (36,827,846)	\$ (41,416,168)	\$ (47,741,390)
Business-type activities	3,839,515	10,916,404	3,437,968	10,278,910	5,832,480	2,556,279
Total primary government net expense	<u>\$ (26,258,577)</u>	<u>\$ (27,756,533)</u>	<u>\$ (32,671,116)</u>	<u>\$ (26,548,936)</u>	<u>\$ (35,583,688)</u>	<u>\$ (45,185,111)</u>
<b>General Revenues and Other Changes in Net Assets</b>						
<b>Governmental activities:</b>						
Property taxes	\$ 24,256,535	\$ 24,873,386	\$ 27,784,135	\$ 31,426,436	\$ 35,077,508	\$ 37,948,719
Income taxes	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166
Other taxes	491,614	575,344	387,408	389,999	402,365	431,408
Unrestricted grants and contributions	2,706,746	3,092,151	3,341,584	3,728,364	4,695,551	5,259,594
Interest earnings	574,113	352,445	506,950	886,927	1,201,986	1,129,019
Gain/(loss) on sale of capital assets	403,980	264,778	1,036,837	1,221,775	5,857	232,107
Miscellaneous	141,320	74,783	58,991	56,199	49,751	52,893
Transfers	907,800	1,870,044	1,518,921	7,267,939	(1,621,248)	2,738,153
Transfer of capital assets	-	-	(53,375,524)	-	-	-
Total governmental activities	<u>34,256,879</u>	<u>35,664,346</u>	<u>(13,832,892)</u>	<u>50,144,279</u>	<u>45,439,373</u>	<u>53,787,059</u>
<b>Business-type activities:</b>						
Interest earnings	700,093	467,727	666,132	3,356,010	3,487,354	2,601,009
Transfers	(907,800)	(1,870,044)	(1,518,921)	(7,267,939)	1,621,248	(2,738,153)
Transfer of capital assets	-	-	53,375,524	-	-	-
Total business-type activities	<u>(207,707)</u>	<u>(1,402,317)</u>	<u>52,522,735</u>	<u>(3,911,929)</u>	<u>5,108,602</u>	<u>(137,144)</u>
Total primary government	<u>\$ 34,049,172</u>	<u>\$ 34,262,029</u>	<u>\$ 38,689,843</u>	<u>\$ 46,232,350</u>	<u>\$ 50,547,975</u>	<u>\$ 53,649,915</u>
<b>Change in Net Assets</b>						
Governmental activities	\$ 4,158,787	\$ (3,008,591)	\$ (49,941,976)	\$ 13,316,433	\$ 4,023,205	\$ 6,045,669
Business-type activities	3,631,808	9,514,087	55,960,703	6,366,981	10,941,082	2,419,135
Total primary government	<u>\$ 7,790,595</u>	<u>\$ 6,505,496</u>	<u>\$ 6,018,727</u>	<u>\$ 19,683,414</u>	<u>\$ 14,964,287</u>	<u>\$ 8,464,804</u>

Note - Information for fiscal years 1999 through 2002 is not readily available.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>General fund</b>										
Reserved	\$ 4,739,867	\$ 5,136,148	\$ 4,748,462	\$ 4,957,004	\$ 5,108,192	\$ 5,290,273	\$ 4,956,617	\$ 5,288,664	\$ 5,793,698	\$ 10,213,220
Unreserved	7,346,499	8,494,765	10,622,140	8,910,188	6,283,232	2,452,159	4,771,476	10,317,530	13,666,313	10,655,117
<b>Total general fund</b>	<b>\$ 12,086,366</b>	<b>\$ 13,630,913</b>	<b>\$ 15,370,602</b>	<b>\$ 13,867,192</b>	<b>\$ 11,391,424</b>	<b>\$ 7,742,432</b>	<b>\$ 9,728,093</b>	<b>\$ 15,606,194</b>	<b>\$ 19,460,011</b>	<b>\$ 20,868,337</b>
<b>All other governmental funds</b>										
Reserved	\$ 2,436,652	\$ 2,128,300	\$ 5,379,048	\$ 8,863,766	\$ 4,552,956	\$ 9,631,509	\$ 11,388,067	\$ 7,225,118	\$ 3,923,804	\$ 11,956,981
Unreserved, reported in:										
Special revenue funds	1,104,020	1,094,295	1,262,616	2,261,087	188,943	(55,409)	30,209	140,431	161,639	326,626
Capital projects funds	217,487	6,982,818	(2,851,816)	(2,699,382)	17,707,505	10,265,668	4,864,579	4,427,961	2,588,627	(4,313,083)
<b>Total all other governmental funds</b>	<b>\$ 3,758,159</b>	<b>\$ 10,205,413</b>	<b>\$ 3,789,848</b>	<b>\$ 8,425,471</b>	<b>\$ 22,449,404</b>	<b>\$ 19,841,768</b>	<b>\$ 16,282,855</b>	<b>\$ 11,793,510</b>	<b>\$ 6,674,070</b>	<b>\$ 7,970,524</b>

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Revenues</b>										
Taxes:										
Property taxes	\$ 18,778,957	\$ 19,864,880	\$ 20,864,965	\$ 21,897,619	\$ 24,256,535	\$ 24,984,483	\$ 27,784,135	\$ 31,426,435	\$ 35,077,508	\$ 37,948,719
Income taxes	2,333,697	3,135,332	3,505,717	4,437,718	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166
Other taxes	2,668,698	2,813,950	2,842,069	3,108,501	491,614	464,247	387,408	389,999	402,365	431,408
Licenses and permits	757,837	1,104,845	1,136,046	830,568	811,367	1,160,087	1,965,138	2,693,743	2,711,634	1,911,285
Intergovernmental	5,646,779	5,649,460	7,143,695	11,127,878	8,271,637	9,226,953	10,627,614	11,162,584	11,168,733	11,195,720
Charges for services	1,166,484	1,139,518	1,289,396	1,241,508	1,233,540	1,490,066	1,774,069	1,745,271	1,924,643	2,155,354
Fines and forfeitures	48,441	105,432	26,663	73,437	122,942	71,864	116,690	444,404	577,893	485,832
Miscellaneous	2,698,855	2,904,243	1,638,062	1,322,387	1,631,836	2,471,717	2,236,450	2,363,280	2,690,232	2,491,345
Total revenues	34,099,748	36,717,660	38,646,613	44,039,616	41,594,242	44,430,832	49,799,310	55,392,356	60,180,611	62,614,829
<b>Expenditures</b>										
General government	4,410,578	5,187,944	5,770,291	6,506,390	7,201,732	7,291,826	7,544,954	7,081,328	7,567,824	8,807,373
Public safety	10,764,585	11,862,193	12,835,731	13,910,720	15,590,211	17,350,095	18,469,066	20,019,582	22,096,860	24,566,690
Public works	6,818,799	7,065,302	7,788,576	8,358,712	9,439,703	9,678,425	9,146,013	10,251,810	11,170,943	10,978,191
Recreation and parks	3,222,561	3,426,829	3,870,892	4,019,936	4,456,581	4,569,581	4,671,167	4,585,333	4,760,130	5,579,399
Urban development and housing	375,555	424,800	361,913	455,294	803,601	793,812	1,437,530	776,877	1,321,871	793,394
Economic opportunity	1,108,220	1,262,933	1,515,764	1,878,996	2,085,198	1,982,785	2,152,705	2,231,192	2,324,480	2,765,476
Miscellaneous	295,228	217,433	43,984	65,294	62,839	59,002	61,126	3,931	77,889	59,477
Capital projects	6,347,194	4,144,028	11,400,191	18,648,319	3,952,098	7,056,923	8,071,281	13,219,554	4,755,216	3,932,281
Debt service:										
Principal	1,907,100	1,902,533	2,314,554	2,312,770	2,222,479	3,328,662	4,042,885	4,024,631	3,964,680	4,735,368
Interest	1,664,714	1,555,470	1,558,760	1,204,392	1,712,226	2,096,685	2,016,215	1,908,433	1,849,520	1,713,343
Other charges	61,378	28,283	32,039	160,846	107,891	40,159	25,268	19,166	22,837	18,567
Total expenditures	36,975,912	37,077,748	47,492,695	57,521,669	47,634,559	54,248,307	57,638,210	64,121,837	59,912,250	63,949,559
Excess (deficiency) of revenues over expenditures	(2,876,164)	(360,088)	(8,846,082)	(13,482,053)	(6,040,317)	(9,817,475)	(7,838,900)	(8,729,481)	268,361	(1,334,730)
Other financing sources (uses)										
Capital asset disposition	540,642	4,666,095	2,801,753	22,990	923,416	420,803	3,347,897	1,588,366	5,857	1,102,369
Insurance reimbursements	-	-	-	-	-	-	-	67,774	81,407	99,734
Debt proceeds	-	2,500,000	-	34,808,309	24,689,331	1,270,000	1,398,945	1,194,043	-	99,255
Transfers in	2,090,296	7,461,635	3,524,021	3,183,363	3,516,462	3,586,580	3,610,205	10,115,807	3,733,281	5,695,808
Transfers out	(1,291,831)	(6,738,471)	(2,709,324)	(2,574,422)	(2,608,662)	(1,716,536)	(2,091,284)	(2,847,868)	(5,354,529)	(2,957,656)
Payment to refunded bond escrow	-	-	-	(19,759,093)	-	-	-	-	-	-
Total other financing sources (uses)	1,339,107	7,889,259	3,616,450	15,681,147	26,520,547	3,560,847	6,265,763	10,118,122	(1,533,984)	4,039,510
Net change in fund balances	\$ (1,537,057)	\$ 7,529,171	\$ (5,229,632)	\$ 2,199,094	\$ 20,480,230	\$ (6,256,628)	\$ (1,573,137)	\$ 1,388,641	\$ (1,265,623)	\$ 2,704,780
Debt service as a percentage of noncapital expenditures	12.1%	10.9%	11.2%	9.4%	9.0%	11.5%	12.2%	11.6%	10.7%	10.8%

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

For the years ended June 30,

Fiscal Year	REAL PROPERTY			PERSONAL PROPERTY			TOTAL			Ratio of Total Assessed to Total Estimated Actual Value
	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Estimated Actual Value	
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	\$ 3,001,373,807	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	3,141,097,381	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	3,347,133,799	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	3,550,017,441	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	3,815,671,024	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	3,937,216,379	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	4,085,678,583	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	4,571,068,781	94.09%
2007	4,675,591,445	4,675,591,445	0.69	430,311,680	161,366,880	1.55	5,105,903,125	4,836,958,325	5,105,903,125	94.73%
2008	5,299,468,558	5,299,468,558	0.67	416,806,432	156,302,412	1.55	5,716,274,990	5,455,770,970	5,716,274,990	95.44%

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
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%
2007	34,716,468	34,454,566	99.2%	152,522	34,607,088	99.7%
2008	37,890,393	37,663,481	99.4%	55,378	37,718,859	99.5%

\* Includes current and delinquent

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

Fiscal Year	City			County		State		Total	
	Property Tax Rate		Levy	Rate	Levy	Rate	Levy	Rate	Levy
Real	Personal								
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
2007	0.69	1.55	34,716,468	1.064	49,748,293	0.112	5,236,662	1.866	89,701,423
2008	0.67	1.55	37,890,393	1.064	56,386,345	0.112	5,935,405	1.846	100,212,143

Note 1 - Tax rate is per \$100 of assessed value

Note 2 - No tax rate limits

Note 3 - Current taxes are due July 1 except for principal residences which are due semiannually on July 1 and December 31

Note 4 - Taxes become delinquent October 1 except for semiannual payments due December 31 which become delinquent January 1

Note 5 - Penalty of 1% per month for delinquent taxes

Note 6 - Discount of 1% if paid in July and 0.5% if paid in August

Note 7 - All properties owing delinquent real property taxes are sold at tax sale

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

Real Property Tax:

Taxpayer	2008			1999		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
State Farm Mutual Auto Insurance	\$ 44,115,866	1	0.83%	\$ 14,830,000	1	1.39%
River X, LLC	36,133,800	2	0.68%	-	-	-
Aldi, Inc.	33,860,800	3	0.64%	-	-	-
Frederick Partners LLP	28,281,866	4	0.53%	6,762,280	4	0.63%
Westfreit Corp.	26,441,466	5	0.50%	-	-	-
ASN Sunset LLC	21,316,900	6	0.40%	-	-	-
Riverwalk Apartments, LLC	21,164,400	7	0.40%	-	-	-
Frederick Commons, LLC	18,205,700	8	0.34%	-	-	-
Waverly Limited Partnership	18,202,632	9	0.34%	5,319,380	7	0.50%
Frederick Shopping Center LLC	17,738,700	10	0.33%	4,587,320	9	-
Fredericktowne Mall Assoc.	-	-	-	13,196,280	2	1.23%
First Real Estate Investment Trust	-	-	-	9,205,560	3	0.86%
Summit Properties Partnership	-	-	-	6,389,040	5	0.60%
Washington Real Estate Inv. Trust	-	-	-	5,370,160	6	0.50%
Carrolton Associates Ltd.	-	-	-	4,140,000	10	0.39%
MedImmune, Inc.	-	-	-	4,778,320	8	0.45%
	<u>\$ 265,462,130</u>		<u>5.01%</u>	<u>\$ 74,578,340</u>		<u>6.54%</u>

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

Taxpayer	2008			1999		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
BPSolar International, LLC	\$ 12,655,240	1	8.10%	\$ -	-	-
Morningstar Foods, LLC	2,618,730	2	1.68%	1,661,300	3	1.37%
Intracel Resources, LLC	2,567,630	3	1.64%	-	-	-
MedImmune, Inc.	2,478,160	4	1.59%	-	-	-
Comcast	2,239,830	5	1.43%	-	-	-
State Farm Mutual Automobile Insurance Co.	1,971,510	6	1.26%	4,654,140	1	3.82%
Signature Special Event Services, LLC	1,492,110	7	0.95%	-	-	-
Giant Eagle, Inc.	1,435,410	8	0.92%	-	-	-
Experient Inc.	1,432,810	9	0.92%	-	-	-
Randall Family, LLC	1,248,880	10	0.80%	-	-	-
Custom Printing Co.	-	-	-	1,705,880	2	1.40%
Valley Rental Company, Inc.	-	-	-	1,212,450	4	1.00%
Galaxy Registration, Inc.	-	-	-	1,047,480	5	0.86%
Fairchild Controls Corp.	-	-	-	971,260	6	0.80%
J. C. Pennye Co., Inc.	-	-	-	911,610	7	0.75%
GS Communications, Inc.	-	-	-	890,880	8	0.73%
Giant Food Stores, Inc.	-	-	-	848,060	9	0.70%
Music & Arts Center, Inc.	-	-	-	797,930	10	0.66%
	<u>\$ 30,140,310</u>		<u>19.28%</u>	<u>\$ 14,700,990</u>		<u>12.08%</u>

Assessed Value provided by the Maryland Department of Assessment and Taxation

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

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Notes Payable	Leases			
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	2.83%	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	-	-	137,936	65,512,536	3.38%	1,164.01
2003	52,738,000	2,342,399	1,290,333	-	26,907,000	3,785,000	-	97,250	88,740,087	4.33%	1,532.14
2004	49,553,000	2,283,494	1,205,576	1,270,000	25,157,000	5,365,105	-	-	84,609,638	3.85%	1,442.62
2005	45,611,646	2,221,084	1,117,651	1,019,450	21,993,067	4,910,560	-	-	76,873,458	3.35%	1,302.65
2006	43,680,000	2,154,960	1,033,999	1,968,583	89,269,364	4,674,983	-	225,957	143,007,846	5.73%	2,355.01
2007	40,352,000	2,084,902	955,120	1,480,841	84,881,629	4,191,728	-	181,238	134,127,458	N/A	2,180.65
2008	37,018,000	2,010,676	228,103	979,971	80,384,180	3,954,548	-	154,029	124,729,507	N/A	2,018.90

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

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

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

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

Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	Total General Bonded Debt	Assessed Value of Taxable Property	Percentage of Total General Bonded Debt to Assessed Value of Taxable Property	Population	Total General Bonded Debt Per Capita
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
2007	40,352,000	2,084,902	42,436,902	4,836,958,325	0.88%	61,508	689.94
2008	37,018,000	2,010,676	39,028,676	5,455,770,970	0.72%	61,781	631.73

THE CITY OF FREDERICK, MARYLAND  
 DIRECT AND OVERLAPPING DEBT  
 as of June 30, 2008

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Frederick County	\$ 586,334,705	24.22%	\$ 142,010,266
The City of Frederick direct debt			39,256,779
			<u>\$ 181,267,045</u>

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

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

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

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

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

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Ratio of Total Net Debt Applicable to Limit to Debt Limit
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%
2007	386,956,666	71,374,651	315,582,015	18.45%
2008	436,461,678	65,546,959	370,914,719	15.02%

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, 2008

Assessed valuations		\$ 5,455,770,970
Debt limit (8% of assessed value per City Charter)		\$ 436,461,678
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 119,412,856	
Other debt	4,182,651	
	\$ 123,595,507	
Less: Water and sewer debt	58,048,548	
Total amount of debt applicable to debt limit		65,546,959
Legal debt margin		\$ 370,914,719

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 Eight Fiscal Years

	Pledged Revenues				Expenditures				Coverage
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total		
2001	\$ 43,252	\$ 81,723	\$ 124,975	\$ -	\$ 65,698	\$ 5,981	\$ 71,679	174.00%	
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%	
2007	240,421	-	240,421	70,058	79,938	9,924	159,920	150.00%	
2008	746,100	-	746,100	74,226	77,340	6,069	157,635	473.00%	

Note - The City issued tax increment financing bonds in 2000 with the first recorded activity in fiscal year 2001.

THE CITY OF FREDERICK, MARYLAND  
 SELECTED DEMOGRAPHIC STATISTICS  
 June 30, 2008  
 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
1999	51,030	\$ 69,950	\$ 29,999	\$ 1,530,849	35,383	2.40%
2000	52,767	75,650	32,707	1,725,850	36,074	4.50%
2001	52,767	79,600	34,309	1,810,383	36,961	5.10%
2002	56,282	80,900	34,403	1,936,270	38,122	5.90%
2003	57,919	83,150	35,350	2,047,437	38,621	6.10%
2004	58,650	87,750	37,423	2,194,859	39,003	5.90%
2005	59,013	90,900	38,924	2,297,022	39,564	3.70%
2006	60,725	96,050	41,125	2,497,316	39,741	3.70%
2007	61,508	101,100	N/A	N/A	40,315	3.30%
2008	61,781	N/A	N/A	N/A	40,566	3.90%

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

- Sources:
- (1) 1999, 2007 Estimate by Frederick County Planning Department  
 2000 - 2001 - U.S. Census Bureau  
 2002 - 2006, 2008 - The City of Frederick Planning Department
  - (2) Maryland Department of Planning Data Services, June 2008, (current dollars)
  - (3) Regional Economic Information System, Bureau of Economic Analysis, April 2008  
 (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	2008			1999			Business Classification
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment	
Fort Detrick	7,900	1	N/A	5,600	1	N/A	Army and National Cancer Institute
Frederick County Board of Education	5,685	2	N/A	3,974	2	N/A	Public Education
Frederick County Government	3,170	3	N/A	2,053	3	N/A	County Government
Frederick Memorial Healthcare System	2,569	4	N/A	2,000	4	N/A	Comprehensive Health Care
Wells Fargo Home Mortgage	1,500	5	N/A	-	-	-	Mortgage Loans & Service Center
United Health Care	1,100	6	N/A	-	-	-	Medical Insurance
Frederick Community College	899	7	N/A	589	8	N/A	Two-Year College
Frederick City Government	877	8	N/A	612	7	N/A	Municipal Government
State Farm Insurance Company	758	9	N/A	874	6	N/A	Regional Headquarters
BP Solar	550	10	N/A	-	-	-	Manufacture, Research & Development of Photovoltaic Cells
First Nationwide Mortgage	-	-	-	1,195	5	N/A	Operations Center
F & M Bancorp	-	-	-	500	9	N/A	Banking Headquarters
H. L. Hartz & Son	-	-	-	400	10	N/A	Mens' Clothing

Frederick County Economic and Community Development Commission 1999  
 The City of Frederick, Department of Economic Development, 2008  
 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:	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General government	71.81	80.75	71.29	80.76	89.51	80.93	80.27	77.30	81.18	81.68
Public safety	160.70	177.63	176.23	181.86	187.00	197.30	197.40	194.24	203.15	203.84
Public works	80.33	78.64	77.91	84.88	85.02	90.52	89.35	84.77	86.59	85.38
Recreation and parks	57.64	59.10	64.36	66.50	68.70	69.34	64.52	60.44	58.73	60.56
Community development	1.30	1.80	1.80	3.00	5.00	6.00	6.00	6.00	6.00	6.00
Economic opportunity	32.06	33.72	31.08	37.57	36.68	37.84	41.56	38.27	41.34	39.17
Rental operations	0.00	0.00	0.00	0.00	0.00	0.00	0.35	0.50	0.50	0.40
Water and sewer	63.83	61.04	66.21	66.21	66.11	68.54	75.58	76.83	76.34	72.60
Golf course	18.66	18.50	17.91	21.94	22.47	22.37	22.08	21.01	20.80	20.69
Airport	2.00	2.00	2.00	2.00	2.00	3.13	3.50	3.50	3.50	3.50
Parking	11.40	11.46	11.52	11.82	11.96	13.05	15.73	15.74	16.60	17.04
Storm water	3.60	3.28	4.62	4.62	4.62	4.82	7.15	7.00	7.40	7.23
Total	503.33	527.92	524.93	561.16	579.07	593.84	603.49	585.60	602.13	598.09

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

Function:	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public safety										
Police:										
Stations	2	2	2	2	2	2	2	2	2	1
Public works:										
Miles of paved streets (road miles)	170	170	170	168	180	180	183	184	250	257
Miles of sidewalks	260	260	323	320	344	344	350	350	500	265
Number of street lights	6,793	6,875	6,986	7,164	7,506	7,790	7,959	8,131	8,213	7,459
Number of traffic signals	71	72	73	74	71	71	72	71	72	71
Recreation and parks:										
Number of parks	57	57	57	58	63	63	63	59	57	57
Parks acreage	600	421	275	300	465	465	443	464	400	435
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	24	26	32	32	32	32	25	26	26	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	205	215	250	250	250	255	215	220	220
Number of fire hydrants	N/A	2,300	2,500	2,600	2,600	2,600	2,675	2,500	2,520	2,520
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Number of water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3
Miles of sanitary sewer	180	180	200	200	157	157	162	161	161	161
Number of sewage treatment plants	1	1	1	1	1	1	1	1	1	1
Number of sewage pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9
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	125	125	125	125	125	125	125
Number of corporate hangars	0	0	0	0	1	1	1	1	1	1
Parking:										
Number of parking areas	6	8	5	3	5	5	3	3	3	3
Number of parking area spaces	N/A	362	357	234	250	250	156	156	156	164
Number of parking garages	3	3	3	3	3	3	3	3	4	4
Number of parking garage spaces	1,469	1,469	1,469	1,469	1,469	1,469	1,469	1,470	2,112	2,116
On street parking spaces	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,500
Stormwater:										
Miles of storm drain	N/A	N/A	N/A	N/A	N/A	N/A	N/A	210	211	211
Number of storm water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4

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

	Fiscal Year									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Function:										
Public safety										
Police:										
Calls for service	57,989	54,946	57,533	59,901	59,586	58,396	64,876	65,227	70,606	74,906
Physical arrests	3,852	2,932	3,582	3,938	3,739	3,442	3,693	2,897	4,161	3,229
Traffic violations	10,518	8,992	9,192	9,819	9,819	9,819	12,684	8,750	10,425	11,682
Water and sewer:										
Number of water service connections	13,756	14,667	15,000	16,520	16,600	16,600	17,100	17,587	17,814	17,939
Avg. daily water consumption (thousands of gallons)	6,450	6,649	6,209	6,798	6,412	6,412	6,500	5,780	5,989	6,300
Number of sewer service connections	N/A	13,158	15,000	15,000	14,300	14,300	14,729	14,713	14,845	14,934
Avg. daily sewage treatment (thousands of gallons)	N/A	6,040	6,380	6,500	6,610	6,610	7,000	6,450	6,690	6,900
Golf course:										
Number of rounds of golf	N/A	N/A	N/A	N/A	32,298	34,816	33,979	35,260	33,758	33,672
Airport:										
Number of Operations	130,000	131,712	131,800	134,436	156,627	159,562	150,441	154,107	160,657	151,088
Parking:										
Number of parking violations	N/A	31,746	31,614	36,390	40,816	40,816	48,094	30,272	38,177	42,354

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 24, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

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

*McGladrey & Pullen, LLP*

Frederick, Maryland  
October 24, 2008

# 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, 2008. 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, 2008.

### 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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  
October 24, 2008

THE CITY OF FREDERICK, MARYLAND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Program Title	Federal ID Number	Federal CFDA Number	Federal Award Amount	Cash Received July 1, 2007 - June 30, 2008	Adjustment to Accrual Basis	Revenue Recognized July 1, 2007 - June 30, 2008	Total Cash Received Through June 30, 2008	Accrual Basis Revenue Through June 30, 2008	Cash Disbursements July 1, 2007 - June 30, 2008	Adjustment To Accrual Basis	Accrual Basis Disbursements July 1, 2007 - June 30, 2008	Total Cash Disbursements Through June 30, 2008	Accrual Basis Disbursements Through June 30, 2008
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>													
<b>Direct Programs:</b>													
Community Development Block Grant - Entitlement Program	B-05-MC-240013	14-218	\$ 444,338	\$ 12,367	\$ -	\$ 12,367	\$ 444,338	\$ 444,338	\$ 12,367	\$ -	\$ 12,367	\$ 444,338	\$ 444,338
Community Development Block Grant - Entitlement Program	B-06-MC-240013	14-218	\$ 399,634	\$ 287,157	\$ 60,596	\$ 347,753	\$ 287,157	\$ 347,753	\$ 347,131	\$ 622	\$ 347,753	\$ 347,131	\$ 347,753
Community Development Block Grant - Entitlement Program Plus Program Income	B-07-MC-240013	14-218	\$ 398,794	\$ 446,480	\$ 60,596	\$ 446,480	\$ 731,495	\$ 792,091	\$ 446,542	\$ 622	\$ 446,542	\$ 791,469	\$ 792,091
Total Program				\$ 746,004	\$ 60,596	\$ 806,600	\$ 731,495	\$ 792,091	\$ 806,600	\$ 622	\$ 806,662	\$ 791,469	\$ 792,091
Supportive Housing Program Grant	MD06B709005	14-235	\$ 65,896	\$ 54,386	\$ 11,510	\$ 65,896	\$ 54,386	\$ 65,896	\$ 65,896	\$ -	\$ 65,896	\$ 65,896	\$ 65,896
Supportive Housing Program Grant	MD06B709004	14-235	\$ 135,936	\$ 18,814	\$ 16,722	\$ 135,936	\$ 18,814	\$ 135,936	\$ 135,936	\$ -	\$ 135,936	\$ 135,936	\$ 135,936
Total Program				\$ 173,200	\$ 28,232	\$ 201,432	\$ 173,200	\$ 201,432	\$ 201,432	\$ -	\$ 201,432	\$ 201,432	\$ 201,432
Emergency Shelter Grant	2006-ESG-BOS-07	14-231	\$ 36,750	\$ 16,000	\$ (10,500)	\$ 5,500	\$ 36,750	\$ 36,750	\$ -	\$ -	\$ -	\$ 36,750	\$ 36,750
Emergency Shelter Grant	2007-ESG-BOS-07	14-231	\$ 23,642	\$ 16,000	\$ 23,642	\$ 23,642	\$ 36,750	\$ 23,642	\$ 23,642	\$ -	\$ 23,642	\$ 23,642	\$ 23,642
Total Program				\$ 32,000	\$ 13,142	\$ 29,142	\$ 36,750	\$ 60,392	\$ 23,642	\$ -	\$ 23,642	\$ 60,392	\$ 60,392
HUD Housing Counseling Grant		14-169	\$ 89,001	\$ 40,000	\$ (18,707)	\$ 21,293	\$ 89,001	\$ 79,688	\$ 21,293	\$ -	\$ 21,293	\$ 79,688	\$ 79,688
Passed Through Maryland DHCD: Lead-Based Paint Hazard Control		14-900	(A)	\$ 13,900	\$ -	\$ 13,900	\$ 13,900	\$ 13,900	\$ 13,900	\$ -	\$ 13,900	\$ 13,900	\$ 13,900
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				\$ 989,104	\$ 83,263	\$ 1,072,367	\$ 1,044,346	\$ 1,147,503	\$ 1,086,307	\$ 622	\$ 1,086,929	\$ 1,146,881	\$ 1,147,503
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>													
<b>Passed Through Maryland State Department of Human Resources:</b>													
Community Services Block Grant	01-00-B1MD COSR	93-031	\$ 208,662	\$ 26	\$ 26	\$ 217,403	\$ 26	\$ 217,403	\$ 26	\$ -	\$ 26	\$ 217,403	\$ 217,403
Community Services Block Grant	01-06-B1MD COSR	93-031	\$ 244,126	\$ 74,328	\$ 6,133	\$ 80,461	\$ 244,126	\$ 244,126	\$ 80,461	\$ -	\$ 80,461	\$ 244,126	\$ 244,126
Community Services Block Grant	01-07-B1MD COSR	93-031	\$ 244,126	\$ 197,396	\$ (8,683)	\$ 188,713	\$ 197,396	\$ 188,713	\$ 188,713	\$ -	\$ 188,713	\$ 188,713	\$ 188,713
Total Program				\$ 271,724	\$ (2,524)	\$ 269,200	\$ 658,925	\$ 650,242	\$ 269,200	\$ -	\$ 269,200	\$ 650,242	\$ 650,242
Passed Through Healthcare for the Homeless, Inc.:													
Healthcare for the Homeless	03-H-002-325-03	93-151	\$ 123,134	\$ 662	\$ (662)	\$ 123,134	\$ 123,134	\$ 123,134	\$ -	\$ -	\$ -	\$ 123,134	\$ 123,134
Healthcare for the Homeless	03-H-002-325-03	93-151	\$ 123,134	\$ 73,986	\$ (36,321)	\$ 123,134	\$ 123,134	\$ 123,134	\$ 37,665	\$ -	\$ 37,665	\$ 123,134	\$ 123,134
Healthcare for the Homeless	03-H-002-325-03	93-151	\$ 123,134	\$ 55,070	\$ 20,282	\$ 75,352	\$ 55,070	\$ 75,352	\$ 75,352	\$ -	\$ 75,352	\$ 75,352	\$ 75,352
Total Program				\$ 129,718	\$ (16,701)	\$ 113,017	\$ 301,338	\$ 321,620	\$ 113,017	\$ -	\$ 113,017	\$ 321,620	\$ 321,620
Passed Through Maryland State Department of Health and Mental Hygiene:													
McKinney PATH Grant	MH-263-OTH	93-150	\$ 77,400	\$ 7,304	\$ (7,304)	\$ 77,400	\$ 77,400	\$ 77,400	\$ -	\$ -	\$ 77,400	\$ 77,400	\$ 77,400
McKinney PATH Grant	MH-263-OTH	93-150	\$ 77,400	\$ 52,133	\$ 25,267	\$ 77,400	\$ 129,533	\$ 154,800	\$ 77,400	\$ -	\$ 77,400	\$ 154,800	\$ 154,800
Total Program				\$ 59,437	\$ 17,963	\$ 77,400	\$ 129,533	\$ 154,800	\$ 77,400	\$ -	\$ 77,400	\$ 154,800	\$ 154,800
Passed Through Maryland State Department of Housing and Community Development													
Community Food Nutrition Program		93-571	\$ 6,809	\$ -	\$ -	\$ 6,809	\$ 6,809	\$ 6,809	\$ -	\$ -	\$ -	\$ 6,809	\$ 6,809
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				\$ 460,879	\$ (1,262)	\$ 459,617	\$ 1,096,605	\$ 1,127,308	\$ 459,617	\$ -	\$ 459,617	\$ 1,127,308	\$ 1,127,308
<b>DEPARTMENT OF ENERGY</b>													
<b>Passed Through Maryland Department of Housing and Community Development:</b>													
Weatherization Assistance Program		81-042	(A)	\$ 113,334	\$ 18,545	\$ 131,879	\$ 1,162,577	\$ 1,186,327	\$ 131,879	\$ -	\$ 131,879	\$ 1,186,327	\$ 1,186,327

(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, 2008

Federal Grantor/Pass Through Grantor/Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Cash Received July 1, 2007 - June 30, 2008	Adjustment to Accrual Basis	Revenue Recognized July 1, 2007 - June 30, 2008	Total Cash Received Through June 30, 2008	Accrual Basis Revenue Through June 30, 2008	Cash Disbursements July 1, 2007 - June 30, 2008	Adjustment To Accrual Basis	Accrual Basis Disbursements July 1, 2007 - June 30, 2008	Total Cash Disbursements Through June 30, 2008	Accrual Basis Disbursements Through June 30, 2008
<b>DEPARTMENT OF JUSTICE</b>													
<b>Direct Programs</b>													
Edward Byrne Justice Assistance Grant	2006-DJ-BX-0269	16.738	\$ 42,122	\$ 39,905	\$(21,061)	\$ 18,844	\$ 40,716	\$ 40,716	\$ 18,844	\$ -	\$ 18,844	\$ 40,716	\$ 40,716
Gang Resistance Education/Training	2006-JV-FX-0068	16.737	9,100	8,300	(5,992)	2,308	9,100	9,100	2,308	-	2,308	9,100	9,100
Anti-Gang Initiative	YRegDoc G-37-1339	16.744	28,000	11,971	(530)	11,441	16,925	19,483	13,403	(1,962)	11,441	18,357	19,483
2007 Justice Assistance Grant	2007-DJ-BX-0347	16.738	75,058	19,950	52,897	72,847	72,847	72,847	72,847	-	72,847	72,847	72,847
Total Program				80,126	25,314	105,440	86,691	142,146	107,402	(1,962)	105,440	141,020	142,146
Bulleproof Vest Partnership Program	2004BUBX04021956	16.607	4,365	-	-	-	4,365	4,365	-	-	-	4,365	4,365
Bulleproof Vest Partnership Program	2005BUBX05029167	16.607	8,750	-	-	-	8,412	8,412	-	-	-	8,412	8,412
Bulleproof Vest Partnership Program	2006BUBX06030986	16.607	24,485	-	-	-	1,565	1,565	-	-	-	1,565	1,565
Bulleproof Vest Partnership Program	2006BUBX06135940	16.607	7,192	-	-	-	-	-	-	-	-	-	-
Total Program				-	-	-	14,342	14,342	-	-	-	14,342	14,342
<b>Passed Through Frederick County Health Department:</b>													
Tobacco Enforcement Grant		16.542	(B)	8,336	(8,336)	-	12,707	12,707	-	-	-	12,707	12,707
Tobacco Enforcement Grant		16.542	(B)	14,949	2,236	17,185	14,949	17,185	17,185	-	17,185	17,185	17,185
Total Program				23,285	(6,100)	17,185	27,656	29,892	17,185	-	17,185	29,892	29,892
TOTAL DEPARTMENT OF JUSTICE				103,411	19,214	122,625	128,689	186,380	124,587	(1,962)	122,625	185,254	186,380
<b>DEPARTMENT OF TRANSPORTATION</b>													
<b>Direct Programs:</b>													
Airport Development Aid Program	3-24-0017-017	20.106	4,723,482	-	-	-	4,217,341	4,552,555	-	-	-	4,552,555	4,552,555
Airport Development Aid Program	3-24-0017-019	20.106	3,130,380	-	-	-	2,077,868	2,197,967	-	-	-	2,197,967	2,197,967
Airport Development Aid Program	3-24-0017-021	20.106	4,05,080	71,868	-	71,868	387,731	387,731	71,868	-	71,868	387,731	387,731
Airport Development Aid Program	3-24-0017-023	20.106	86,070	66,274	-	66,274	81,766	81,766	66,274	-	66,274	81,766	81,766
Airport Development Aid Program	3-24-0017-024	20.106	241,799	-	-	-	224,558	224,558	-	-	-	224,558	224,558
Airport Development Aid Program	3-24-0017-025	20.106	4,445,788	1,568,775	(414,935)	1,153,840	4,728,733	4,728,733	1,153,840	-	1,153,840	4,728,733	4,728,733
Airport Development Aid Program	3-24-0017-026	20.106	29,703	8,731	-	8,731	17,297	17,297	8,731	-	8,731	17,297	17,297
Airport Development Aid Program	3-24-0017-027	20.106	150,000	-	-	-	150,000	150,000	-	-	-	150,000	150,000
Airport Development Aid Program	3-24-0017-028	20.106	2,112,304	2,011,560	(2,011,560)	-	2,011,560	2,011,560	-	-	-	2,011,560	2,011,560
Airport Development Aid Program	3-24-0017-029	20.106	150,000	150,000	-	-	150,000	150,000	-	-	-	150,000	150,000
Airport Development Aid Program	3-24-0017-030	20.106	95,000	-	-	-	-	-	-	-	-	-	-
Airport Development Aid Program	3-24-0017-031	20.106	378,935	-	-	-	15,619	15,619	15,619	-	15,619	15,619	15,619
Airport Development Aid Program	3-24-0017-032	20.106	-	3,877,208	(2,410,876)	1,466,332	13,763,929	14,517,786	1,466,332	-	1,466,332	14,517,786	14,517,786
Passed through the Maryland State Highway Administration:				-	-	-	-	-	-	-	-	-	-
Transportation Enhancement Program	5260020033	20.205	470,000	-	-	-	447,308	447,308	-	-	-	447,308	447,308
TOTAL DEPARTMENT OF TRANSPORTATION				3,877,208	(2,410,876)	1,466,332	14,211,237	14,965,094	1,466,332	-	1,466,332	14,965,094	14,965,094
<b>DEPARTMENT OF AGRICULTURE</b>													
<b>Passed Through Maryland State Dept. of Education</b>													
Summer Food Service Program		10.559	(C)	15,836	1,314	17,150	62,380	67,085	17,150	-	17,150	67,085	67,085
<b>DEPARTMENT OF HOMELAND SECURITY</b>													
<b>Passed Through Frederick County Fire and Rescue Services Division</b>													
FFY 2006 Homeland Security Grant	G 21757 LETPP	97.067	\$ 23,500	\$ 23,500	-	23,500	23,500	23,500	23,500	-	23,500	23,500	23,500
FFY 2007 Homeland Security Grant	2007-GE-17-0040	97.067	12,000	-	4,410	4,410	-	4,410	4,410	-	4,410	4,410	4,410
TOTAL DEPARTMENT OF HOMELAND SECURITY				23,500	4,410	27,910	23,500	27,910	27,910	-	27,910	27,910	27,910
<b>NATIONAL ENDOWMENT FOR THE ARTS</b>													
National Endowment for the Arts	07-7900-7074	45.024	10,000	-	-	10,000	10,000	10,000	10,000	-	10,000	10,000	10,000
TOTAL EXPENDITURES OF FEDERAL AWARDS				5,593,272	(2,285,392)	3,307,880	17,739,334	18,717,607	3,303,782	(1,340)	3,302,442	18,715,859	18,717,607

(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.

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, 2008

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, 2008.

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, 2008

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Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_yes\_\_x\_\_no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes\_\_x\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes\_\_x\_\_no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_yes\_\_x\_\_no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes\_\_x\_\_none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_yes\_\_x\_\_no

Identification major programs:

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

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

Auditee qualified as low-risk auditee? x yes \_\_\_\_\_no

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs  
Year Ended June 30, 2008

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Section II – Financial Statement Findings

Note Reported

Section III – Federal Award Findings and Questioned Costs

None Reported

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings  
Year Ended June 30, 2008

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**Finding 07-03: Review of Journal Entry Postings**

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

*Condition:* Journal entries prepared by the City's Director of Finance are not subjected to an independent review.

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

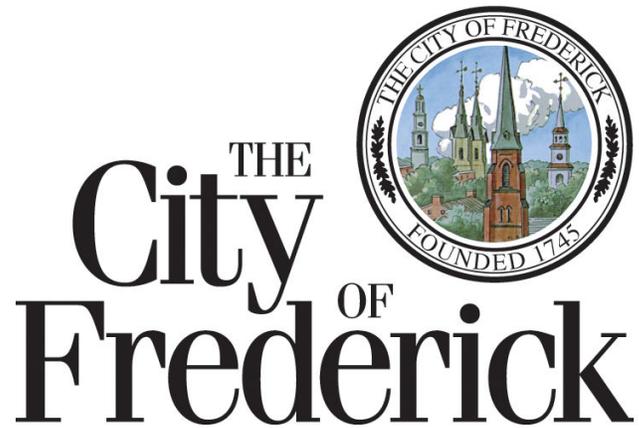
*Effect:* There is an increased risk of misstatement and risk of loss to City assets due to fraud or unintentional employee error.

*Cause:* The City did not perceive a risk of misstatement due to the Director of Finance's experience.

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

*Views of Responsible Officials and Planned Corrective Actions:* The City is committed to ensuring the highest level of internal controls are in place. The City plans to implement a process by which all journal entries prepared by the Director of Finance are reviewed by an independent individual.

*Corrective Action Taken:* During fiscal year 2008, the City implemented a process whereby all journal entries are reviewed by an individual independent of the preparer.



**WILLIAM J. HOLTZINGER, MAYOR**

**ALDERMEN**

**MARCIA HALL, *PRESIDENT PRO TEM***

**DAVID "KIP" KOONTZ**

**ALAN IMHOFF**

**C. PAUL SMITH**

**DONNA KUZEMCHAK**

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