THE CITY OF FREDERICK

FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year
July 1, 2009—June 30, 2010

THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010

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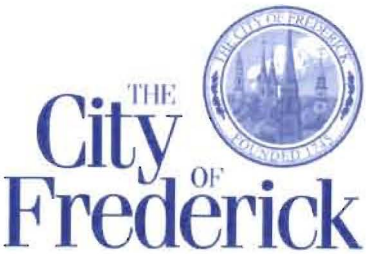
Randy McClement
Mayor



Aldermen
Karen Lewis Young
President Pro Tem
Michael C. O'Connor
Shelley M. Aloi
Carol L. Krimm
Kelly Russell

October 29, 2010

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, 2010. The form and contents of this report have been prepared by the City's Department of Finance in conformance with the standards set forth by the Charter of The City of Frederick, reporting principles promulgated by the Governmental Accounting Standards Board, and the Government Finance Officers Association of the United States and Canada.

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

The City of Frederick's financial statements have been audited by McGladrey & 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, 2010, 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, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

Profile of the City

Founded in 1745, The City of Frederick is one of the most historic and economically vibrant cities in the state of Maryland. Incorporated in 1817, Frederick is the cultural, business and financial center of Frederick County. Its proximity to Washington, D.C. and Baltimore, located near Interstates 70 and 270, make it a logical location for growth and progress. The City currently occupies a land area of approximately 21.12 square miles and serves an estimated population of 62,647. 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 15th. The mayor uses these requests as the starting point for developing a proposed budget. The mayor presents the proposed budget prior to May 30th. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29th. The budget is prepared by fund, function and department. The Mayor may make transfers or appropriations within a department. Transfers between departments require the special approval of the board. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 26 and 27 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 64.

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 62,647, 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. 52% of Frederick's total number of jobs is in professional and managerial levels. The average household income holds at $72,842. Some of the larger employers in the City are Fort Detrick Campus, Frederick Memorial Hospital, Wells Fargo Home Mortgage and Frederick Community College.

Abundant, diverse housing is a primary attraction among new residents moving to Frederick. The City includes 25,243 households, a third of all those located in Frederick County. In 2010, the median home value in Frederick City was $237,000, boasting housing costs that are lower than other Washington, D.C. suburban counties.

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

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

Long-term financial planning

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

One of the major projects in the Capital Improvement Plan is the Monocacy Boulevard project, a four lane highway connecting Route 70 to Route 26 that will open the way for new mixed use industrial, commercial and residential development. The total cost of over $46,200,000 will be financed by a combination of tax increment financing, special assessments and general obligation bonds. The center section of Monocacy Boulevard is now fully permitted and slated for completion in 2011.

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 has also been completed. This project in combination with the center section will provide an eastern bypass and congestion relief for the City of Frederick.

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

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

The City is also encouraging private investment through property and income tax credits for the Historic District, Arts District and the Golden Mile Commercial District. These short-term tax credits provide needed incentives for private sector capital reinvestment and revitalization in the properties of the area.

Relevant Financial Policies

The City of Frederick has established a "Rainy Day" reserve of unreserved, undesignated general fund balance that is equal to 12% of total general fund expenditures (including transfers out) to provide for adequate working capital and to provide funds to meet unforeseen emergencies. In fiscal year 2010, the City had significantly reduced intergovernmental revenues as well as increased emergency expenditures due to severe winter weather. However, the City was able to maintain its Rainy Day reserve in compliance with adopted policies.

Major Initiatives

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

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

The City is also working with SAIC, Inc and the National Cancer Institute to open the Advanced Research Facility in the Riverside Corporate Park in the northeast quadrant of the City. The NCI/ARF will be a state-of-the-art scientific campus that will bring together bio-technology, higher education and business development into a powerful force for tech sector job creation.

The City has created a hotel/conference center project team led by a well-respected local business leader. This group will examine locations best suited for such a facility, develop a competitive selection process for a development team, and pursue public/private ventures in order to realize this essential need in downtown Frederick.

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, 2009. This was the twenty seventh 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

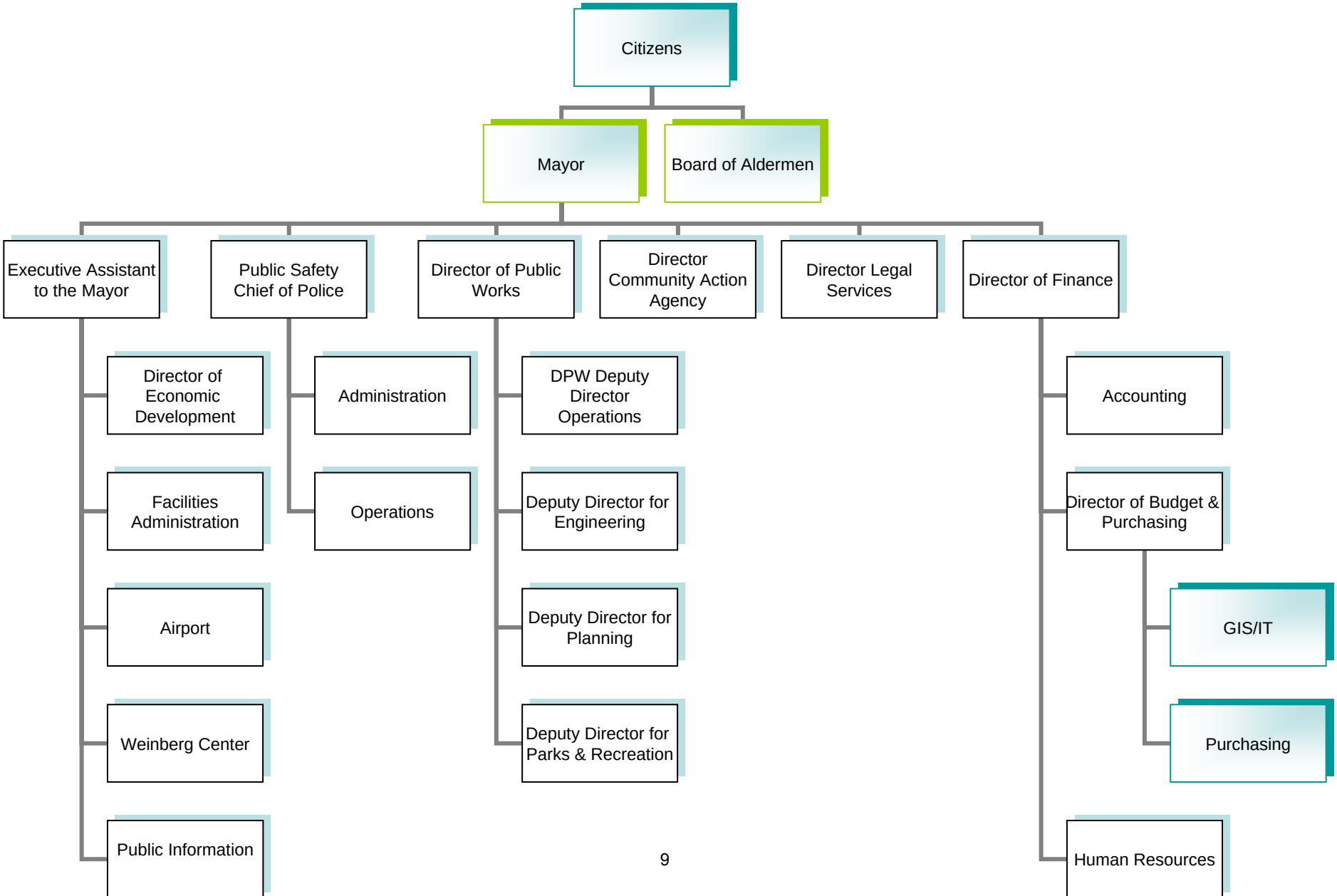
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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

President

Executive Director

The City of Frederick
Organizational Chart



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2010

MAYOR

Randy McClement

BOARD OF ALDERMEN

Karen Lewis Young
President Pro Tem

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

APPOINTED OFFICIALS

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

FINANCIAL SECTION

McGladrey

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of June 30, 2010, 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 29, 2010, 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 61, the "Schedule of Employer Contributions – Pension Plans" on page 62, the "Schedule of Funding Progress – Other Post Employment Benefit Plans" and the "Schedule of Employer Contributions – Other Post Employment Benefit Plans" on page 63 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 29, 2010

McGladrey is the brand under which RSM McGladrey, Inc. and McGladrey & Pullen, LLP serve clients' business needs.
The two firms operate as separate legal entities in an alternative practice structure.

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

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, 2010. 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 $260,529,959 (net assets). Of this amount, $43,433,934 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets decreased by $7,894,583, or 2.94%. The governmental net assets decreased by $4,551,524 and the business-type net assets decreased by $3,343,059.

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 $36,057,335, a decrease of $3,123,993 in comparison to the prior year. An increase of $693,046 in the fund balance was attributable to non-major governmental funds, a decrease of $4,610,757 was attributable to the capital improvement program and the remaining change in fund balance was due to an increase of $793,718 in the general fund.

At June 30, 2010, the total governmental fund unreserved fund balance was $21,516,102. The unreserved fund balance for the general fund was $15,079,841, or 23.56% 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 - 27 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 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 - 60 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees. Required supplementary information can be found on pages 61 - 63 of this report.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplementary information on pensions and other post employment benefits. Combining and individual fund statements and schedules can be found on pages 64 - 72 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 $260,529,959 at the close of the most recent fiscal year.

The City of Frederick's Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 49,225,613	$ 51,909,200	$ 65,361,100	$ 97,624,606	$ 114,586,713	$ 149,533,806
Capital assets	129,572,257	128,515,870	288,460,215	263,721,489	418,032,472	392,237,359
Total assets	178,797,870	180,425,070	353,821,315	361,346,095	532,619,185	541,771,165
Long-term liabilities outstanding	90,182,885	86,474,857	166,837,153	170,737,133	257,020,038	257,211,990
Other liabilities	6,598,026	7,381,730	8,471,162	8,752,906	15,069,188	16,134,636
Total liabilities	96,780,911	93,856,587	175,308,315	179,490,039	272,089,226	273,346,626
Net assets:						
Invested in capital assets, net of related debt	59,765,449	59,517,153	155,252,838	152,780,782	215,018,287	212,297,935
Restricted	1,547,698	2,649,212	498,487	2,791,469	2,046,185	5,440,681
Unrestricted	20,703,812	24,402,118	22,761,675	26,283,805	43,465,487	50,685,923
Total net assets	$ 82,016,959	$ 86,568,483	$ 178,513,000	$ 181,856,056	$ 260,529,959	$ 268,424,539

By far the largest portion of the City's net assets (82 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 ($2,046,185) represents resources that are restricted on how they may be used. The remaining balance of net assets ($43,465,487) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. The golf course business-type activity had negative unrestricted net assets in the amount of $4,323,115.

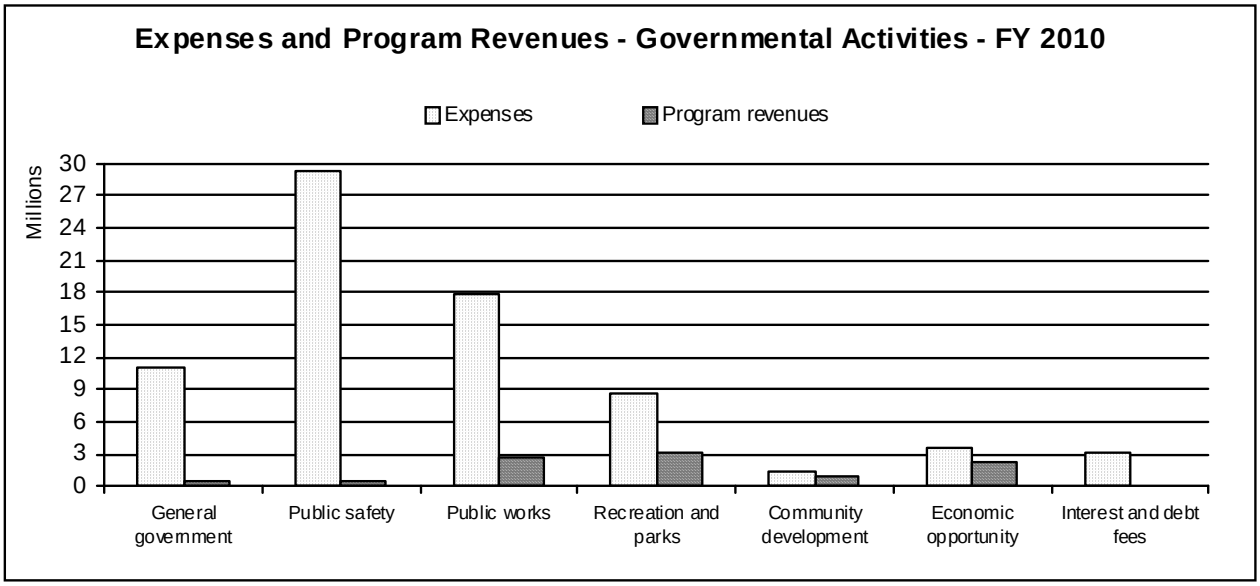
The City's net assets decreased by $7,894,583 during the current fiscal year.

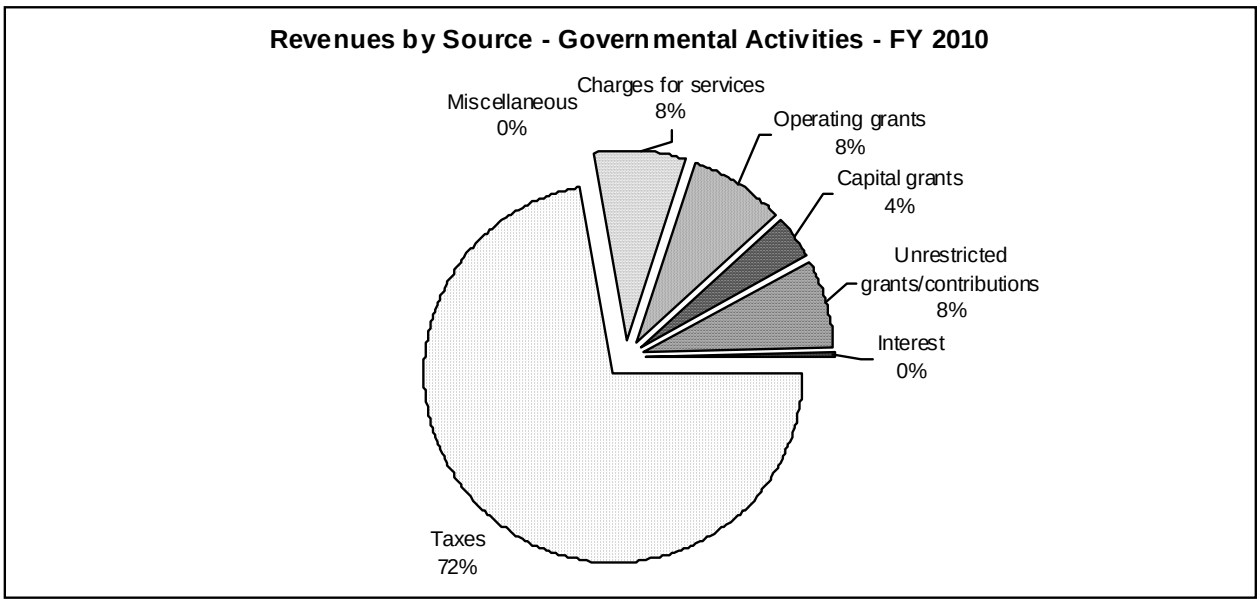
Governmental activities. Governmental activities decreased the City's net assets by $4,551,524 in the current fiscal year with total revenues from governmental activities decreasing by $1,439,247 and total governmental activities expenses increasing by $2,779,214.

Taxes increased by $2,614,421 with the primary increase in property taxes resulting from continued assessment growth within the City. Licenses and permits increased by $907,344. Intergovernmental revenues decreased by $2,872,801. Operating grants and contributions decreased by approximately 506,000 while grants and contributions to assist with capital project outlays decreased by approximately $2,137,000. County tax differential revenue decreased by $615,902 and state shared highway user revenue decreased by $2,356,156. Developer donated capital assets increased by $485,177. Fines and forfeitures decreased by $46,600 and were a result of decreased red light camera violations revenue.

Total expenses increased by $2,779,214 in fiscal year 2010. The significant increases were in salaries with a $1,127,177 (4.3%) increase, personnel benefits with an increase of $4,453,495 (23.2%), other services and charges with a $3,142,551 decrease (26.7%) and interest expense with a $1,048,841 increase (52.6%). The increase in salaries was primarily due to the additional accrual of payroll costs through June 30, 2010 and a 2.0% cost of living adjustment plus an annual performance increase for sworn police officers. The personnel benefits increase was due primarily to increased pension costs of approximately $975,000 and increased costs for healthcare benefits of approximately $3,500,000 which resulted primarily from the estimated liability for other post employment benefits. Additionally, other services and charges decreased by $3,142,551, with a $3,755,057 decrease attributable to a donation to the Housing Authority of the City of Frederick for the HOPE VI project made in FY 2009.

The net transfer from business-type activities to the governmental activities totaled $1,910,148. Transfer to the business-type activities, in the amount of $6,000, was for golf course repairs. $74,865 of the transfer from the business-type activities was a contribution toward capital improvements and $1,841,283 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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 5,393,839	$ 5,085,061	$ 24,049,531	$ 22,426,971	$ 29,443,370	$ 27,512,032
Operating grants/contributions	5,587,027	6,093,560	136,640	131,486	5,723,667	6,225,046
Capital grants/contributions	2,569,066	4,706,273	4,213,433	2,102,232	6,782,499	6,808,505
General revenues:						
Taxes	49,424,053	46,809,632	-	-	49,424,053	46,809,632
Non-restricted grants/contributions	5,146,165	5,769,443	-	-	5,146,165	5,769,443
Other	339,927	929,568	366,255	1,082,434	706,182	2,012,002
Total revenues	68,460,077	69,393,537	28,765,859	25,743,123	97,225,936	95,136,660
Expenses:						
General government	11,112,807	13,843,701	-	-	11,112,807	13,843,701
Public safety	29,380,419	27,774,500	-	-	29,380,419	27,774,500
Public works	17,920,281	16,085,179	-	-	17,920,281	16,085,179
Recreation and parks	8,593,681	8,537,986	-	-	8,593,681	8,537,986
Community development	1,233,762	1,042,266	-	-	1,233,762	1,042,266
Economic opportunity	3,550,150	2,762,777	-	-	3,550,150	2,762,777
Interest and long-term debt	3,130,649	2,096,126	-	-	3,130,649	2,096,126
Rental operations	-	-	51,008	46,580	51,008	46,580
Water and sewer	-	-	19,495,148	21,183,272	19,495,148	21,183,272
Golf course	-	-	1,964,708	1,781,729	1,964,708	1,781,729
Airport	-	-	2,317,740	1,783,928	2,317,740	1,783,928
Parking	-	-	4,025,218	3,611,042	4,025,218	3,611,042
Storm water	-	-	2,344,948	2,357,663	2,344,948	2,357,663
Total expenses	74,921,749	72,142,535	30,198,770	30,764,214	105,120,519	102,906,749
Increase/(decrease) in net assets before transfers	(6,461,672)	(2,748,998)	(1,432,911)	(5,021,091)	(7,894,583)	(7,770,089)
Transfers	1,910,148	2,415,935	(1,910,148)	(2,415,935)	-	-
Decrease in net assets	(4,551,524)	(333,063)	(3,343,059)	(7,437,026)	(7,894,583)	(7,770,089)
Net assets, July 1	86,568,483	86,901,546	181,856,059	189,293,085	268,424,542	276,194,631
Net assets, June 30	$ 82,016,959	$ 86,568,483	$ 178,513,000	$ 181,856,059	$ 260,529,959	$ 268,424,542

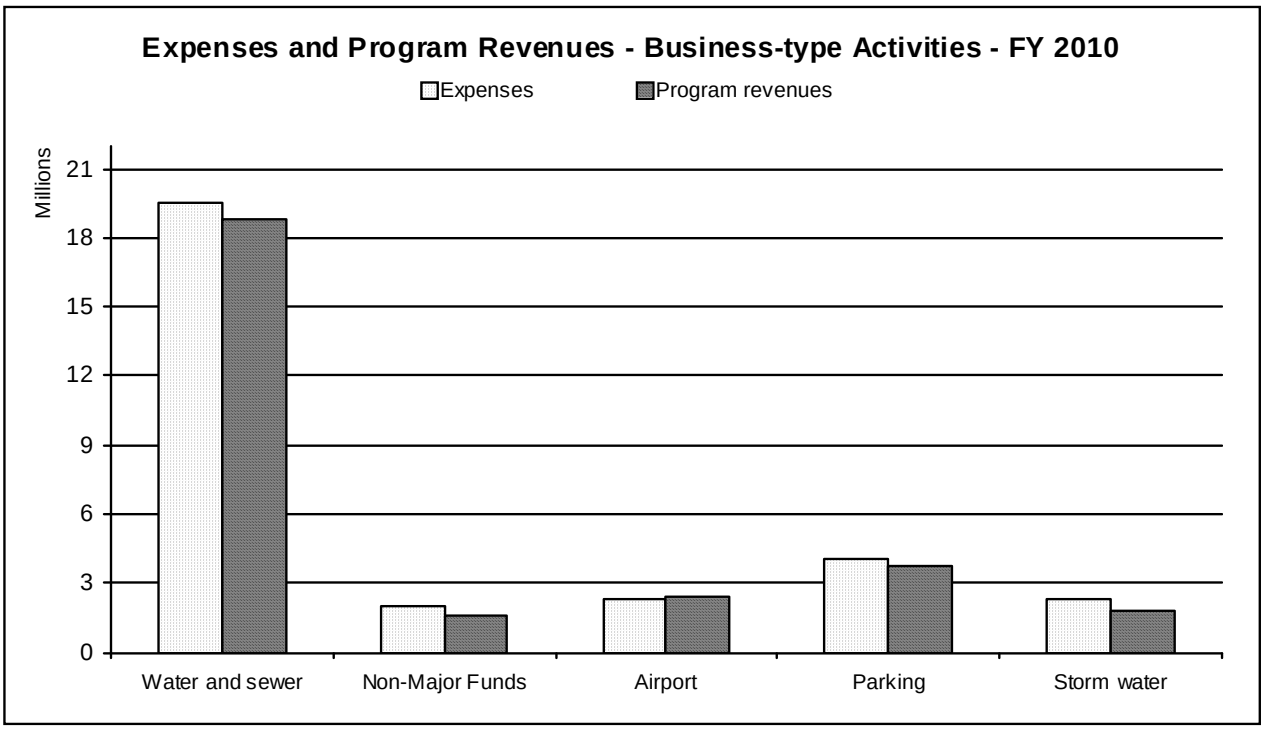
Business-type activities. Business-type activities decreased the City's net assets by $3,343,059 in the current fiscal year. Total revenues increased by $3,022,736 while expenses decreased by $565,444.

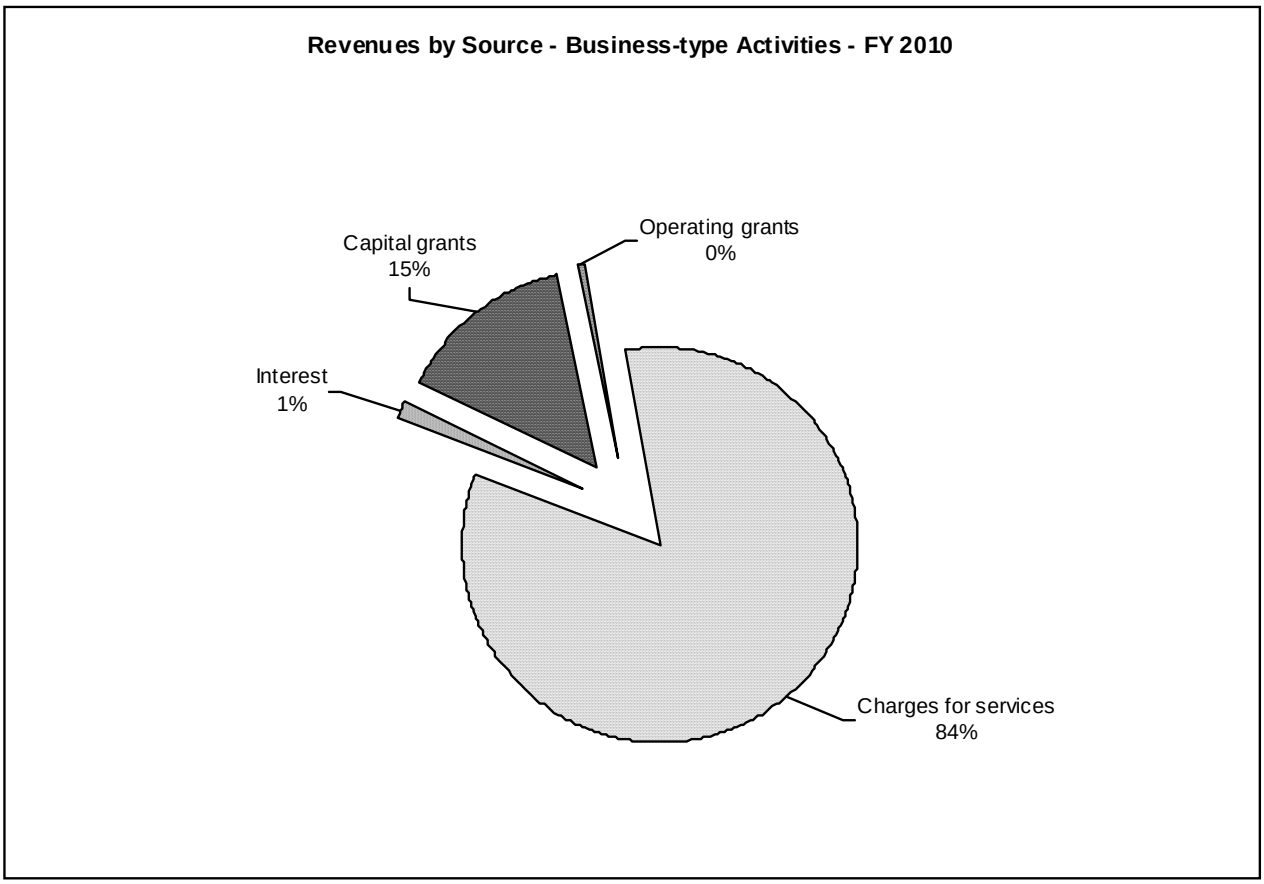
Charges for services increased by $1,622,560, which included a twelve percent (12%) increase in water and sewer and storm-water management rates.

There was a $2,111,201 increase in capital grants and contributions. Impact fees from developers increased by $330,686. The value of donated assets increased in fiscal year 2010 by approximately $228,000.

Total expenses decreased by $565,444 in fiscal year 2010. Benefits expense increased by approximately $1,246,000 and was due primarily to GASB Statement No. 45 which requires the City to record an estimated liability for other post employment benefits. Non-capitalized items associated with improvements were approximately $2,275,000 less in fiscal year 2010 and interest expense was approximately $1,149,000 greater in FY 2010 due to the bond issue in FY 2009. Additionally, the City recorded losses on the disposal of a capital assets in FY 2009 of $1,063,911 compared to $3,574 in FY 2010.

Business-type activities transferred $1,916,148 into governmental activities in FY 2010 and received a transfer of $6,000 from governmental activities for a net amount of $1,910,148. The transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The $6,000 received from the general fund is an amount that the general fund contributed for unexpected repairs for golf course operations.


Expenses and Program Revenues - Business-type Activities - FY 2010
Expenses
Program revenues
Millions
21
18
15
12
9
6
3
0
Water and sewer
Non-Major Funds
Airport
Parking
Storm water


Revenues by Source - Business-type Activities - FY 2010
Capital grants
15%
Operating grants
0%
Interest
1%
Charges for services
84%

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, 2010, the City's governmental funds reported combined ending fund balances of $36,057,335, a decrease of $3,123,993 over the prior fiscal year.

Revenues decreased slightly, by approximately $21,000 in the current year. Taxes increased by $2,614,420 with the primary increase in property taxes resulting from continued assessment growth within the City. Licenses and permits increased by $907,343. Intergovernmental revenues decreased by $1,426,715. Intergovernmental contributions to capital improvement projects increased by $477,713 in fiscal year 2010. Intergovernmental operating grants decreased by approximately $1,900,000. County tax differential revenue decreased by $615,902, state shared highway user revenue decreased by $2,356,157, state aid for police protect declined by $336,911, community development block grant funds increased by $426,091 and the City received additional revenue from the stimulus package in the amount of $959,986 to assist in weatherization assistance and the community services block grant. Developer contributions to capital improvement projects decreased by approximately $1,869,000 and interest earnings decreased by approximately $250,000 due to lower investment yields. Fines and forfeitures decreased by $46,616 and were a result of decreased red light camera violations.

Expenditures decreased by $31,563,920, or 30.2% over the preceding year. Spending for capital projects decreased by $28,576,975 in the current fiscal year, while other operating costs decreased by $2,986,945. Salaries increased by $1,424,724 and benefits increased by $648,034. The increase in salaries was primarily due to the additional accrual of payroll costs through June 30, 2010 and a 2.0% cost of living adjustment plus annual performance increase for sworn officers. The personnel benefits increase was due primarily to increased costs for the City's pension benefits, approximately $975,000. Healthcare benefits decreased approximately $330,000. Additionally, the City contributed $3,958,528 to the Housing Authority of the City of Frederick for the HOPE VI project in fiscal year 2009 compared to $203,471 in FY 2010, a decrease of $3,755,057.

Of the ending fund balance, $14,541,233 is reserved to indicate that it is not available for new spending because it has been 1) committed to liquidate encumbrances ($7,743,089), 2) loaned to other entities or funds ($6,229,695), or 3) used to purchase inventory or other prepaid items ($568,449). $21,516,102 of the fund balance is unreserved and available for the City's use; however, $5,545,065 is designated for capital improvement projects, $891,196 is designated for special revenue fund use and $926,039 is designated for subsequent years' usage.

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 $15,079,841, while total fund balance was $20,882,247. $926,039 of the unreserved fund balance is designated for subsequent years' use leaving an unreserved, undesignated fund balance of $14,153,802. In fiscal year 2009, the City adopted a policy of maintaining an unreserved, undesignated general fund balance equal to 12% of total general fund expenditures, including transfers out, as a "rainy day" reserve to provide for adequate working capital and to provide funds to meet unforeseen emergencies. The rainy day reserve as of June 30, 2010 is 21.94%.

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 23.56 percent of total general fund expenditures, while total fund balance represents 32.62 percent of that same amount.

The fund balance of the City's general fund increased by $793,718 during the current fiscal year. Revenues increased by 1.5 percent and expenditures decreased by 4.7 percent.

The general capital improvements project fund has a total fund balance of $12,278,327, 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 decrease of $3,152,554 and is summarized as follows:

Increase in general government activities	$ 8,866
Increase in public safety	473,407
Increase in public works	610,639
Decrease in recreation	(72,820)
Decrease in community development	(11,689)
Decrease in debt service	(13,740)
Decrease in miscellaneous activities	(500,000)
Decrease in transfers out	(3,647,217)
Total change in budget	($ 3,152,554)

Of this decrease, $3,638,217 was anticipated as reduced state shared highway user revenue ($2,307,036), reduced state aid for police protection ($367,374) and reduced income taxes ($963,807). Additional revenue in the amount of $485,663 was also discovered through donor contributions of $5,171 and the police department was able to acquire grant funds for various police equipment and services in the amount of $480,492.

During the year actual revenues did not meet the amended budget by $751,396. Taxes were $903,860 less than estimated. License and permit fees were $663,419 more than budgeted. Intergovernmental revenues were $197,713 less than budgeted.

Expenditures were less than the final budgetary estimates by $5,541,940 or 8.1%. Of this amount, $997,345 was encumbered at year end. Approximately $2,620,000 of this variance is due to salary and benefit savings resulting from a combination of delays in filling positions and/or not filling some open positions. Departments were aware of the economic trials facing the City during the fiscal year and were strongly encouraged to avoid unneeded expenditures. We believe these efforts enabled the City to avoid or delay additional expenditures in the current year.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2010, amounts to $418,032,472 (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 6.58 percent. Capital assets for governmental activities increased by 0.82 percent and increased by 9.38 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 $1,568,451.
2) Expenditures for parking facilities totaled $5,084,879 in FY 2010.
3) Expenditures for the water and sewer projects for FY 2010 totaled $24,697,954.
4) Airport improvement expenditures totaled $602,311.
5) Storm water facilities, $474,878.
6) Land acquisitions for City facilities, $335,058.
7) Vehicle and equipment acquisitions, $3,284,400.

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

	Governmental Activities	Business-type Activities	Total
Land	$ 48,832,511	$ 38,699,893	$ 87,532,404
Buildings	12,451,139	43,840,049	56,291,188
Other improvements	22,118,989	106,405,043	128,524,032
Infrastructure	28,752,691	-	28,752,691
Machinery and equipment	6,334,158	3,944,815	10,278,973
Construction in progress	11,082,769	95,570,415	106,653,184
Total	$ 129,572,257	$ 288,460,215	$ 418,032,472

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 $236,055,377. Of this amount, $234,206,666 carried the full faith, credit and taxing power of the City. The remaining $1,848,711 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties will be assessed as an additional fee to cover any shortfall.

The City of Frederick's Outstanding Long-term Obligations

	Governmental Activities	Business-type Activities	Total
General obligation debt	$ 73,182,685	$ 161,023,981	$ 234,206,666
Tax increment financing debt	1,848,711	-	1,848,711
Capital leases	246,723	53,152	299,875
Compensated absences	2,487,734	432,342	2,920,076
Total	$ 77,765,853	$ 161,509,475	$ 239,275,328

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

The City Charter limits the amount of debt to eight percent of the total assessed value of all taxable property in the City. Debt issued for water and sewer purposes are exempt from this limitation. The current debt limit for the City is $518,287,043 and the legal debt margin of the City is $397,355,663.

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 2011 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 2010 was 7.2 percent, which is a 0.3 percent increase from June 2009. The estimated rate for June 2010 for the county was 6.5 percent, the state was 7.4 percent and the nation was 9.5 percent.

The fiscal year 2011 budget calls for maintaining the same level of key services. The City was able to maintain the real estate tax rate of $.65 per $100 of assessed value. Water and sewer rates and storm-water management rates were each increased by 20 percent.

The general fund unreserved fund balance at June 30, 2010 was $15,079,841. The City has estimated that $9,422,456 would be available for the FY 2011 budget, with $8,769,660 of that amount being used for a budgeted fund balance.

Requests for information

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

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 319,289	$ 43,860	$ 363,149
Investments	249,964	5,096	255,060
Equity in pooled cash/investments	30,573,144	35,432,690	66,005,834
Receivables (net of allowance of uncollectibles)	3,633,264	4,030,900	7,664,164
Inventories	485,171	535,959	1,021,130
Prepaids	83,278	97,827	181,105
Deferred charges	610,025	1,000,728	1,610,753
Internal balances	4,145,160	(4,145,160)	-
Temporarily restricted assets:			
Cash and cash equivalents	7,019,009	27,869,756	34,888,765
Net pension asset	2,107,309	489,444	2,596,753
Capital assets (net of accumulated depreciation):			
Land	48,832,511	38,699,893	87,532,404
Buildings and systems	12,451,139	43,840,049	56,291,188
Improvements other than buildings	22,118,989	106,405,043	128,524,032
Infrastructure	28,752,691	-	28,752,691
Machinery and equipment	6,334,158	3,944,815	10,278,973
Construction in progress	11,082,769	95,570,415	106,653,184
Total assets	178,797,870	353,821,315	532,619,185
LIABILITIES			
Accounts payable and other current liabilities	1,475,429	5,095,137	6,570,566
Accrued liabilities	2,453,082	2,830,318	5,283,400
Deposits	1,241,088	84,284	1,325,372
Deferred revenue	1,428,427	461,423	1,889,850
Noncurrent liabilities:			
Due within one year	5,926,771	6,291,384	12,218,155
Due in more than one year	84,256,114	160,545,769	244,801,883
Total liabilities	96,780,911	175,308,315	272,089,226
NET ASSETS			
Invested in capital assets, net of related debt	59,765,449	155,252,838	215,018,287
Restricted for:			
Water/sewer improvements	-	400,054	400,054
Airport improvements	-	98,433	98,433
Parks improvements	1,166,085	-	1,166,085
Debt service	381,613	-	381,613
Unrestricted	20,703,812	22,761,675	43,465,487
Total net assets	$ 82,016,959	$ 178,513,000	$ 260,529,959

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, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	$ 11,112,807	$ 429,483	$ -	$ -	$ (10,683,324)	$ -	$ (10,683,324)
Public safety	29,380,419	2,523,502	1,741,503	-	(25,115,414)	-	(25,115,414)
Public works	17,920,281	207,029	290,938	2,041,232	(15,381,082)	-	(15,381,082)
Recreation and parks	8,593,681	2,223,533	416,009	527,834	(5,426,305)	-	(5,426,305)
Community development	1,233,762	9,773	986,962	-	(237,027)	-	(237,027)
Economic opportunity	3,550,150	519	2,151,615	-	(1,398,016)	-	(1,398,016)
Interest and long-term debt	3,130,649	-	-	-	(3,130,649)	-	(3,130,649)
Total governmental activities	74,921,749	5,393,839	5,587,027	2,569,066	(61,371,817)	-	(61,371,817)
Business-type activities:							
Rental operations	51,008	4,363	16,851	-	-	(29,794)	(29,794)
Water and sewer	19,495,148	16,433,555	-	2,399,384	-	(662,209)	(662,209)
Golf course	1,964,708	1,529,491	-	-	-	(435,217)	(435,217)
Airport	2,317,740	943,969	-	1,477,049	-	103,278	103,278
Parking	4,025,218	3,632,117	119,789	-	-	(273,312)	(273,312)
Storm water	2,344,948	1,506,036	-	337,000	-	(501,912)	(501,912)
Total business-type activities	30,198,770	24,049,531	136,640	4,213,433	-	(1,799,166)	(1,799,166)
Total primary government	$ 105,120,519	$ 29,443,370	$ 5,723,667	$ 6,782,499	(61,371,817)	(1,799,166)	(63,170,983)
General revenues:							
Property taxes					43,570,134	-	43,570,134
Income taxes					5,548,046	-	5,548,046
Other taxes					305,873	-	305,873
Grants/contributions not restricted to specific programs					5,146,165	-	5,146,165
Interest earnings					274,691	366,255	640,946
Gain/(loss) on sale of capital assets					23,614	-	23,614
Miscellaneous revenues					41,622	-	41,622
Transfers					1,910,148	(1,910,148)	-
Total general revenues and transfers					56,820,293	(1,543,893)	55,276,400
Change in net assets					(4,551,524)	(3,343,059)	(7,894,583)
Net assets - beginning					86,568,483	181,856,059	268,424,542
Net assets - ending					$ 82,016,959	$ 178,513,000	$ 260,529,959

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, 2010

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,680	$ -	$ 317,609	$ 319,289
Investments	4,964	-	245,000	249,964
Equity in pooled cash/investments	23,575,929	6,530,286	466,929	30,573,144
Receivables (net of allowance for uncollectibles)	668,004	-	1,994,403	2,662,407
Inventories	485,171	-	-	485,171
Prepaid items	82,028	-	1,250	83,278
Advances to other funds	4,145,160	-	-	4,145,160
Cash - restricted	393,247	6,625,762	-	7,019,009
Intergovernmental receivable	671,110	299,747	-	970,857
Total assets	$ 30,027,293	$ 13,455,795	$ 3,025,191	$ 46,508,279
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,819,623	$ 876,627	$ 65,812	$ 5,762,062
Accrued liabilities	1,666,950	873	10,442	1,678,265
Deposits	1,188,691	221	52,176	1,241,088
Deferred revenue	1,469,782	299,747	-	1,769,529
Total liabilities	9,145,046	1,177,468	128,430	10,450,944
Fund balances:				
Reserved for:				
Encumbrances	997,345	6,733,262	12,482	7,743,089
Inventory	485,171	-	-	485,171
Prepaid items	82,028	-	1,250	83,278
Loans	4,237,862	-	1,991,833	6,229,695
Unreserved, reported in:				
General fund	15,079,841	-	-	15,079,841
Special revenue funds	-	-	891,196	891,196
Capital projects funds	-	5,545,065	-	5,545,065
Total fund balances	20,882,247	12,278,327	2,896,761	36,057,335
Total liabilities and fund balances	$ 30,027,293	$ 13,455,795	$ 3,025,191	

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.	129,572,258
Deferred bond issuance costs are not available to pay current period expenditures and therefore, are not reported in the funds.	610,025
Earned but unavailable revenue is not recorded in the funds.	341,101
Accrued interest payable is not recorded in the funds.	(774,817)
Net pension asset is not included in the governmental funds.	2,107,309
Long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(85,896,252)
Net assets of governmental activities	$ 82,016,959

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, 2010

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 43,429,039	$ -	$ -	$ 43,429,039
Payment in lieu of taxes	1,300	-	-	1,300
Income taxes	5,548,045	-	-	5,548,045
Business taxes	305,873	-	-	305,873
Discount allowance	(276,000)	-	-	(276,000)
Penalties/interest on delinquent taxes	415,796	-	-	415,796
Licenses and permits	2,375,343	-	-	2,375,343
Intergovernmental	8,435,394	1,371,782	840,984	10,648,160
Charges for services	1,436,628	-	895,453	2,332,081
Fines and forfeitures	537,712	-	39,754	577,466
Miscellaneous	1,072,226	693,847	491,846	2,257,919
Total revenues	63,281,356	2,065,629	2,268,037	67,615,022
EXPENDITURES				
Current:				
General government	9,692,762	-	-	9,692,762
Public safety	26,398,610	-	42,970	26,441,580
Public works	12,411,139	-	-	12,411,139
Recreation and parks	4,713,392	-	1,266,197	5,979,589
Community development	668,685	-	502,037	1,170,722
Economic opportunity	3,260,161	-	-	3,260,161
Debt service:				
Principal	3,785,104	-	-	3,785,104
Interest	3,075,786	-	-	3,075,786
Other fees	8,762	-	-	8,762
Capital projects	-	7,154,657	-	7,154,657
Total expenditures	64,014,401	7,154,657	1,811,204	72,980,262
Excess (deficiency) of revenues over (under) expenditures	(733,045)	(5,089,028)	456,833	(5,365,240)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,902,170	478,271	89,991	2,470,432
Transfers out	(499,397)	-	(60,887)	(560,284)
Insurance reimbursements	48,190	-	-	48,190
Capital asset disposition	75,800	-	207,109	282,909
Total other financing sources (uses)	1,526,763	478,271	236,213	2,241,247
Net change in fund balances	793,718	(4,610,757)	693,046	(3,123,993)
Fund balances - beginning	20,088,529	16,889,084	2,203,715	39,181,328
Fund balances - ending	$ 20,882,247	$ 12,278,327	$ 2,896,761	$ 36,057,335

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, 2010

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

Net change in fund balances - total governmental funds	$ (3,123,993)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	58,584
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets.	997,802
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,739,941
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.	(5,686,328)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(537,530)
Change in net assets of governmental activities	$ (4,551,524)

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes:				
Property	$ 44,780,520	$ 44,780,520	$ 43,429,039	$ (1,351,481)
Payment in lieu of taxes	1,200	1,200	1,300	100
Income taxes	6,000,000	5,036,193	5,548,045	511,852
Business taxes	410,000	410,000	305,873	(104,127)
Discount allowance	(250,000)	(250,000)	(276,000)	(26,000)
Penalties/interest on delinquent taxes	350,000	350,000	415,796	65,796
Licenses and permits	1,711,925	1,711,925	2,375,343	663,418
Intergovernmental	10,827,025	8,633,107	8,435,394	(197,713)
Charges for services	1,506,415	1,506,415	1,436,628	(69,787)
Fines and forfeitures	546,525	546,525	537,712	(8,813)
Miscellaneous	1,301,696	1,306,867	1,072,226	(234,641)
Total revenues	67,185,306	64,032,752	63,281,356	(751,396)
EXPENDITURES				
Current:				
General government				
Executive and legislative	1,388,713	1,397,905	1,275,120	122,785
Legal services	677,561	677,561	612,616	64,945
Registration and election	141,390	136,390	127,160	9,230
Finance and accounting	1,140,951	1,140,951	1,063,031	77,920
Purchasing	625,944	625,944	591,979	33,965
Information technology	989,490	1,009,184	754,824	254,360
Geographic information system	385,149	385,149	327,953	57,196
Human resources	587,114	587,114	460,655	126,459
Safety	207,086	207,086	193,838	13,248
Planning and zoning	1,193,541	1,196,644	1,082,254	114,390
Code enforcement	621,774	621,774	602,237	19,537
Facilities maintenance	832,295	805,813	763,855	41,958
Asset management	688,595	696,283	638,263	58,020
Municipal Annex	442,083	442,083	396,328	45,755
Community promotion	494,409	495,080	398,169	96,911
Special events	291,334	291,334	265,868	25,466
Total general government	10,707,429	10,716,295	9,554,150	1,162,145
Public safety:				
Police department	24,816,707	25,297,199	23,792,016	1,505,183
Fire and rescue services	339,426	339,426	337,524	1,902
Building inspection	1,125,674	1,135,912	1,077,686	58,226
Electrical inspection	279,470	279,470	269,298	10,172
Construction inspection	612,252	594,929	475,388	119,541
Total public safety	27,173,529	27,646,936	25,951,912	1,695,024
Public works:				
General administration	1,317,296	1,317,296	1,152,165	165,131
Machinery & equipment maintenance	1,036,229	1,018,898	935,688	83,210
Engineering	1,556,443	1,556,443	1,281,698	274,745
Waste collection and disposal	3,913,437	3,911,499	3,427,066	484,433
Streets, roadways and alleys	2,095,875	2,023,736	1,679,754	343,982
Snow removal	321,994	1,088,801	1,039,698	49,103
Street lighting	2,314,438	2,259,152	2,203,226	55,926
Traffic lines	559,843	550,369	507,547	42,822
Bus service	46,334	46,334	46,318	16
Total public works	13,161,889	13,772,528	12,273,160	1,499,368

(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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Recreation and parks:				
Municipal parks	3,445,140	3,357,320	2,956,994	400,326
Harry Grove stadium	143,300	143,300	118,762	24,538
Recreation centers	1,350,605	1,350,605	1,152,273	198,332
Recreation commission	148,059	148,059	129,813	18,246
Swimming pools	276,332	291,332	275,029	16,303
Total recreation and parks	5,363,436	5,290,616	4,632,871	657,745
Community development:				
Community development	109,247	94,558	91,065	3,493
Economic development	583,406	586,406	570,289	16,117
Total community development	692,653	680,964	661,354	19,610
Economic opportunity:				
Community Action Agency	3,698,926	3,698,926	3,210,717	488,209
Total economic opportunity	3,698,926	3,698,926	3,210,717	488,209
Miscellaneous	500,000	-	-	-
Debt service:				
Principal	3,785,107	3,785,107	3,785,104	3
Interest	3,089,532	3,075,792	3,075,786	6
Other fees	28,592	28,592	8,762	19,830
Total debt service	6,903,231	6,889,491	6,869,652	19,839
Total expenditures	68,201,093	68,695,756	63,153,816	5,541,940
Excess (deficiency) of revenues over	(1,015,787)	(4,663,004)	127,540	4,790,544
OTHER FINANCING SOURCES (USES)				
Transfers in	1,918,283	1,918,283	1,902,170	(16,113)
Transfers out	(4,235,123)	(587,906)	(499,397)	88,509
Insurance reimbursements	30,000	30,000	48,190	18,190
Capital asset disposition	42,000	42,000	75,800	33,800
Total other financing sources (uses)	(2,244,840)	1,402,377	1,526,763	124,386
Net change in fund balances	(3,260,627)	(3,260,627)	1,654,303	4,914,930
Fund balance - beginning	11,761,692	11,761,692	20,088,529	8,326,837
Fund balance - ending	$ 8,501,065	$ 8,501,065	21,742,832	$ 13,241,767
Adjustment to conform with generally accepted accounting principles			(860,585)	
GAAP Fund Balance			$ 20,882,247	

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, 2010

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 42,860	$ -	$ 1,000	$ 43,860
Investments	-	-	-	-	5,096	5,096
Equity in pooled cash/investments	28,571,930	2,093,589	3,219,535	1,475,258	72,378	35,432,690
Receivables (net of allowance of uncollectibles)	3,360,762	332,347	61,963	275,190	638	4,030,900
Inventories	417,578	-	-	-	118,381	535,959
Prepaids	94,827	-	-	-	3,000	97,827
Deferred charges	37,273	31,242	18,559	559	2,477	90,110
Total current assets	32,482,370	2,457,178	3,342,917	1,751,007	202,970	40,236,442
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	25,576,613	1,152,362	785,280	337,286	18,215	27,869,756
Deferred charges	663,516	45,934	184,046	9,502	7,620	910,618
Net pension asset	400,158	2,132	45,968	8,823	32,363	489,444
Capital assets:						
Land	3,503,338	31,711,916	3,443,239	10,750	30,650	38,699,893
Buildings and systems	30,294,923	8,511,087	31,020,119	-	180,795	70,006,924
Improvements other than buildings	78,356,335	6,699,285	43,404	58,508,427	5,547,501	149,154,952
Machinery and equipment	6,623,006	559,198	1,980,567	1,068,833	712,380	10,943,984
Construction in progress	78,227,727	3,028,463	13,096,702	1,217,523	-	95,570,415
Less accumulated depreciation	(44,376,162)	(5,874,021)	(11,063,390)	(12,112,507)	(2,489,873)	(75,915,953)
Total noncurrent assets	179,269,454	45,836,356	39,535,935	49,048,637	4,039,651	317,730,033
Total assets	211,751,824	48,293,534	42,878,852	50,799,644	4,242,621	357,966,475
LIABILITIES						
Current liabilities:						
Accounts payable	4,695,381	16,812	138,287	203,644	41,013	5,095,137
Accrued liabilities	2,022,553	235,333	495,337	27,889	49,206	2,830,318
Deposits	1,023	82,852	-	-	409	84,284
Unearned revenue	59,214	296,845	69,977	-	35,387	461,423
Advances from other funds	-	-	-	-	4,145,160	4,145,160
Compensated absences	260,178	13,224	26,660	12,965	9,301	322,328
Bonds, notes, and loans payable	3,966,556	209,798	1,317,574	46,420	428,708	5,969,056
Total current liabilities	11,004,905	854,864	2,047,835	290,918	4,709,184	18,907,706
Noncurrent liabilities:						
OPEB liabilities	2,272,657	71,743	141,371	131,784	130,674	2,748,229
Compensated absences	39,795	3,397	774	-	66,048	110,014
Bonds, notes, and loans payable	113,399,339	16,948,142	25,160,386	1,209,139	970,520	157,687,526
Total noncurrent liabilities	115,711,791	17,023,282	25,302,531	1,340,923	1,167,242	160,545,769
Total liabilities	126,716,696	17,878,146	27,350,366	1,631,841	5,876,426	179,453,475
NET ASSETS						
Invested in capital assets, net of related debt	63,028,632	28,633,290	13,177,921	47,800,312	2,612,683	155,252,838
Restricted for:						
Other improvements	400,054	98,433	-	-	-	498,487
Unrestricted	21,606,442	1,683,665	2,350,565	1,367,491	(4,246,488)	22,761,675
Total net assets	$ 85,035,128	$ 30,415,388	$ 15,528,486	$ 49,167,803	$(1,633,805)	$ 178,513,000

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, 2010

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Operating revenues:						
Charges for services:						
Water and sewer charges	$ 15,882,098	$ -	$ -	$ -	$ -	$ 15,882,098
Golf course fees	-	-	-	-	1,508,373	1,508,373
Airport fees	-	834,332	-	-	-	834,332
Parking fees	-	-	2,674,381	-	-	2,674,381
Stormwater management fees	-	-	-	1,504,592	-	1,504,592
Licenses and permits	167,303	-	94,097	-	-	261,400
Fines and forfeitures	24,564	-	474,470		-	499,034
Miscellaneous	87,922	28,032	365,595	24	21,574	503,147
Total operating revenues	16,161,887	862,364	3,608,543	1,504,616	1,529,947	23,667,357
Operating expenses:						
Finance	291,536	-	-	-	-	291,536
Plumbing inpsection	323,074	-	-	-	-	323,074
Water service	2,898,194	-	-	-	-	2,898,194
Water chemicals	353,776	-	-	-	-	353,776
Water treatment	3,787,234	-	-	-	-	3,787,234
Sewage collection/disposal	3,604,295	-	-	-	-	3,604,295
Sewage maintenance/house connections	1,155,858	-	-	-	-	1,155,858
Inflow and infiltration	330,956	-	-	-	-	330,956
Plant maintenance	1,087,145	-	-	-	-	1,087,145
Public housing	-	-	-	-	44,197	44,197
Golf course maintenance	-	-	-	-	647,545	647,545
Golf course clubhouse	-	-	-	-	708,002	708,002
Golf course restaurant	-	-	-	-	303,328	303,328
Airport	-	866,580	-	-	-	866,580
Parking facilities	-	-	1,700,832	-	-	1,700,832
Stormwater management activities	-	-	-	747,296	-	747,296
Depreciation	2,977,191	631,465	1,232,194	1,573,838	208,161	6,622,849
Total operating expenses	16,809,259	1,498,045	2,933,026	2,321,134	1,911,233	25,472,697
Operating income/(loss)	(647,372)	(635,681)	675,517	(816,518)	(381,286)	(1,805,340)
Nonoperating revenues/(expenses)						
Intergovernmental	-	-	119,789	-	16,851	136,640
Interest income	311,085	16,626	28,452	9,295	797	366,255
Gain on disposal of capital assets	3,090	-	-	-	-	3,090
Other nonoperating revenues	268,578	81,605	23,574	1,420	3,907	379,084
Interest expense	(2,605,700)	(785,924)	(1,072,576)	(19,671)	(57,228)	(4,541,099)
Loss on disposal of capital assets	-	-	-	(3,574)	-	(3,574)
Other nonoperating expenses	(80,189)	(33,771)	(19,616)	(569)	(47,255)	(181,400)
Total nonoperating revenue/(expenses)	(2,103,136)	(721,464)	(920,377)	(13,099)	(82,928)	(3,841,004)
Income/(loss) before contributions and transfers	(2,750,508)	(1,357,145)	(244,860)	(829,617)	(464,214)	(5,646,344)
Capital contributions	2,399,384	1,477,049	-	337,000	-	4,213,433
Transfers in	2,257	-	-	-	6,000	8,257
Transfers out	(1,718,648)	-	(150,000)	(49,757)	-	(1,918,405)
Change in net assets	(2,067,515)	119,904	(394,860)	(542,374)	(458,214)	(3,343,059)
Total net assets - beginning	87,102,643	30,295,484	15,923,346	49,710,177	(1,175,591)	181,856,059
Total net assets - ending	$ 85,035,128	$ 30,415,388	$ 15,528,486	$ 49,167,803	$(1,633,805)	$ 178,513,000

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, 2010

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Cash flows from operating activities:						
Receipts from customers and users	$ 14,972,056	$ 861,891	$ 3,603,548	$ 1,466,761	$ 1,529,527	$ 22,433,783
Receipts from other sources	728,155	80,808	119,790	-	2,700	931,453
Payments to vendors	(8,466,047)	(602,459)	(980,373)	(464,794)	(941,817)	(11,455,490)
Payments to employees	(3,820,350)	(188,115)	(547,294)	(311,793)	(610,956)	(5,478,508)
Net cash provided (used) by operating activities	3,413,814	152,125	2,195,671	690,174	(20,546)	6,431,238
Cash flows from noncapital financing activities:						
Transfers out	(1,718,648)	-	(150,000)	(47,500)	-	(1,916,148)
Transfers in	-	-	-	-	6,000	6,000
Operating subsidy	-	-	-	-	16,851	16,851
Due to other funds	-	-	-	-	492,269	492,269
Net cash provided (used) by noncapital financing activities	(1,718,648)	-	(150,000)	(47,500)	515,120	(1,401,028)
Cash flows from capital and related financing activities:						
Capital contributions	2,399,384	-	-	337,000	-	2,736,384
Intergovernmental payments	-	1,477,049	-		-	1,477,049
Capital asset acquisitions	(24,062,146)	(608,924)	(6,866,992)	(477,808)	(136,677)	(32,152,547)
Capital lease payments	(51,322)	-	-	-	-	(51,322)
Principal payments	(3,671,916)	(175,000)	(1,313,000)	-	(449,711)	(5,609,627)
Interest payments	(2,502,934)	(741,743)	(1,040,188)	(15,978)	(57,461)	(4,358,304)
Estimated arbitrage earnings	-	-	-	-	(758)	(758)
Proceeds from sale of capital assets	3,090	-	-	4,092	-	7,182
Other debt related costs	(17,957)	(1,530)	(1,057)	(10)	-	(20,554)
Net cash provided (used) by capital and related financing activities	(27,903,801)	(50,148)	(9,221,237)	(152,704)	(644,607)	(37,972,497)
Cash flows from investings activities:						
Interest earned	327,537	17,039	31,707	9,413	912	386,608
Net cash provided by investing activities	327,537	17,039	31,707	9,413	912	386,608
Net increase (decrease) in cash equivalents	(25,881,098)	119,016	(7,143,859)	499,383	(149,121)	(32,555,679)
Cash equivalents - beginning	80,029,641	3,126,935	11,191,535	1,313,161	245,810	95,907,082
Cash equivalents - ending	$ 54,148,543	$ 3,245,951	$ 4,047,676	$ 1,812,544	$ 96,689	$ 63,351,403

(continued)

The City of Frederick, Maryland
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income/(loss)	$ (647,372)	$ (635,681)	$ 675,517	$ (816,518)	$ (381,286)	$ (1,805,340)
Other Cash Receipts that do not result from Transactions defined as Capital and Relatec Financing, Noncapital Financing or Investing Activities.	131,471	80,808	119,790	-	2,700	334,769
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	2,977,191	631,465	1,232,193	1,573,838	208,161	6,622,848
(Increase)/decrease in accounts receivable	(597,989)	(653)	(16,051)	(37,855)	11,930	(640,618)
(Increase)/decrease in inventory	(38,655)	-	-	-	28,357	(10,298)
(Increase)/decrease in prepaids	1,101	-	-	-	-	1,101
Decrease in net pension asset	267	2	48	21	27	365
(Decrease)/increase in accounts payable	(3,941)	(8,965)	52,765	(134,070)	(36,012)	(130,223)
(Decrease)/increase in deferred revenue	5,102	339	11,057	-	(12,171)	4,327
(Decrease)/increase in deposits	(259)	(159)	-	-	(179)	(597)
(Decrease)/increase in OPEB liability	1,438,257	71,743	101,638	92,051	130,674	1,834,363
(Decrease)/increase in wages payable	129,702	8,877	17,509	10,161	27,009	193,258
(Decrease)/increase in compensated absences	18,939	4,349	1,205	2,546	244	27,283
Total adjustments	3,929,715	706,998	1,400,364	1,506,692	358,040	7,901,809
Net cash provided (used) by operating activities	$ 3,413,814	$ 152,125	$ 2,195,671	$ 690,174	$ (20,546)	$ 6,431,238

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, 2010

	Pension Trust Fund
ASSETS:	
Cash and short-term investments	$ 3,677,765
Receivables	
Accounts receivable - employee	119,802
Total receivables	119,802
Investments, at fair value:	
Equities	28,245,123
Fixed income	32,871,302
Total investments	61,116,425
Total assets	64,913,992
NET ASSETS	
Held in trust for pension benefits	$ 64,913,992

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, 2010

	Pension Trust Fund
ADDITIONS:	
Contributions - employer	$ 8,952,607
Contributions - employees	1,564,490
Interest	1,562,596
Net appreciation/(depreciation)	5,685,223
Total Additions	17,764,916
DEDUCTIONS:	
Pension benefits	6,881,503
Service charges	470,965
Total Deductions	7,352,468
Change in net assets	10,412,448
Net assets - beginning	54,501,544
Net assets - ending	$ 64,913,992

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

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

Based upon the above criteria, the following is a brief overview of 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 Human Resource Manager serving as plan administrator and the Mayor and Board of Aldermen serving as the governing board. The City and the plan's participants are obligated to fully fund all plan costs based upon actuarial valuations.

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

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

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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

1. Summary of Significant Accounting Policies (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund type:

The *pension trust funds* account for activities of the City's three retirement plans, which accumulate 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 inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include the City's water and sewer fund charges to other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various other functions.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessment and impact fees. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, liabilities, and net assets or equity

Cash and Investments

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are 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.

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Inventories and prepaid items

Inventories are valued at cost, determined by the moving average method, in the governmental fund and at the lower of cost or market in the proprietary funds. Inventory consists of expendable supplies held for consumption or items for resale. Inventory in the general fund is recorded under the consumption method, 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, 2010, 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 $ 1,428,428 in unearned revenue. Additionally, $ 341,101 of 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.

1. Summary of Significant Accounting Policies (continued)

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

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

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

Compensated absences

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

Long-term obligations

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

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

Fund balance

In the fund financial statements, governmental funds report 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.

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 $129,572,258 difference are as follows:

Capital assets	$ 198,885,812
Less: Accumulated depreciation	(69,313,554)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 129,572,258

Another element of that reconciliation states that "long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds." The details of this $85,896,252 difference are as follows:

Bonds payable	$ 75,278,119
Add: Issuance premium (to be amortized over life of debt)	592,804
Add: Other post employment benefits	7,537,595
Add: Compensated absences	2,487,734
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 85,896,252

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 $ 58,584 difference are as follows:

Capital outlay	$ 6,723,863
Depreciation expense	(6,665,279)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 58,584

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 $ 997,802 difference are as follows:

In the statement of activities, only the *gain/loss* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the remaining book value of the capital assets sold.	$ (95,153)
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.	1,092,955
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 997,802

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 $ 3,739,941 difference are as follows:

Principal repayments	$ 3,785,104
Amortization of bond premiums	34,974
Amortization of issuance costs	(80,137)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 3,739,941

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 $ 5,686,328 difference are as follows:

Compensated absences	$ 34,811
Pension expense resulting in a net pension asset reduction	1,618
Other post employment benefits	5,683,936
Accrued interest	(34,035)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 5,686,328

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).

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 2010, the Weinberg Center exceeded their budget allotment. The primary reason for the over-expenditure was donated in-kind services that were recorded at year-end. The over-expenditure in the Weinberg Center Fund was fully funded by the revenue recognized by the in-kind service donations. Budget amendments were made during fiscal year 2010 which resulted in a net reduction in the amount of $3,152,554 in the General Fund to account for unanticipated revenue shortfalls.

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, 2010, the City had the following investments:

Investment Type	Fair Value
Repurchase agreements	$ 2,517,691
U. S. Treasuries	381,613
Maryland Local Government Investment Pool	50,768,855
	$ 53,668,159
Pension Fund investments	64,794,190
Total fair value of investments	$ 118,462,349

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, 2010, 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.

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 $47,213,719, and the bank balance was $47,910,026. As of June 30, 2010, 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	
Growth equities	$ 16,678,998
Small cap equities	6,070,933
International equities	5,495,192
Total equities	$ 28,245,123
Core Fixed income	$ 13,141,275
Fixed income	3,332,448
Research Advantage Collective Trust	16,397,579
Total fixed income	$ 32,871,302
Cash and short-term investments	
Cash management fund	$ 2,305,804
Disbursement payment account	1,371,961
Total cash and short-term investments	$ 3,677,765
Total pension fund investments	$ 64,794,190

The average quality of the core fixed income investments is AA2, with yield to maturity of 3.43% and an effective duration of 4.34 years. 72.3% of the portfolio is rated AAA, 1.9% AA, 7.5% A, 17.3% BBB and 0.9% less than BBB.

Petty cash amounts at June 30, 2010 totaled $46,135.

Receivables

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

	General	CIP	Water & Sewer	Airport	Parking	Storm Water Management	Non-major Funds	Total
Taxes	$ 424,689	$ -	$ -	$ -	$ -	$ -	$ -	$ 424,689
Loans/notes	92,702	-	-	-	-	-	2,000,700	2,093,402
Intergovernmental	671,110	299,747	13,996	286,853	22,317	2,078	-	1,296,101
Interest	992	-	4,738	197	114	75	1,601	7,717
Other	245,460	-	3,353,267	56,563	39,532	273,037	-	3,967,859
Gross receivables	1,434,953	299,747	3,372,001	343,613	61,963	275,190	2,002,301	7,789,768
Less: allowance for un-collectibles	(95,839)	-	(11,239)	(11,266)	-	-	(7,260)	(125,604)
Net receivables	$ 1,339,114	$ 299,747	$3,360,762	$ 332,347	$ 61,963	$ 275,190	$1,995,041	$ 7,664,164

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 48,669,666	$ 162,845	$ -	$ -	$ 48,832,511
Construction in progress	9,366,900	4,726,973	-	(3,011,104)	11,082,769
Total capital assets, not being depreciated	58,036,566	4,889,818	-	(3,011,104)	59,915,280
Capital assets, being depreciated:					
Buildings	28,212,150	286,179	20,475	316,049	28,793,903
Other improvements	28,972,594	184,502	-	1,813,149	30,970,245
Infrastructure	56,077,808	1,092,954	-	-	57,170,762
Machinery and equipment	20,427,328	1,363,366	636,978	881,906	22,035,622
Total capital assets, being depreciated	133,689,880	2,927,001	657,453	3,011,104	138,970,532
Less accumulated depreciation for:					
Buildings	15,374,746	988,493	20,475	-	16,342,764
Other improvements	7,373,724	1,477,532	-	-	8,851,256
Infrastructure	26,152,562	2,265,509	-	-	28,418,071
Machinery and equipment	14,309,544	1,933,745	541,825	-	15,701,464
Total accumulated depreciation	63,210,576	6,665,279	562,300	-	69,313,555
Total capital assets, being depreciated, net	70,479,304	(3,738,278)	95,153	3,011,104	69,656,977
Governmental activities capital assets, net	$ 128,515,870	$ 1,151,540	$ 95,153	$ -	$ 129,572,257

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 38,535,093	$ 172,213	$ 7,413	$	$ 38,699,893
Construction in progress	67,686,717	29,649,911	1,766,213	-	95,570,415
Total capital assets, not being depreciated	106,221,810	29,822,124	1,773,626	-	134,270,308
Capital assets, being depreciated:					
Buildings	69,882,903	124,021	-	-	70,006,924
Other improvements	147,886,259	1,275,688	6,995	-	149,154,952
Machinery and equipment	9,195,566	1,921,035	172,617	-	10,943,984
Total capital assets, being depreciated	226,964,728	3,320,744	179,612	-	230,105,860
Less accumulated depreciation for:					
Buildings	24,207,661	1,959,214	-	-	26,166,875
Other improvements	39,029,344	3,727,560	6,995	-	42,749,909
Machinery and equipment	6,228,044	936,075	164,950	-	6,999,169
Total accumulated depreciation	69,465,049	6,622,849	171,945	-	75,915,953
Total capital assets, being depreciated, net	157,499,679	(3,302,105)	7,667	-	154,189,907
Business-type activities capital assets, net	$ 263,721,489	$ 26,520,019	$ 1,781,293	$	$ 288,460,215

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	$ 404,035
Public safety	573,496
Public works	3,202,202
Recreation and parks	2,381,374
Economic opportunity	104,172
Total depreciation expense – governmental activities	$ 6,665,279
Business-type activities:	
Rental operations	$ 6,811
Water and sewer	2,977,191
Golf course	201,350
Airport	631,465
Parking	1,232,194
Storm water	1,573,838
Total depreciation expense – business-type activities	$ 6,622,849

Construction commitments

The City has active construction projects as of June 30, 2010. At year end the City's commitments with contractors for major projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Monocacy Boulevard Central Section	$ 11,994,051	$ 9,473,419
New Design Water Plant Expansion	51,614,340	135,660
Rocky Springs Road/Bowers Road Water Main	3,215,458	1,273,836
Wastewater Treatment Plant Improvements	5,913,061	3,912,570

The Monocacy Boulevard Central Section, New Design Water Plant Expansion, Rocky Springs Road/Bowers Road Water Main and Wastewater Treatment Plant Improvements are primarily debt funded.

Inter-fund receivables, payables and transfers

The composition of inter-fund balances as of June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
General	Golf Course	$ 4,145,160

The $4,145,160 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.

4. Detailed notes on all funds (continued)

Inter-fund transfers:	Transfers In:					
Transfer out:	General Fund	CIP Fund	Non-major Governmental	Water and Sewer Fund	Golf Course Fund	Total
General fund	$ -	$ 403,406	$ 89,991	$ -	$ 6,000	$ 499,397
Non-major governmental funds	60,887	-	-	-	-	60,887
Water and sewer fund	1,643,783	74,865	-	-	-	1,718,648
Parking fund	150,000	-	-	-	-	150,000
Storm water management fund	47,500	-	-	2,257	-	49,757
Total transfers out	$1,902,170	$ 478,271	$ 89,991	$ 2,257	$ 6,000	$ 2,478,689

Transfers into the general fund from water and sewer, 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 non-major government funds into the general fund represents general fund expenditures that are funded by special fund revenues.

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

The $89,991 transfer by the general fund into the non-major governmental fund represents the annual contribution to subsidize operations of the Weinberg Center for the Arts.

The storm water fund transferred an asset with a book value of $2,257 into the water and sewer fund without remuneration.

The general fund also transferred $6,000 into the golf course fund for some necessary repair work.

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:

	2005 Lease	
	General Fund	Water & Sewer Fund
Machinery and equipment	$ 1,178,295	$ 247,663
Less: Accumulated depreciation	(824,310)	(162,233)
Total	$ 353,985	$ 85,430

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 are as follows:

	2005 Lease	
Fiscal Year Ending June 30,	General Fund	Water & Sewer Fund
2011	$ 255,519	$ 55,047
Total minimum lease payments	$ 255,519	$ 55,047
Less: amount representing interest	(8,796)	(1,895)
Present value of minimum lease payments	$ 246,723	$ 53,152

6. Long term obligations

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

	Date of Issue	Date of Maturity	Range of Interest Rates	Outstanding 7/1/2009	Transfers/ Additions FY '10	Reductions FY '10	Outstanding 6/30/2010	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	08/07/01	12/01/21	3.25-4.75%	$ 13,905,000	$ -	$ (2,173,000)	$ 11,732,000	$ 2,220,000
General Purpose	09/19/02	09/01/22	2.50-5.0%	19,070,000	-	(1,018,000)	18,052,000	1,056,000
Refunding Bonds	11/18/08	08/01/11	3.29%	650,000	-	(250,000)	400,000	250,000
General Purpose	03/26/09	03/01/29	3.0 - 5.0%	42,815,000	-	-	42,815,000	125,000
MILA Loan - Trading Lane	06/95	06/22	5.93%	122,475	-	(6,460)	116,015	6,852
CELP Loan	12/21/05	06/01/14	2.0%	83,763	-	(16,093)	67,670	16,416
Tax Increment Financing	12/99	06/24	5.95%	1,932,033	-	(83,322)	1,848,711	88,280
Capital Lease	12/20/05	07/20/10	3.0 - 5.0%	484,952	-	(238,229)	246,723	246,723
Subtotal				79,063,223	-	(3,785,104)	75,278,119	4,009,271
Add remaining premium				627,779	-	(34,975)	592,804	34,974
Total bonds and notes payable				79,691,002	-	(3,820,079)	75,870,923	4,044,245
Other Obligations:								
Compensated Absences				2,452,923	2,169,950	(2,135,139)	2,487,734	1,882,526
OPEB Liabilities				4,330,934	7,493,294		11,824,228	-
Total Governmental Activity Long-term Obligations				$ 86,474,859	$ 9,663,244	$ (5,955,218)	$ 90,182,885	$ 5,926,771
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/07/01	12/01/21	3.25-4.75%	$ 5,712,000	$ -	$ (779,000)	$ 4,933,000	$ 798,000
Water and Sewer	09/19/02	09/01/22	2.50-5.0%	1,435,000	-	(77,000)	1,358,000	79,000
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	48,995,000	-	(2,150,000)	46,845,000	2,218,000
Water and Sewer	11/18/08	08/01/11	3.29%	367,000	-	(140,000)	227,000	140,000
Water and Sewer	11/18/08	08/01/28	4.39%	8,700,000	-	(277,700)	8,422,300	290,100
Water and Sewer	03/26/09	03/01/34	3.0 - 5.0%	49,875,000	-	-	49,875,000	20,000
Total General Obligation Bonds				115,084,000	-	(3,423,700)	111,660,300	3,545,100
State Loan Fund - BNR	08/23/01	02/01/22	2.30%	3,711,913	-	(248,216)	3,463,697	253,925
Capital Lease	12/20/05	07/20/10	3.0 - 5.0%	104,474	-	(51,322)	53,152	54,919
Total Water & Sewer Debt				118,900,387	-	(3,723,238)	115,177,149	3,853,944
Golf Course Facilities Bonds	07/26/04	10/01/10	2.84%	851,695	-	(449,711)	401,984	401,984
Golf Course Facilities Bonds	03/26/09	03/01/29	3.0 - 5.0%	985,000	-	-	985,000	35,000
Total Golf Course Obligations				1,836,695	-	(449,711)	1,386,984	436,984
Airport Improvement Bonds	08/07/01	12/01/21	3.25-4.75	3,035,000	-	(175,000)	2,860,000	185,000
Airport Improvement Bonds	03/26/09	03/01/29	3.0 - 5.0%	640,000	-	-	640,000	25,000
Airport Impvt. BANs - Taxable	03/26/09	03/01/13	4.52%	13,655,000	-	-	13,655,000	-
Total Airport Debt				17,330,000	-	(175,000)	17,155,000	210,000
Parking Facilities	08/07/01	12/01/21	3.25-4.75	2,653,000	-	(223,000)	2,430,000	232,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	12,505,000	-	(575,000)	11,930,000	587,000
Parking Facilities	11/18/08	08/01/11	3.29%	283,000	-	(110,000)	173,000	110,000
Parking Facilities - Taxable	03/26/09	03/01/29	3.264-6.933%	12,000,000	-	(405,000)	11,595,000	365,000
Total Parking Facilities				27,441,000	-	(1,313,000)	26,128,000	1,294,000
Stormwater Facilities	03/26/09	03/01/29	3.0 - 5.0%	1,230,000	-	-	1,230,000	45,000
Total Stormwater Facilities				1,230,000	-	-	1,230,000	45,000
Total business-type activities debt				166,738,082	-	(5,660,949)	161,077,133	5,839,928
Other Obligations:								
Add remaining premium				2,813,430	-	(164,104)	2,649,326	164,104
Less remaining discounts				(12,407)	-	1,000	(11,407)	(999)
Less deferred refunding				(120,896)	-	62,426	(58,470)	(33,977)
Compensated Absences				405,059	422,698	(395,415)	432,342	322,327
OPEB liabilities				913,866	1,834,363		2,748,229	-
Total business-type activities obligations				$ 170,737,134	$ 2,257,061	$ (6,157,042)	$ 166,837,153	$ 6,291,383

Ninety-eight percent of the compensated absences in the governmental activities will be paid out of the general fund. The remaining two percent will be paid out of nonmajor governmental funds.

6. Long term obligations (continued)

The annual requirements to amortize all general long term debt, as of June 30, 2010, are as follows:

Fiscal	Governmental Activities		Business-type Activities		Total		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	$ 3,674,268	$ 2,994,134	$ 5,785,009	$ 7,343,242	$ 9,459,277	$ 10,337,376	$ 19,796,653
2012	4,228,013	2,863,523	5,523,865	7,102,215	9,751,878	9,965,738	19,717,616
2013	4,225,790	2,715,304	19,301,440	6,861,037	23,527,230	9,576,341	33,103,571
2014	4,412,601	2,550,093	5,890,852	5,984,935	10,303,453	8,535,028	18,838,481
2015	4,587,671	2,390,482	6,149,904	5,722,034	10,737,575	8,112,516	18,850,091
2016 - 2020	20,420,906	9,591,486	34,946,761	24,193,395	55,367,667	33,784,881	89,152,548
2021 - 2025	19,108,436	5,216,969	41,888,450	15,793,150	60,996,886	21,010,119	82,007,005
2026 - 2030	12,525,000	1,544,237	29,677,700	6,458,063	42,202,700	8,002,300	50,205,000
2031 - 2035	-	-	11,860,000	1,518,750	11,860,000	1,518,750	13,378,750
Totals	$ 73,182,685	$ 29,866,228	$ 161,023,981	$ 80,976,821	$234,206,666	$110,843,049	$ 345,049,715

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2010 is as follows:

Fiscal	Tax Incremental Financing Bonds		
Year	Principal	Interest	Total
2011	$ 88,280	$ 42,280	$ 130,560
2012	93,532	40,261	133,793
2013	99,098	38,122	137,220
2014	104,994	35,856	140,850
2015	111,241	33,454	144,695
2016 - 2020	663,724	125,944	789,668
2021 - 2025	687,842	40,463	728,305
Totals	$1,848,711	$ 356,380	$2,205,091

Computation of Legal Debt Margin:

Assessed value		$6,478,588,038
Debt limit (8% of assessed value per City Charter)		$ 518,287,043
Amount of debt applicable to debt limit:		
Total bonded debt	$232,407,995	
Other debt	3,647,382	
	$236,055,377	
Less: Water and sewer debt	115,123,997	
Total amount of debt applicable to debt limit		120,931,380
Legal debt margin		$ 397,355,663

Schedule of Intended Source of Funds for Debt Retirement:

	Debt Amount
General revenue	$ 73,182,685
Water and sewer charges	115,123,997
Airport charges	17,155,000
Parking charges and fines	26,128,000
Storm water charges	1,230,000
Cash flow from golf course operations	1,386,984
Incremental tax revenue	1,848,711
	$ 236,055,377

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

6. Long term obligations (continued)

Computation of Direct and Overlapping Debt:

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City	Amount Applicable to City
The City of Frederick	$ 236,060,958	100.00%	$ 236,060,958
Frederick County	740,995,820	24.03%	178,061,296
Total	$ 977,056,778		$ 414,122,254

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, 2010	73
Vested terminated employees	92
Active employees - vested 100%	102
Active employees – non-vested	74

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.

7. Pension plans (continued)

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 – 8.0% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

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

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

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

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

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

Salary scale - Salaries are assumed to increase 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.

7. Pension plans (continued)

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

Annual required contribution	$ 1,342,669
Interest on net pension assets	(20,413)
Adjustment to annual required contribution	20,596
Annual pension cost	1,342,852
Contributions made	(1,342,669)
Decrease in net pension assets	183
Net pension assets beginning of year	(240,154)
Net pension assets end of year	$ (239,971)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2008	846,358	99.98%	(240,337)
2009	886,380	99.98%	(240,154)
2010	1,342,852	99.98%	(239,971)

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, 2010	169
Vested terminated employees	68
Active employees - vested 100%	123
Active employees – non-vested	93

Eligibility - Work at least twenty hours a week, attain the age of 18 with one year of service, and agree 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 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.

7. Pension plans (continued)

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 - 8.0% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

Retirement - Assumed retirement at the earlier of 25 years of service,
age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service, or
age 65 with 2 years of service.

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

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

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

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

Salary scale - Salaries are assumed to increase 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.

7. Pension plans (continued)

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	$ 3,479,683
Interest on net pension assets	(130,088)
Adjustment to annual required contribution	131,256
Annual pension cost	3,480,851
Contributions made	(3,479,683)
Decrease in net pension assets	1,168
Net pension assets beginning of year	(1,530,452)
Net pension assets end of year	$(1,529,284)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2008	2,765,899	99.96%	(1,531,617)
2009	2,775,957	99.96%	(1,530,452)
2010	3,480,851	99.97%	(1,529,284)

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, 2010	50
Vested terminated employees	18
Active employees - vested 100%	103
Active employees – non-vested	27

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.

7. Pension plans (continued)

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

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

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

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

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

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

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

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 - 8.0% per annum, compounded annually.

Expenses – none assumed to be paid from plan assets.

Retirement - Assumed retirement at the earlier of 22 years of service,
age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service, or
age 65 with 2 years of service.

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

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

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

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

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

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

7. Pension plans (continued)

Salary scale - Salaries are assumed to increase prospectively and decrease retrospectively at the rate of 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	$ 4,130,255
Interest on net pension assets	(70,391)
Adjustment to annual required contribution	71,023
Annual pension cost	4,130,887
Contributions made	(4,130,255)
Decrease in net pension assets	632
Net pension assets beginning of year	(828,129)
Net pension assets end of year	$ (827,497)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2008	4,126,859	99.98%	(828,759)
2009	4,067,076	99.98%	(828,129)
2010	4,130,887	99.98%	(827,497)

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

	30-Year Plan	25-Year Plan	22-Year Plan
Valuation date	7/1/10	7/1/10	7/1/10
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	8.0%	8.0%	8.0%
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 -	9,622,888	32,669,669	38,108,396

7. Pension plans (continued)

Actuarial accrued liability -	21,305,517	72,299,571	74,698,614
Total unfunded actuarial accrued liability -	11,682,629	39,629,902	36,590,218
Actuarial value of assets as a percentage of actuarial accrued liability (funded ratio) -	45.17%	45.19%	51.02%
Annual covered payroll -	8,685,338	10,747,148	9,671,091
Ratio of the unfunded actuarial liability to annual covered payroll -	134.51%	368.75%	378.35%

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

Statement of Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2010 Total
ASSETS:				
Cash and short-term investments	$ 439,729	$ 1,458,834	$ 1,779,202	$ 3,677,765
Receivables				
Accounts receivable – employee	-	55,682	64,120	119,802
Total receivables	-	55,682	64,120	119,802
Investments, at fair value:				
Equities	3,378,399	11,203,146	13,663,578	28,245,123
Fixed income	3,931,736	13,038,073	15,901,493	32,871,302
Total investments	7,310,135	24,241,219	29,565,071	61,116,425
Total assets	7,749,864	25,755,735	31,408,393	64,913,992
NETS ASSETS:				
Held in trust for pension benefits	$ 7,749,864	$ 25,755,735	$ 31,408,393	$ 64,913,992

Statement of Changes in Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2010 Total
ADDITIONS:				
Contributions – employer	$ 1,342,669	$ 3,479,683	$ 4,130,255	$ 8,952,607
Contributions – employee	1,194	739,916	823,380	1,564,490
Interest	186,901	619,788	755,907	1,562,596
Net appreciation/(depreciation)	680,010	2,254,987	2,750,226	5,685,223
Total additions	2,210,774	7,094,374	8,459,768	17,764,916
DEDUCTIONS:				
Pension benefits	683,870	3,959,753	2,237,880	6,881,503
Service charges	56,332	186,803	227,830	440,965
Total deductions	740,202	4,146,556	2,465,710	7,352,468
Change in net assets	1,470,572	2,947,818	5,994,058	10,412,448
Net assets – beginning	6,279,292	22,807,917	25,414,335	54,501,544
Net assets – ending	$ 7,749,864	$ 25,755,735	$ 31,408,393	$ 64,913,992

8. Post-Employment Health Care Benefits

Pursuant to Sections 35-B and 137 of the City Charter, the City provides other post employment benefits (OPEB) to all employees who qualify as a retiree and meet specific service requirements. 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 710 retirees and dependents are eligible for health benefits and 246 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 that are Medicare eligible are enrolled in a plan that coordinates benefits with Medicare. The cost of retiree health care and life insurance benefits is recognized as an expenditure when claims are accrued. For fiscal year 2010, those costs totaled approximately $2,505,232.

General plan description and provisions:

For participants hired before July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these employees and their dependents shall be paid in full by the City. The Medicare supplemental insurance program involves a monthly cost share. Additionally, these employees are eligible for a retiree life insurance benefit at no cost.

Eligible employees who are hired on or after July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these employees and their dependents may involve a monthly cost share.

Eligible employees who are hired on or after July 1, 2005 – These employees must meet eligibility requirements under the retirement plan and have 15 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these employees and their dependents may involve a monthly cost share.

Life insurance:

Employees hired prior to July 1, 2003 are eligible for $3,000 of Life Insurance Coverage at retirement. The same service requirements, as stated above, for health care coverage are applicable for life insurance coverage. The City pays the entire cost of the coverage.

Underlying plan description:

Pre-Medicare retirees may choose between several medical plans, a low point of service (POS) plan, a high POS plan and an Open Access plus (OAP) plan. All three plan options have both in and out of network services.

Once the participant is Medicare-eligible, a Medicare supplemental plan is available.

The City pays the entire cost for dental coverage based on the eligibility requirements above.

Currently, the City requires all retirees to contribute $30 per month per retiree once they attain age 65.

Funding Policy:

The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The current ARC rate is 43.39% of annual covered payroll. The ARC consisted of the normal cost of $7,103,000 and the amortization of unfunded accrued liability of $5,525,000. The City contributed $3,321,270 for the year ended June 30, 2010 for current health care and life insurance premiums. This includes an estimated $895,000 of implicit retire costs. An additional $2,247,238 has been designated for future benefits. It is the intent of the City to establish an OPEB trust to pre-fund future benefits.

8. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation:

The City had an actuarial valuation performed as of August 1, 2008 to determine the funded status of the plan as of that date as well as the City's ARC for the fiscal year ended June 30, 2010. The annual required contribution for the year ended June 30, 2010 was $12,628,000. The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for 2010 was as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 7,474,000	29.83%	$ 5,244,800
2010	12,488,000	26.42%	14,433,073

Funded status and progress:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing, or decreasing over time relative to the actuarial accrued liabilities for benefits. The City had another valuation performed based on July 1, 2010 census data.

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

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

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

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

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

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

8. Post-Employment Health Care Benefits (continued)

Healthcare cost trend assumptions –

Medical and Prescription Drug	Base	Sensitivity
2010	8.5%	9.5%
2011	8.0%	9.0%
2012	7.5%	8.5%
2013 - 2014	7.2%	8.2%
2015 - 2020	7.1%	8.1%
2021 - 2025	6.9%	7.9%
2026 - 2030	6.8%	7.8%
2031 - 2040	6.7%	7.7%
2041 - 2050	6.2%	7.2%
2051 - 2060	5.9%	6.9%
2061 - 2070	5.8%	6.8%
2071 – 2080	5.7%	6.7%
2081 – 2090	5.2%	6.2%
2091 +	5.2%	6.2%

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

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

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

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

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

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

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

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

8. Post-Employment Health Care Benefits (continued)

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

Claims: Medical and Drug Costs:	Under 50	$ 7,085
	50 – 54	8,386
	55 – 59	9,600
	60 – 64	11,159
	Over 64	4,391

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, 2010, 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, 2010 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, 2010 that have effective dates that may impact future financial presentations.

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

GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will be effective for the City in fiscal year 2011. The purpose of this Statement is to improve the usefulness, including the understandability, of governmental fund balance information.

GASB Statement Number 57, *OPEB Measurements by Agent Multiple-Employer Plans* (Statement), will be effective for the City beginning with its year ending June 30, 2011. This statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multi-employer OPEB plans.

GASB Statement Number 59, *Financial Instruments Omnibus* (Statement), will be effective for the City beginning with its year ending June 30, 2011. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

13. Subsequent Events

The City evaluated subsequent events for potential required disclosures through October 29, 2010, which represents the dates the financial statements were available to be issued.

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)
07/01/01	$ 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%
07/01/09	9,138,572	19,306,994	10,168,422	47.33%	7,780,038	130.70%
07/01/10	9,622,888	21,305,517	11,682,629	45.17%	8,685,338	134.51%

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)
07/01/01	$ 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%
07/01/09	33,138,867	68,831,455	35,692,588	48.14%	9,582,428	372.48%
07/01/10	32,669,669	72,299,571	39,629,902	45.19%	10,747,148	368.75%

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)
07/01/01	$ 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%
07/01/09	35,850,764	68,509,327	32,658,563	52.33%	9,849,864	331.56%
07/01/10	38,108,396	74,698,614	36,590,218	51.02%	9,671,091	378.35%

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

The City of Frederick Thirty-Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	$ 373,693	$ 402,192	107.63%	$ (182,080)
2002	397,583	428,926	107.88%	(213,153)
2003	582,657	614,003	105.38%	(244,501)
2004	658,558	656,744	99.72%	(242,687)
2005	883,651	881,850	99.80%	(240,886)
2006	923,956	923,773	99.98%	(240,703)
2007	835,131	834,948	99.98%	(240,520)
2008	846,358	846,175	99.98%	(240,337)
2009	886,380	886,197	99.98%	(240,154)
2010	1,342,852	1,342,669	99.99%	(239,971)

The City of Frederick Twenty-Five Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	$ 623,639	$ 686,462	110.07%	$ (1,456,844)
2002	659,896	700,782	106.20%	(1,497,730)
2003	1,273,543	1,333,968	104.74%	(1,558,155)
2004	1,547,050	1,535,489	99.25%	(1,546,594)
2005	2,028,742	2,017,267	99.43%	(1,535,119)
2006	2,421,113	2,419,945	99.95%	(1,533,951)
2007	2,722,939	2,721,772	99.96%	(1,532,784)
2008	2,765,898	2,764,732	99.96%	(1,531,617)
2009	2,775,957	2,774,792	99.96%	(1,530,452)
2010	3,480,851	3,479,683	99.97%	(1,529,284)

The City of Frederick Twenty-Two Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2001	$ 919,256	$ 1,034,312	112.52%	$ (687,560)
2002	945,009	1,014,765	107.38%	(757,316)
2003	1,618,944	1,704,747	105.30%	(843,119)
2004	2,046,995	2,040,739	99.69%	(836,863)
2005	2,244,906	2,238,697	99.72%	(830,654)
2006	2,747,263	2,746,631	99.98%	(830,022)
2007	3,287,913	3,287,281	99.98%	(829,390)
2008	4,126,859	4,126,228	99.98%	(828,759)
2009	4,067,077	4,066,446	99.98%	(828,129)
2010	4,130,887	4,130,255	99.98%	(827,497)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/06	-	88,005,000	88,005,000	0.00%	24,235,022	363.13%
08/01/08	-	157,062,000	157,062,000	0.00%	24,517,844	640.60%

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

Fiscal Year	Annual OPEB Cost (APC)	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	$ 7,474,000	$ 2,229,200	29.83%	$ 5,244,800
2010	12,488,000	3,299,727	26.42%	14,433,073

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, 2010

	Special Revenue Funds			
	CDS Program	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ -	$ 317,609	$ -	$ 317,609
Equity in pooled cash/investments	171,328	55,177	240,424	466,929
Investments	-	245,000		245,000
Receiveables (net of allowance for uncollectibles)	-	2,570	1,991,833	1,994,403
Prepaid items	-	1,250	-	1,250
Total assets	$ 171,328	$ 621,606	$ 2,232,257	$ 3,025,191
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4	$ 51,441	$ 14,367	$ 65,812
Accrued liabilities	-	7,156	3,286	10,442
Deposits	52,176	-	-	52,176
Total liabilities	52,180	58,597	17,653	128,430
Fund balances:				
Reserved for:				
Encumbrances	7,087	5,303	92	12,482
Prepaid items	-	1,250	-	1,250
Loans	-	-	1,991,833	1,991,833
Unreserved:				
Undesignated	112,061	556,456	222,679	891,196
Total fund balances	119,148	563,009	2,214,604	2,896,761
Total liabilities and fund balances	$ 171,328	$ 621,606	$ 2,232,257	$ 3,025,191

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds			
	CDS Program	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
REVENUES:				
Intergovernmental	$ -	$ 59,922	$ 781,062	$ 840,984
Charges for services	-	895,453	-	895,453
Fines and forfeitures	39,754	-	-	39,754
Miscellaneous	923	489,819	1,104	491,846
Total revenues	40,677	1,445,194	782,166	2,268,037
EXPENDITURES:				
Current:				
Public safety	42,970	-	-	42,970
Recreation and parks	-	1,266,197	-	1,266,197
Community development	-	-	502,037	502,037
Total expenditures	42,970	1,266,197	502,037	1,811,204
Excess (Deficiency) of Revenues over Expenditures	(2,293)	178,997	280,129	456,833
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	1,209	-	205,900	207,109
Transfers in	-	89,991	-	89,991
Transfers out	-	-	(60,887)	(60,887)
Total Other Financing Sources (Uses)	1,209	89,991	145,013	236,213
Net Change in Fund Balances	(1,084)	268,988	425,142	693,046
Fund Balance - beginning	120,232	294,021	1,789,462	2,203,715
Fund Balance - ending	$ 119,148	$ 563,009	$ 2,214,604	$ 2,896,761

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Fines and forfeitures	$ 27,000	$ 27,000	$ 39,754	$ 12,754
Miscellaneous	1,500	1,500	923	(577)
Total Revenues	28,500	28,500	40,677	12,177
EXPENDITURES:				
CDS Enforcement	52,641	52,641	42,970	9,671
Total Expenditures	52,641	52,641	42,970	9,671
Excess (Deficiency) of Revenues over Expenditures	(24,141)	(24,141)	(2,293)	21,848
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	1,209	1,209
Total Other Financing Sources (Uses)	-	-	1,209	1,209
Net Change in Fund Balance	(24,141)	(24,141)	(1,084)	23,057
Budgetary Fund Balance - beginning	24,141	24,141	120,232	96,091
Budgetary Fund Balance - ending	$ -	$ -	$ 119,148	$ 119,148

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 42,000	$ 42,000	$ 59,922	$ 17,922
Charges for services	591,133	591,133	895,453	304,320
Miscellaneous	181,194	181,194	489,819	308,625
Total Revenues	814,327	814,327	1,445,194	630,867
EXPENDITURES:				
Weinberg Center	1,006,643	1,006,643	1,259,041	(252,398)
Total Expenditures	1,006,643	1,006,643	1,259,041	(252,398)
Excess (Deficiency) of Revenues over Expenditures	(192,316)	(192,316)	186,153	378,469
OTHER FINANCING SOURCES (USES):				
Transfer in	178,500	178,500	89,991	(88,509)
Total Other Financing Sources (Uses)	178,500	178,500	89,991	(88,509)
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	(13,816)	(13,816)	276,144	289,960
Budgetary Fund Balance - beginning	13,816	13,816	294,021	280,205
Budgetary Fund Balance - ending	$ -	$ -	570,165	$ 570,165
Adjustment to conform with generally accepted accounting principles			(7,156)	
GAAP Fund Balance			$ 563,009	

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 722,511	$ 722,511	$ 781,062	$ 58,551
Charges for services	1,000	1,000	-	(1,000)
Miscellaneous	1,000	1,000	1,104	104
Total Revenues	724,511	724,511	782,166	57,655
EXPENDITURES:				
Community development	662,804	662,804	498,751	164,053
Total Expenditures	662,804	662,804	498,751	164,053
Excess (Deficiency) of Revenues over Expenditures	61,707	61,707	283,415	221,708
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	205,900	205,900
Transfers out	(77,000)	(77,000)	(60,887)	16,113
Total Other Financing Sources (Uses)	(77,000)	(77,000)	145,013	222,013
Net Change in Fund Balance	(15,293)	(15,293)	428,428	443,721
Budgetary Fund Balance - beginning	15,293	15,293	1,789,462	1,774,169
Budgetary Fund Balance - ending	$ -	$ -	2,217,890	$ 2,217,890
Adjustment to conform with generally accepted accounting principles			(3,286)	
GAAP Fund Balance			$ 2,214,604	

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, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,000	$ -	$ 1,000
Investments	-	5,096	5,096
Equity in pooled cash/investments	-	72,378	72,378
Receivables (net of allowance of uncollectibles)	3	635	638
Inventories	118,381	-	118,381
Prepaids	3,000	-	3,000
Deferred charges	2,477	-	2,477
Total current assets	124,861	78,109	202,970
Noncurrent assets:			
Temporarily rstricted assets:			
Cash and cash equivalents	18,215	-	18,215
Deferred charges	7,620	-	7,620
Net pension asset	32,363	-	32,363
Capital assets:			
Land	-	30,650	30,650
Buildings and systems	-	180,795	180,795
Improvements other than buildings	5,547,501	-	5,547,501
Machinery and equipment	696,340	16,040	712,380
Construction in progress	-	-	-
Less accumulated depreciation	(2,326,937)	(162,936)	(2,489,873)
Total noncurrent assets	3,975,102	64,549	4,039,651
Total assets	4,099,963	142,658	4,242,621
LIABILITES			
Current liabilities:			
Accounts payable	40,534	479	41,013
Accrued liabilities	48,612	594	49,206
Deposits	-	409	409
Unearned revenue	35,387	-	35,387
Advances from other funds	4,145,160	-	4,145,160
Compensated absences	9,301	-	9,301
Bonds, notes, and loans payable	428,708	-	428,708
Total current liabilities	4,707,702	1,482	4,709,184
Noncurrent liabilities:			
OPEB Liabilities	130,674	-	130,674
Compensated absences	66,048	-	66,048
Bonds, notes, and loans payable	970,520	-	970,520
Total noncurrent liabilities	1,167,242	-	1,167,242
Total liabilities	5,874,944	1,482	5,876,426
NET ASSETS			
Invested in capital assets, net of related debt	2,548,134	64,549	2,612,683
Unrestricted	(4,323,115)	76,627	(4,246,488)
Total net assets	$ (1,774,981)	$ 141,176	$ (1,633,805)

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, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	$ 1,508,373	$ -	$ 1,508,373
Miscellaneous	17,211	4,363	21,574
Total operating revenues	1,525,584	4,363	1,529,947
Operating expenses:			
Public housing	-	44,197	44,197
Golf course maintenance	647,545	-	647,545
Golf course clubhouse	708,002	-	708,002
Golf course restaurant	303,328	-	303,328
Depreciation	201,350	6,811	208,161
Total operating expenses	1,860,225	51,008	1,911,233
Operating income/(loss)	(334,641)	(46,645)	(381,286)
Nonoperating revenues/(expenses)			
Intergovernmental	-	16,851	16,851
Interest income	126	671	797
Gain on disposal of capital assets	-	-	-
Other nonoperating revenues	3,907	-	3,907
Interest expense	(57,228)	-	(57,228)
Other nonoperating expenses	(47,255)	-	(47,255)
Total nonoperating revenue/(expenses)	(100,450)	17,522	(82,928)
Income/(loss) before transfers	(435,091)	(29,123)	(464,214)
Transfers In	6,000	-	6,000
Change in net assets	(429,091)	(29,123)	(458,214)
Total net assets - beginning	(1,345,890)	170,299	(1,175,591)
Total net assets - ending	$ (1,774,981)	$ 141,176	$ (1,633,805)

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 1,513,413	$ 16,114	$ 1,529,527
Receipts from other sources	2,700	-	2,700
Payments to vendors	(917,514)	(24,303)	(941,817)
Payments to employees	(591,485)	(19,471)	(610,956)
Net cash provided (used) by operating activities	7,114	(27,660)	(20,546)
Cash flows from noncapital financing activities:			
Operating subsidy	-	16,851	16,851
Transfers in	6,000	-	6,000
Due to other funds	492,269	-	492,269
Net cash provided (used) by noncapital financing activities	498,269	16,851	515,120
Cash flows from capital and related financing activities:			
Capital asset acquisitions	(136,677)	-	(136,677)
Proceeds from debt issue	-	-	-
Debt issuance costs	-	-	-
Principal payments	(449,711)	-	(449,711)
Interest payments	(57,461)	-	(57,461)
Proceeds from sale of capital assets	-	-	-
Other debt related costs	(758)	-	(758)
Net cash provided (used) by capital and related financing activities	(644,607)	-	(644,607)
Cash flows from investings activities:			
Interest earned	241	671	912
Net cash provided (used) by investing activities	241	671	912
Net increase (decrease) in cash equivalents	(138,983)	(10,138)	(149,121)
Cash equivalents - beginning	158,198	87,612	245,810
Cash equivalents - ending	$ 19,215	$ 77,474	$ 96,689

(continued)

The City of Frederick, Maryland
Combining Statement of Cash Flows (continued)
Nonmajor Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	$ (334,641)	$ (46,645)	$ (381,286)
Other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities	2,700	-	2,700
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	201,350	6,811	208,161
(Increase)/decrease in accounts receivable	-	11,930	11,930
(Increase)/decrease in inventory	28,357	-	28,357
(Increase)/decrease in prepaids	-	-	-
Decrease in net pension asset	27	-	27
(Decrease)/increase in accounts payable	(35,841)	(171)	(36,012)
(Decrease)/increase in deferred revenue	(12,171)	-	(12,171)
(Decrease)/increase in deposits	-	(179)	(179)
(Decrease)/increase in OPEB liability	130,674	-	130,674
(Decrease)/increase in wages payable	26,415	594	27,009
(Decrease)/increase in compensated absences	244	-	244
Total adjustments	339,055	18,985	358,040
Net cash provided (used) by operating activities	$ 7,114	$ (27,660)	$ (20,546)

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 EIGHT FISCAL YEARS
(accrual basis of accounting)

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

Note - Information for fiscal years 2001 through 2002 is not readily avialable.

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

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

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

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

Note - Information for fiscal years 2001 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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	$ 4,748,462	$ 4,957,004	$ 5,108,192	$ 5,290,273	$ 4,956,617	$ 5,288,664	$ 5,793,698	$ 10,213,220	$ 5,906,069	$ 5,802,406
Unreserved:										
Designated	4,104,561	2,624,649	2,376,475	1,630,579	1,910,579	3,047,463	2,042,750	4,946,108	2,752,110	926,039
Undesignated	6,517,579	6,285,539	3,906,757	821,580	2,860,897	7,270,067	11,623,563	5,709,009	11,430,350	14,153,802
Total general fund	$ 15,370,602	$ 13,867,192	$ 11,391,424	$ 7,742,432	$ 9,728,093	$ 15,606,194	$ 19,460,011	$ 20,868,337	$ 20,088,529	$ 20,882,247
All other governmental funds										
Reserved	$ 5,379,048	$ 8,863,766	$ 4,552,956	$ 9,631,509	$ 11,388,067	$ 7,225,118	$ 3,923,804	$ 11,956,981	$ 9,198,552	$ 8,738,827
Unreserved, reported in:										
Special revenue funds	1,262,616	2,261,087	188,943	(55,409)	30,209	140,431	161,639	326,626	542,145	891,196
Capital projects funds	(2,851,816)	(2,699,382)	17,707,505	10,265,668	4,864,579	4,427,961	2,588,627	(4,313,083)	9,352,102	5,545,065
Total all other governmental funds	$ 3,789,848	$ 8,425,471	$ 22,449,404	$ 19,841,768	$ 16,282,855	$ 11,793,510	$ 6,674,070	$ 7,970,524	$ 19,092,799	$ 15,175,088

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes:										
Property taxes	$ 20,864,965	$ 21,897,619	$ 24,256,535	$ 24,984,483	$ 27,784,135	$ 31,426,435	$ 35,077,508	$ 37,948,719	$ 40,656,389	$ 43,570,135
Income taxes	3,505,717	4,437,718	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166	5,806,340	5,548,045
Other taxes	2,842,069	3,108,501	491,614	464,247	387,408	389,999	402,365	431,408	346,904	305,873
Licenses and permits	1,136,046	830,568	811,367	1,160,087	1,965,138	2,693,743	2,711,634	1,911,285	1,468,000	2,375,343
Intergovernmental	7,143,695	11,127,878	8,271,637	9,226,953	10,627,614	11,162,584	11,168,733	11,195,720	12,074,875	10,648,160
Charges for services	1,289,396	1,241,508	1,233,540	1,490,066	1,774,069	1,745,271	1,924,643	2,155,354	2,321,749	2,332,081
Fines and forfeitures	26,663	73,437	122,942	71,864	116,690	444,404	577,893	485,832	624,082	577,466
Miscellaneous	1,838,062	1,322,387	1,631,836	2,471,717	2,236,450	2,363,280	2,690,232	2,491,345	4,337,261	2,257,919
Total revenues	38,646,613	44,039,616	41,594,242	44,430,832	49,799,310	55,392,356	60,180,611	62,614,829	67,635,600	67,615,022
Expenditures										
General government	5,770,291	6,506,390	7,201,732	7,291,826	7,544,954	7,081,328	7,567,824	8,807,373	12,976,950	9,692,762
Public safety	12,835,731	13,910,720	15,590,211	17,350,095	18,469,066	20,019,582	22,096,860	24,566,690	27,172,993	26,441,580
Public works	7,788,576	8,358,712	9,439,703	9,678,425	9,146,013	10,251,810	11,170,943	10,978,191	11,712,321	12,411,139
Recreation and parks	3,870,892	4,019,936	4,456,581	4,569,933	4,671,167	4,585,333	4,760,130	5,579,399	6,715,101	5,979,589
Urban development and housing	361,913	455,294	803,601	793,812	1,437,530	776,877	1,321,871	793,394	1,005,062	1,170,722
Economic opportunity	1,515,764	1,878,996	2,085,198	1,982,785	2,152,705	2,231,192	2,324,480	2,765,476	2,638,573	3,260,161
Miscellaneous	43,984	65,294	62,839	59,002	61,126	3,931	77,889	59,477	-	-
Capital projects	11,400,191	18,648,319	3,952,098	7,056,923	8,071,281	13,219,554	4,755,216	3,932,281	35,731,632	7,154,657
Debt service:										
Principal	2,314,554	2,312,770	2,222,479	3,328,662	4,042,885	4,024,631	3,964,680	4,735,368	4,638,528	3,785,104
Interest	1,558,760	1,204,392	1,712,226	2,096,685	2,016,215	1,908,433	1,849,520	1,713,343	1,545,865	3,075,786
Other charges	32,039	160,846	107,891	40,159	25,268	19,166	22,837	18,567	407,157	8,762
Total expenditures	47,492,695	57,521,669	47,634,559	54,248,307	57,638,210	64,121,837	59,912,250	63,949,559	104,544,182	72,980,262
Excess (deficiency) of revenues over expenditures	(8,846,082)	(13,482,053)	(6,040,317)	(9,817,475)	(7,838,900)	(8,729,481)	268,361	(1,334,730)	(36,908,582)	(5,365,240)
Other financing sources (uses)										
Capital asset disposition	2,801,753	22,990	923,416	420,803	3,347,897	1,588,366	5,857	1,102,369	682,309	282,909
Insurance reimbursements	-	-	-	-	-	67,774	81,407	99,734	110,633	48,190
Debt proceeds	-	34,808,309	24,689,331	1,270,000	1,398,945	1,194,043	-	99,255	44,043,053	-
Transfers in	3,524,021	3,183,363	3,516,462	3,586,580	3,610,205	10,115,807	3,733,281	5,695,808	6,327,327	2,470,432
Transfers out	(2,709,324)	(2,574,422)	(2,608,662)	(1,716,536)	(2,091,284)	(2,847,868)	(5,354,529)	(2,957,656)	(3,912,273)	(560,284)
Payment to refunded bond escrow	-	(19,759,093)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,616,450	15,681,147	26,520,547	3,560,847	6,265,763	10,118,122	(1,533,984)	4,039,510	47,251,049	2,241,247
Net change in fund balances	$ (5,229,632)	$ 2,199,094	$ 20,480,230	$ (6,256,628)	$ (1,573,137)	$ 1,388,641	$ (1,265,623)	$ 2,704,780	$ 10,342,467	$ (3,123,993)
Debt service as a percentage of noncapital expenditures	11.2%	9.4%	9.0%	11.5%	12.2%	11.6%	10.7%	10.8%	9.6%	10.4%

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

	REAL PROPERTY			PERSONAL PROPERTY			TOTAL		Ratio of Total Assessed to
Fiscal Year	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Total Estimated Actual Value
2001	$2,940,378,980	$1,176,151,592	$ 1.57	$ 406,754,819	$ 152,533,057	$ 1.57	$3,347,133,799	$1,328,684,649	39.70%
2002	3,118,925,484	3,118,925,484	0.62	431,091,957	161,659,484	1.55	3,550,017,441	3,280,584,968	92.41%
2003	3,356,541,848	3,356,541,848	0.64	459,129,176	172,173,441	1.55	3,815,671,024	3,528,715,289	92.48%
2004	3,500,070,576	3,500,070,576	0.64	437,145,803	163,929,676	1.55	3,937,216,379	3,664,000,252	93.06%
2005	3,644,565,359	3,644,565,359	0.69	441,113,224	165,417,459	1.55	4,085,678,583	3,809,982,818	93.25%
2006	4,138,633,781	4,138,633,781	0.69	432,435,000	162,163,125	1.55	4,571,068,781	4,300,796,906	94.09%
2007	4,675,591,445	4,675,591,445	0.69	430,311,680	161,366,880	1.55	5,105,903,125	4,836,958,325	94.73%
2008	5,299,468,558	5,299,468,558	0.67	416,806,432	156,302,412	1.55	5,716,274,990	5,455,770,970	95.44%
2009	5,877,472,266	5,877,472,266	0.65	417,388,892	156,520,834	1.55	6,294,861,158	6,033,993,100	95.86%
2010	6,324,191,887	6,324,191,887	0.65	411,723,070	154,396,151	1.55	6,735,914,957	6,478,588,038	96.18%

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
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%
2009	40,600,977	40,412,247	99.5%	468,851	40,881,098	100.7%
2010	43,488,738	43,351,084	99.7%	63,131	43,414,215	99.8%

* 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								
	Real	Personal	Levy	Rate	Levy	Rate	Levy	Rate	Levy
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
2009	0.65	1.55	40,600,977	1.064	62,536,305	0.112	6,582,769	1.826	109,720,051
2010	0.65	1.55	43,488,738	1.064	67,289,402	0.112	7,083,095	1.826	117,861,235

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:

	2010			2001		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	$ 50,129,033	1	0.79%	4,797,560	9	0.41%
State Farm Mutual Auto Insurance	41,615,200	2	0.66%	14,923,650	1	1.27%
River X, LLC	40,716,866	3	0.64%	-	-	-
Aldi, Inc.	35,327,000	4	0.56%	-	-	-
FCP Crystal Park, LLC	29,705,000	5	0.47%	7,083,210	4	0.60%
Westfreit Corp.	27,090,833	6	0.43%	9,812,000	3	0.83%
ASN Sunset LLC	25,877,432	7	0.41%	7,077,010	5	0.60%
ACE, LLC	25,081,866	8	0.40%	-	-	-
Frederick Shopping Center LLC	23,231,832	9	0.37%	5,717,330	6	0.49%
Waverly Limited Partnership	20,359,666	10	0.32%	5,355,890	8	0.46%
Fredericktowne Mall Assoc.	-	-	0.00%	11,341,800	2	0.96%
Washington Real Estate Inv. Trust	-	-	0.00%	5,712,740	7	0.49%
Frederick Commons, LLC	-	-	0.00%	4,624,180	10	0.39%
	$ 269,005,695		4.25%	$ 71,647,810		6.09%

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

	2010			2001		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
BPSolar International, LLC	$ 13,492,530	1	8.62%	$ -	-	-
Randall Family LLC	6,434,460	2	4.11%			
Mid-Atlantic Medical Services, LLC	2,376,980	3	1.52%	-	-	-
MedImmune, Inc.	2,254,340	4	1.44%	6,370,870	1	4.18%
Morningstar Foods, LLC	2,189,470	5	1.40%	2,351,090	4	1.54%
Experient Inc.	2,056,720	6	1.31%	-	-	-
Comcast	2,020,090	7	1.29%	-	-	-
State Farm Mutual Automobile Insurance Co.	1,953,290	8	1.25%	4,304,980	3	2.82%
Maryland Grocery Store Company	1,415,960	9	0.90%	-	-	-
Charles River Laboratories Inc.	1,317,670	10	0.84%	-	-	-
Fairchild Controls Corp.	-	-	-	1,298,230	8	0.85%
Amoco Enron Solar	-	-	-	4,549,140	2	2.98%
GS Communications, Inc.	-	-	-	1,749,360	5	1.15%
Galaxy Registration, Inc.	-	-	-	1,674,780	6	1.10%
Automata, Inc	-	-	-	1,473,280	7	0.97%
Frederick County Foods, LLC	-	-	-	1,242,820	9	0.81%
Valley Rental Company, Inc.	-	-	-	1,087,910	10	0.71%
	$ 35,511,510		22.69%	$ 26,102,460		17.11%

Assessed Value provided by the Maryland Department of Assessment and Taxation

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

	Governmental Activities				Business-Type Activities					
Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Leases	Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
2001	$ 26,835,000	$ 2,450,472	$ 2,368,089	$ -	$ 12,900,000	$ -	$ 174,749	$ 44,728,310	2.46%	$ 847.66
2002	40,921,000	2,397,997	1,656,603	-	16,614,000	3,785,000	137,936	65,512,536	3.36%	1,164.01
2003	52,738,000	2,342,399	1,290,333	-	26,907,000	5,365,105	97,250	88,740,087	4.29%	1,532.14
2004	49,553,000	2,283,494	1,205,576	1,270,000	25,157,000	5,140,568	-	84,609,638	3.82%	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	3.29%	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	5.63%	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	4.99%	2,180.65
2008	37,018,000	2,010,676	228,103	979,971	80,384,180	3,954,548	154,029	124,729,507	4.48%	2,018.90
2009	76,440,000	1,932,033	206,238	484,952	162,921,695	3,711,913	104,474	245,801,305	N/A	3,950.71
2010	72,999,000	1,848,711	183,685	246,723	157,560,284	3,469,278	54,919	236,362,600	N/A	3,772.93

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

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

Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	Total General Bonded Debt	Assessed Value of Taxable Property	Percentage of Total General Bonded Debt to Assessed Value of Taxable Property	Population	Total General Bonded Debt Per Capita
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
2009	76,440,000	1,932,033	78,372,033	6,033,993,100	1.30%	62,217	1,259.66
2010	72,999,000	1,848,711	74,847,711	6,478,588,038	1.16%	62,647	1,194.75

THE CITY OF FREDERICK, MARYLAND
DIRECT AND OVERLAPPING DEBT
as of June 30, 2010

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Frederick County	$ 740,995,820	24.03%	$ 178,061,296
The City of Frederick direct debt			75,031,396
			$ 253,092,692

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
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%
2009	482,719,448	126,415,966	356,303,482	26.19%
2010	518,287,043	120,931,380	397,355,663	23.33%

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, 2010

Assessed valuations		$ 6,478,588,038
Debt limit (8% of assessed value per City Charter)		$ 518,287,043
Amount of debt applicable to debt limit:		
Total bonded debt	$ 232,407,995	
Other debt	3,647,382	
	$ 236,055,377	
Less: Water and sewer debt	115,123,997	
Total amount of debt applicable to debt limit		120,931,380
Legal debt margin		$ 397,355,663

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

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

Fiscal Year	Principal	Interest	Total General Fund Debt Service	Total General Fund Revenue	Ratio of Debt Service to General Fund Revenue
2001	$ 2,314,554	$ 1,558,760	$ 3,873,314	$ 35,038,726	11.05%
2002	2,312,770	1,204,392	3,517,162	36,783,874	9.56%
2003	2,222,485	1,716,265	3,938,750	39,519,168	9.97%
2004	3,328,662	2,096,685	5,425,347	40,719,474	13.32%
2005	4,042,885	2,016,215	6,059,100	46,515,231	13.03%
2006	4,024,631	1,908,433	5,933,064	52,683,932	11.26%
2007	3,964,680	1,849,520	5,814,200	57,622,015	10.09%
2008	4,735,368	1,713,343	6,448,711	60,460,843	10.67%
2009	4,638,528	1,545,865	6,184,393	62,372,998	9.92%
2010	3,785,104	3,075,786	6,860,890	63,281,356	10.84%

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

	Real Property Tax Increment Financing Bonds							
	Pledged Revenues			Expenditures				
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total	Coverage
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%
2009	865,402	-	865,402	78,643	74,586	6,955	160,184	540.00%
2010	942,403	-	942,403	83,322	57,927	7,156	148,405	635.00%

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, 2010
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
2001	52,767	$ 77,150	$ 34,521	$ 1,821,570	36,961	5.10%
2002	56,282	77,400	34,640	1,949,608	38,122	5.90%
2003	57,919	78,650	35,705	2,067,998	38,621	6.10%
2004	58,650	81,800	37,765	2,214,917	39,004	5.90%
2005	59,013	84,150	39,560	2,334,554	39,564	3.70%
2006	60,725	87,850	41,861	2,542,009	39,741	3.70%
2007	61,508	91,800	43,716	2,688,884	40,315	3.30%
2008	61,781	94,800	45,054	2,783,481	40,566	4.00%
2009	62,217	95,750	N/A	N/A	40,155	6.90%
2010	62,647	N/A	N/A	N/A	40,210	7.20%

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

Sources:
(1) 2007 Estimate by Frederick County Planning Department
2001 - U.S. Census Bureau
2002 - 2006, 2008 - 2010 - The City of Frederick Planning Department
(2) Maryland Department of Planning Data Services, May 2010, (current dollars)
(3) Regional Economic Information System, Bureau of Economic Analysis, April 2010 (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

	2010			2001			
Employer	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment	Business Classification
Fort Detrick	8,650	1	N/A	5,600	1	N/A	Military, bioscience, communications
Frederick County Board of Education	5,538	2	N/A	3,974	2	N/A	Public Education
Frederick County Government	3,123	3	N/A	2,053	3	N/A	County Government
Frederick Memorial Healthcare System	2,652	4	N/A	2,000	4	N/A	Comprehensive Healthcare
Wells Fargo Home Mortgage	1,881	5	N/A	-	-	-	Mortgage Loans & Service Center
Frederick Community College	937	6	N/A	589	9	N/A	Two-Year College
Frederick City Government	850	7	N/A	612	8	N/A	Municipal Government
United Health Care	832	8	N/A	-	-	-	Medical Insurance
State Farm Insurance Company	795	9	N/A	874	7	N/A	Regional Headquarters - Insurance
Plamondon	425	10	N/A	-	-	-	Hospitality (hotels, restaurants and management)
First USA	-	-	-	1,216	5	N/A	Operations Center
First Nationwide Mortgage	-	-	-	1,195	6	N/A	Operations Center
F & M Bancorp	-	-	-	500	10	N/A	Banking Headquarters

Frederick County Economic and Community Development Commission 2001
The City of Frederick, Department of Economic Development, 2010
Total City employment figures are not readily available to make calculation.

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function:										
General government	71.29	80.76	89.51	80.93	80.27	77.30	81.18	81.68	88.18	84.69
Public safety	176.23	181.86	187.00	197.30	197.40	194.24	203.15	203.84	212.70	211.3
Public works	77.91	84.88	85.02	90.52	89.35	84.77	86.59	85.38	93.78	96.33
Recreation and parks	64.36	66.50	68.70	69.34	64.52	60.44	58.73	60.56	58.78	61.46
Community development	1.80	3.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6
Economic opportunity	31.08	37.57	36.68	37.84	41.56	38.27	41.34	39.17	36.95	46.04
Rental operations	0.00	0.00	0.00	0.00	0.35	0.50	0.50	0.40	0.50	0.5
Water and sewer	66.21	66.21	66.11	68.54	75.58	76.83	76.34	72.60	77.29	75.65
Golf course	17.91	21.94	22.47	22.37	22.08	21.01	20.80	20.69	22.17	19.77
Airport	2.00	2.00	2.00	3.13	3.50	3.50	3.50	3.50	3.50	2.86
Parking	11.52	11.82	11.96	13.05	15.73	15.74	16.60	17.04	13.09	16.26
Storm water	4.62	4.62	4.62	4.82	7.15	7.00	7.40	7.23	7.10	7.07
Total	524.93	561.16	579.07	593.84	603.49	585.60	602.13	598.09	620.04	627.93

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function:										
Public safety										
Police:										
Stations	2	2	2	2	2	2	2	1	1	1
Public works:										
Miles of paved streets (road miles)	170	168	180	180	183	184	250	257	275	278
Miles of sidewalks	323	320	344	344	350	350	500	265	272	276
Number of street lights	6,986	7,164	7,506	7,790	7,959	8,131	8,213	7,459	9,050	9,135
Number of traffic signals	73	74	71	71	72	71	72	71	71	74
Recreation and parks:										
Number of parks	57	58	63	63	63	59	57	57	55	55
Parks acreage	275	300	465	465	443	464	400	435	583	603
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	32	32	32	32	25	26	26	26	23	23
Number of municpal stadiums	2	2	2	2	2	2	2	2	2	2
Economic opportunity:										
Number of transitional shelters	1	1	1	1	1	1	1	1	1	1
Number of transitional apartments	3	3	3	3	3	3	3	3	3	3
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Water and sewer:										
Miles of water main	215	250	250	250	255	215	220	220	220	220
Number of fire hydrants	2,500	2,600	2,600	2,600	2,675	2,500	2,520	2,520	2,520	2,750
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Number of water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3	3	3
Miles of sanitary sewer	200	200	157	157	162	161	161	161	161	161
Number of sewage treatment plants	1	1	1	1	1	1	1	1	1	1
Number of sewage pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9	9	10
Golf course:										
Number of golf courses	1	1	1	1	1	1	1	1	1	1
Airport:										
Number of runways	2	2	2	2	2	2	2	2	2	2
Number of T-hangars	45	125	125	125	125	125	125	125	125	125
Number of corporate hangars	0	0	1	1	1	1	1	1	1	1
Parking:										
Number of parking areas	5	3	5	5	3	3	3	3	3	3
Number of parking area spaces	357	234	250	250	156	156	156	164	158	143
Number of parking garages	3	3	3	3	3	3	4	4	4	5
Number of parking garage spaces	1,469	1,469	1,469	1,469	1,469	1,470	2,112	2,116	2,116	2,477
On street parking spaces	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,500	2,500	2,500
Stormwater:										
Miles of storm drain	N/A	N/A	N/A	N/A	N/A	210	211	211	210	210
Number of storm water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4	4	5

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function:										
Public safety										
Police:										
Calls for service	57,533	59,901	59,586	58,396	64,876	65,227	70,606	74,906	83,164	80,349
Physical arrests	3,582	3,938	3,739	3,442	3,693	2,897	4,161	3,229	4,359	4,116
Traffic violations	9,192	9,819	9,819	9,819	12,684	8,750	10,425	11,682	14,292	10,679
Water and sewer:										
Number of water service connections	15,000	16,520	16,600	16,600	17,100	17,587	17,814	17,939	18,092	18,246
Avg. daily water consumption (thousands of gallons)	6,209	6,798	6,412	6,412	6,500	5,780	5,989	6,300	5,533	5,509
Number of sewer service connections	15,000	15,000	14,300	14,300	14,729	14,713	14,845	14,934	14,987	15,030
Avg. daily sewage treatment (thousands of gallons)	6,380	6,500	6,610	6,610	7,000	6,450	6,690	6,900	6,200	6,890
Golf course:										
Number of rounds of golf	N/A	N/A	32,298	34,816	33,979	35,260	33,758	33,672	29,780	29,258
Airport:										
Number of Operations	131,800	134,436	156,627	159,562	150,441	154,107	160,657	151,088	130,284	132,803
Parking:										
Number of parking violations	31,614	36,390	40,816	40,816	48,094	30,272	38,177	42,354	39,213	25,320

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

SINGLE AUDIT SECTION

McGladrey

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 29, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control 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 federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Frederick, Maryland
October 29, 2010

McGladrey

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

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

Compliance

We have audited the compliance of The City of Frederick, Maryland (City), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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.

As described in item 2010-05 in the accompanying *Schedule of Findings and Questioned Costs,* the City did not comply with cost principles and reporting compliance requirements that are applicable to its Weatherization Assistance Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2010-06 and 2010-07.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as items 2010-02, 2010-03 and 2010-04 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance as described in the accompanying *Schedule of Findings and Questioned Costs* as item 2010-01 to be a significant deficiency.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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.

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 29, 2010

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2009 - June 30, 2010
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Community Development Block Grant - Entitlement Program	B-07-MC-240013	14.218	$ 398,794	$ 100,704
Community Development Block Grant - Entitlement Program	B-08-MC-240013	14.218	384,928	384,928
Community Development Block Grant - Entitlement Program	B-09-MC-240013	14.218	389,566	185,934
ARRA Community Development Block Grant	B-09-MY-240013	14.253	104,495	104,495
Plus Program Income				279,658
Total Program				1,055,719
Supportive Housing Program Grant	MD05B709004	14.235	20,059	5,305
Supportive Housing Program Grant	MD06B709004	14.235	135,536	135,536
Supportive Housing Program Grant	MD06B709005	14.235	65,896	65,896
Total Program				206,737
Emergency Shelter Grant	2008-ESG-BOS-09	14.231	16,150	-
Emergency Shelter Grant	2008-ESG-BOS-08	14.231	23,300	23,300
Total Program				23,300
HUD Housing Counseling Grant		14.169	120,458	23,465
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				$ 1,309,221
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Maryland State Department of Human Resources:				
Community Services Block Grant	01-08-B1MD COSR	93.569	$ 275,916	$ 72,887
Community Services Block Grant	01-09-B1MD COSR	93.569	275,916	159,534
ARRA - Community Services Block Grant		93.569	419,859	264,808
Total Program				497,229
Passed Through Healthcare for the Homeless, Inc.:				
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	53,061
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	65,530
Total Program				118,591
Passed Through Maryland State Department of Health and Mental Hygiene:				
McKinney PATH Grant	MH-263-OTH	93.150	77,400	-
McKinney PATH Grant	MH-263-OTH	93.150	77,400	77,400
Total Program				77,400
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				$ 693,220
DEPARTMENT OF ENERGY				
Direct Programs				
ARRA - Energy Efficiency/Conservation Block Grant	DE-SC00002303	81.128	$ 614,700	$ 261,529
Passed Through Maryland Department of Housing and Community Development:				
ARRA - Weatherization Assistance Program		81.042	1,468,005	137,357
Weatherization Assistance Program		81.042	(A)	-
Weatherization Assistance Program		81.042	(A)	187,116
				324,473
TOTAL DEPARTMENT OF ENERGY				$ 586,002

(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, 2010

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2009 - June 30, 2010
DEPARTMENT OF JUSTICE				
Direct Programs				
Anti-Gang Strategy Equipment Grant	I37-1248	16.580	$ 82,347	$ 66,950
2007 Justice Assistance Grant	2007-DJ-BX-0347	16.738	75,058	-
2008 Justice Assistance Grant	2008-DJ-BX-0381	16.738	18,663	-
2009 Justice Assistance Grant	2009-DJ-BX-1428	16.738	79,141	42,728
ARRA - Technology and Equipment Program	2009-SB-B9-0226	16.804	327,351	327,135
Organized Crime Drug Enforcement Task Force	281D-BA-110325			4,427
Total Program				441,240
Bulletproof Vest Partnership Program	2005BUBX05029167	16.607	8,750	338
Bulletproof Vest Partnership Program	2006BUBX06135940	16.607	7,192	6,855
Bulletproof Vest Partnership Program	2007 Regular Grant	16.607	14,625	9,249
Bulletproof Vest Partnership Program	2008 Regular Grant	16.607	8,662	-
Total Program				16,442
Federal Bureau of Investigation - Firing Range Grant			27,000	27,000
TOTAL DEPARTMENT OF JUSTICE				$ 484,682
DEPARTMENT OF TRANSPORTATION				
Direct Program:				
Airport Development Aid Program	3-24-0017-023	20.106	86,070	-
Airport Development Aid Program	3-24-0017-030	20.106	160,056	$ 56,112
Airport Development Aid Program	3-24-0017-032	20.106	378,935	155,036
Airport Development Aid Program	3-24-0017-033	20.106	68,073	27,409
Airport Development Aid Program	3-24-0017-034	20.106	1,140,968	1,426,210
Airport Development Aid Program - Program Incom	3-24-0017-034	20.106		1,992,763
				3,657,530
TOTAL DEPARTMENT OF TRANSPORTATION				$ 3,657,530
DEPARTMENT OF AGRICULTURE				
Passed Through Maryland State Dept. of Education				
Summer Food Service Program		10.559	(B)	$ -
Summer Food Service Program		10.559	(B)	40,106
				$ 40,106
DEPARTMENT OF HOMELAND SECURITY				
Passed Through Frederick County Fire and Rescue Services Division				
FFY 2007 Homeland Security Grant	2007-GE-T7-0040	97.067	$ 12,000	$ 5,408
FFY 2008 Homeland Security Grant	2008-GE-T8-0011	97.067	25,000	19,960
FFY 2007 Homeland Security Grant	G21758 LETPP	97.067	95,802	59,479
TOTAL DEPARTMENT OF HOMELAND SECURITY				$ 84,847
DEPARTMENT OF THE INTERIOR				
Direct Program:				
National Parks Service Preserve America Grant	24-08-AP-4019	15.929	150,000	$ 150,000
CONGRESSIONAL ACTION				
Passed Through Maryland State Department of Housing and Community Development				
Foreclosure Mitigation Grant	PL 110-161:95X1350	99.999	95,400	$ 35,301
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 7,040,909

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

The accompanying notes are an integral part of this statement.

THE CITY OF FREDERICK, MARYLAND
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

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, 2010.

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, 2010

Section I – Summary Of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
▪ Material weakness(es) identified?		Yes	X	No
▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)?		Yes	X	No
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
▪ Material weakness(es) identified?	X	Yes		No
▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	Yes		No
Type of auditor's report issued on compliance for major programs:	Qualified			
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	X	Yes		No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program
14.218	ARRA and Non-ARRA Community Development Block Grant
16.804	ARRA - Technology and Equipment
20.106	Airport Development Aid Program
81.042	ARRA and Non-ARRA Weatherization Assistance Program
81.128	ARRA - Energy Efficiency/Conservation Block Grant
93.569	ARRA and Non-ARRA Community Services Block Grant

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?		Yes	X	No

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2010

Section II – Financial Statement Findings

Internal Control

No matters were reported.

Compliance

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

Internal Control

Finding 2010-01: Reporting of Federal Expenditures

Federal Programs: Department of Housing and Urban Development, CFDA 14.218 Community Development Block Grant (CDBG) and Department of Energy, CFDA 81.042 Weatherization Assistance Program (WAP)

Criteria: The Schedule of Expenditures of Federal Awards (the schedule) should include only expenditures funded by a Federal agency or a pass through entity in accordance with Circular A-133, Subpart A Section301.b. Additionally, the amount of federal expenditures reported on the schedule should represent expenditures on the accrual basis of accounting.

Condition: For two programs, the City's Schedule of Expenditures of Federal Awards did not properly state federal expenditures. The City's original schedule presented to us for audit overstated CDBG expenditures funded by program income by $66,750, and overstated WAP expenditures by including expenditures from non-federal sources of $171,967.

Context: In performing our audit, we reconciled expenditures of federal awards for major programs to accrual basis cost detail. Additionally, we investigated the origin of funding sources identified in grant documents for major programs.

Effect: The City's Schedule of Expenditures of Federal Awards was overstated by $238,717.

Cause: During the preparation of the Schedule of Expenditures of Federal Awards, there was an error in the City's cash to accrual reconciliation process, which caused the overstatement of CDBG program income. The City's finance department personnel, who prepare the Schedule of Expenditures of Federal Awards, were not familiar with the WAP which did not allow for the proper identification of funding sources between federal and non-federal.

Recommendation: During the preparation and review of the Schedule of Expenditures of Federal Awards, we recommend the City's finance department enhance its current process to ensure the identification of federal expenditures is accurate. The City should revisit the process by which program administrators, outside the finance department, communicate funding sources to the finance department to ensure administrators are aware of the importance of this requirement.

Views of Responsible Officials and Planned Corrective Actions: The finance department personnel will work more closely with other department personnel to identify the originating source of intergovernmental funds so as to include only federal funds in the Schedule of Expenditures of Federal Awards. The Director of Finance will be responsible for overseeing this process.

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

Internal Control (Continued)

Finding 2010-02: Segregation of Duties

Federal Programs: Department of Energy, CFDA 81.042 Weatherization Assistance Program (WAP)

Criteria: In accordance with Circular A-133, Subpart C Section 300.b, the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of grant agreements that could have a material effect on each of its Federal programs. A key element in internal controls is an ideal segregation of duties which allows for independent reviews within the financial accounting function.

Condition: There was a lack of segregation of duties in the processing and approval of WAP program costs and of invoice submissions to the Maryland State Department of Housing and Community Development. One individual was responsible for all of these functions.

Context: During our understanding and testing of internal controls, we noted the lack of segregation of duties.

Effect: There is an increased risk of financial misstatement and noncompliance with grant specific requirements and federal cost principles. As stated in Finding 2010-05, we noted there was no direct linkage between program costs per the invoice submissions in comparison to the supporting program files.

Cause: The Coordinator of Weatherization Services was responsible for compliance with virtually all program requirements, with little oversight or independent reviews by the program administrator of the processing of program costs and of invoice submissions. The Coordinator of Weatherization Services has limited experience with financial reporting requirements and federal cost principles.

Recommendation: We recommend the implementation of procedures to ensure segregation of duties within the financial accounting function is achieved, which includes increased oversight by the Director of Frederick Community Action Agency (FCAA) or an otherwise assigned program administrator. Additionally, all individuals charged with program management should be properly trained on financial reporting requirements and federal cost principles.

Views of Responsible Officials and Planned Corrective Actions: The Frederick Community Action Agency (FCAA) is enacting the procedures below. The Director of the FCAA will be responsible for overseeing the implementation of these procedures.

1. Job-specific payroll and fringe benefit reports will be generated by the City of Frederick, Department of Finance and will be used as the basis for invoicing of salaries and benefits for all weatherization jobs.
2. An inventory control system will be implemented that lists all materials and supplies stocked by the FCAA. The Inventory Control Form will list all items stocked by the FCAA, the unit price and the vendor. Weatherization Technicians use the forms to indicate the number of items used on each specific job. Completed inventory control forms will be submitted to the Coordinator of Weatherization Services at the end of each job for compilation on the invoice. Inventory Control Forms will be maintained by the Weatherization Auditor who will regularly update the forms with up-to-date costs for materials and supplies; will conduct periodic inventories of all in-stock materials and supplies; and will assist the Coordinator of Weatherization Services in reconciling the costs of in-stock items to actual invoices received from vendors.

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

Internal Control (Continued)

3. Weatherization job invoices will be prepared by the Coordinator of Weatherization Services generally based on four (4) pieces of data: 1) job-specific payroll reports that include fringe benefit costs for all direct-hire crew members; 2) job-specific invoices for materials and supplies (e.g., Lowes); 4) job-specific invoices for contractor-performed work (e.g., Dave's Mechanical, Southern States, Brandenburg Electric); and 4) completed Inventory Control Forms that are based on the actual cost of supplies and materials purchased from vendors and stocked at the FCAA (e.g., Windows, Doors, and More).
4. The Coordinator of Administrative Services will review all weatherization job invoices once the invoices have been prepared by the Coordinator of Weatherization Services. Any discrepancies or variations will be brought to the attention to the Director of the FCAA for the purpose of review and reconciliation. In addition, the Director will routinely review and reconcile a minimum of 10% of the weatherization invoices; jobs will be selected randomly.
5. Following review and any necessary reconciliation, the job invoices will be entered into the Hancock weatherization database system by the Weatherization Clerk for payment by the Maryland Department of Housing and Community Development.
6. Copies of all documents pertaining to weatherization invoices including payroll reports, vendor invoices, contractor invoices, inventory control forms, and other documents will be maintained at the FCAA. Duplicate copies of all weatherization invoices, with all back-up, will be forwarded to the City Department of Finance.

Finding 2010-03: Monitoring

Federal Programs: Department of Energy, CFDA 81.042 Weatherization Assistance Program (WAP)

Criteria: In accordance with Circular A-133, Subpart C Section 300.b, the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of grant agreements that could have a material effect on each of its Federal programs. Auditees are responsible for managing the day-to-day operations of grant supported activities and must monitor to assure compliance with applicable Federal requirements and that performance.

Condition: Little oversight was provided to the Coordinator of Weatherization Assistance as it relates to the processing and approval of WAP program costs and of invoice submissions.

Context: During our understanding and testing of internal controls, we noted the lack of sufficient involvement by the Director of FCAA or an otherwise assigned program administrator in the processing and approval of WAP program costs and of invoice submissions.

Effect: There is an increased risk of financial misstatement and noncompliance with grant specific requirements and federal cost principles. As stated in Finding 2010-05, we noted there was no direct linkage between program costs per the invoice submissions in comparison to the supporting program files.

Cause: WAP and other activities for which the program administrator provided oversight increased significantly since the prior year due to the increase in available funding.

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

Internal Control (Continued)

Recommendation: We recommend the City evaluate the current program administrator's ability to function effectively in this role and to implement a process to evaluate the effectiveness of program administrators who are responsible for grant supported activities.

Views of Responsible Officials and Planned Corrective Actions: The Frederick Community Action Agency (FCAA) has operated the Weatherization Assistance Program (WAP) since 1994 and the program is monitored annually by the Maryland Department of Housing and Community Development. In turn, the U.S. Department of Energy monitors the Maryland Department of Housing and Community Development on an annual basis, which includes a review of all subgrantees. To date, there have been no significant findings for the FCAA associated with monitorings or reviews performed by the Maryland Department of Housing and Community Development or the U.S. Department of Energy. As reflected in Finding 2010-02, the Director of the FCAA and the Coordinator of Administrative Services will review future weatherization invoices for accuracy.

Finding 2010-04: Ineffective Cost Reconciliations

Federal Programs: Department of Energy, CFDA 81.042 Weatherization Assistance Program (WAP)

Criteria: In accordance with Circular A-133, Subpart C Section 300.b, the auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of grant agreements that could have a material effect on each of its Federal programs. Auditees must monitor grant supported activities to ensure accurate financial reporting. The process of reconciliations is a key element in the internal control over financial reporting.

Condition: There were no effective reconciliations between supporting cost documents, invoice submissions to the Maryland State Department of Housing and Community Development and costs reported on the City's Schedule of Expenditures of Federal Awards.

Context: During our understanding and testing of internal controls, we noted the lack of an accurate cost tracking system due to ineffective reconciliations.

Effect: There is an increased risk of financial misstatement and noncompliance with grant specific requirements and federal cost principles. As stated in Finding 2010-05, we noted there was no direct linkage between program costs per the invoice submissions in comparison to the supporting program files.

Cause: The program manager responsibility was assigned to an individual, Coordinator of Weatherization Services, with limited experience with financial reporting requirements and federal cost principles. In addition, there was little oversight by the Director of FCAA or otherwise assigned program administrator.

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

Internal Control (Continued)

Recommendation: We recommend the implementation of procedures to ensure effective reconciliations exist between supporting cost documents, invoice submissions to the Maryland State Department of Housing and Community Development and costs reported on the City's Schedule of Expenditures of Federal Awards. Reconciliations should provide reasonable assurance that costs are authorized, complete, valid and accurate. Costs should be properly approved and supported prior to invoice submission. Support for program costs should be maintained for review and audit purposes. The process should allow for proper segregation of duties and include oversight by the program administrator and finance department personnel. Additionally, all individuals charged with program management should be properly trained on financial reporting requirements and federal cost principles.

Views of Responsible Officials and Planned Corrective Actions: As described under Finding 2010-02: Segregation of Duties, the Frederick Community Action Agency will be implementing detailed procedures to order to generate accurate and detailed invoices for the Weatherization Assistance Program. The process described above allows for segregation of duties and oversight by program administrators and the City Department of Finance.

Compliance

Finding 2010-05: Cost Principles and Reporting

Federal Programs: Department of Energy, CFDA 81.042 Weatherization Assistance Program (WAP)

Criteria: In accordance with Circular, A-87, Part C Basic Guidelines, paragraph 1j, grantees must establish internal financial reporting procedures which facilitate the determination that costs are reasonable, allocable and allowable.

Condition: The City did not provide a direct linkage between program costs per the invoice submissions in comparison to the supporting program files. An accumulation of costs at the transaction level was not retained for review and audit purposes. There was no support to justify the fringe benefit rate charged to program costs. Additionally, we were unable to determine compliance with limitations on costs related to energy reduction measures.

Context: During our audit, we selected 3 of the 92 properties, for which WAP costs were incurred, which resulted in the testing of 67 cost transactions. Cost accumulation for these 67 transactions was recreated, which resulted in a total difference of $3,230 between costs submitted for reimbursement and supporting cost documentation.

Effect: Expenditures on WAP supported activities did not provide an adequate audit trail between program costs per the invoice submissions and supporting documentation. Although management was able to recreate most of the audit trail for the cost transactions tested, we are unable to determine the amount of questioned costs on this program as the projection of the known error identified above would not provide a precise amount of such questioned costs.

Cause: The program manager responsibility was assigned to an individual, Coordinator of Weatherization Services, with limited experience with financial reporting requirements and federal cost principles. In addition, there was little oversight by the Director of FCAA or an otherwise assigned program administrator.

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

Compliance (Continued)

Recommendation: We recommend the implementation of procedures to ensure effective reconciliations between supporting cost documents, invoice submissions to the Maryland State Department of Housing and Community Development and costs reported on the City's Schedule of Expenditures of Federal Awards. Reconciliations should provide reasonable assurance that costs are authorized, complete, valid and accurate. Costs should be properly approved and supported prior to invoice submission. Support for program costs should be maintained for review and audit purposes. The process should allow for proper segregation of duties and include oversight by the program administrator and finance department personnel. Additionally, all individuals charged with program management should be properly trained on financial reporting requirements and federal cost principles.

Views of Responsible Officials and Planned Corrective Actions: As described under Finding 2010-02: Segregation of Duties, the Frederick Community Action Agency will be implementing detailed procedures to order to generate accurate and detailed invoices for the Weatherization Assistance Program. The process described above allows for segregation of duties and oversight by program administrators and the City Department of Finance.

Finding 2010-06: Cash Management

Federal Program: Department of Health and Human Services, CFDA 93.569 Community Services Block Grant (CSBG)

Criteria: Circular A-102 *Grants and Cooperative Agreement with State and Local Government,* Section (2)(a) states that "Agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds." When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must monitor cash draw downs by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Condition: The City had use of CSBG funds for an extended period of time prior to the disbursement of such funds. From March 2010 to June 2010, the City had CSBG funds totaling between $91,807 and $382,144 collected in advance. At June 30, 2010, the City had $91,807 collected in advance.

Context: In performing our audit, we compared the timing of payments from the Maryland Department of Housing and Community Development (MDHCD) to the timing of disbursements by the City. For six of the twelve months in fiscal year 2010, the City received advance payments from MDHCD.

Effect: The City had extended use of federal funds.

Cause: On both an annual and a monthly basis, the City provides a budgeted cash flow analysis to the MDHCD. While the grant agreements contain a schedule of installment payments to the City, the grants further state that the MDHCD has discretion to determine the amount and manner of disbursement of the grant. These disbursements did not closely follow the anticipated expenditure of funds by the City.

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

Compliance (Continued)

Recommendation: We recommend that the City continue to communicate budgeted cash flows to the MDHCD and that the MDHCD more closely match advance of funds with the City's budgeted expenditures in order to minimize the time elapsing between the transfer to the City and the City's need for the funds.

Views of Responsible Officials and Planned Corrective Actions: It is the policy of the Maryland Department of Housing and Community Development to disburse Community Services Block Grant (CSBG) funds to grantees through quarterly installments regardless of grantee's rate of expenditure of the funds.

Finding 2010-07: Reporting

Federal Program: Department of Energy, CFDA 81.128 Energy Efficiency/Conservation Block Grant

Criteria: The Energy Efficiency/Conservation Block Grant, which was effective September 21, 2009, states the grantee must file a quarterly Form SF-425 within thirty days of the period end.

Condition: Since the effective date of the grant and through the date of our auditing procedures, the City has not filed any Form SF-425.

Context: In performing our audit, we examine compliance with reporting requirements and through inquiry we were informed that the quarterly Form SF425 had not yet been filed. During October 2010, we noted the City was in contact with Department of Energy (DOE) personnel to address the filing requirements.

Effect: The lack of filings can impair the DOE's ability to adequately monitor the grant.

Cause: The program manager and other City employees, who provided program oversight, terminated employment with the City during the fiscal year ended June 30, 2010. The filing of these forms was an oversight by City personnel.

Recommendation: We recommend that the City continue to communicate with DOE regarding these filings and submit the required reports as soon as possible. In addition, we recommend the City evaluate the process by which job duties entailing compliance with grant and federal requirements are reassigned subsequent to employee turnover.

Views of Responsible Officials and Planned Corrective Actions: The City has submitted cumulative information on Form 425 to the Department of Energy through the quarter ending September 30, 2010 and is committed to filing subsequent quarterly reports in a timely fashion. The Director of Finance is responsible for ensuring that future Form 425s are filed in a timely fashion.

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2010

Section II – Financial Statement Findings

Internal Control

Finding 2009-01: Wire Transfers

Wire transfers can be processed by the City's Director of Finance and Accounting manager without independent approval or authorization. A cash management report is obtained from the bank, which is reviewed daily by an independent party. However, the primary purpose of the review is not to detect improper wire transfers.

Corrective action taken: The City implemented a process whereby all wire transfers are reviewed and approved by two individuals prior to processing.

Finding 2009-02: Golf Course Pro Shop Resale Merchandise

There was a difference between total costs of golf merchandise sold per the general ledger and the cumulative total reported on the monthly golf sales reports of approximately $30,000 for the year ended June 30, 2009.

Corrective action taken: The City investigated the discrepancy in the cost of goods sold amounts reported by the golf course and the general ledger and determined that the primary factor was the treatment of special order goods. The City has developed a process for a monthly review and reconciliation of the recorded activities of the payment of vendor invoices as processed through the general ledger and the inventory and unit costs as updated through the golf course system.

Compliance

No matters were reported

Section III – Federal Award Findings and Questioned Costs

Internal Control

No matters were reported

Compliance

Finding 2009-03: Untimely Submission

The A-133 audit reporting package for the year ended June 30, 2008 was not submitted to the Federal Audit Clearinghouse within 30 days after receipt of the auditor's report. The submission occurred on December 5, 2008, which was 37 days after receipt of the auditor's report.

Corrective action taken: The City ensured that the A-133 audit reporting package was timely submitted for the year ended June 30, 2009. The submission occurred on November 23, 2009, which was 21 days after receipt of the auditor's report.

THE City OF Frederick

RANDY A. MCCLEMENT, MAYOR

ALDERMEN

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