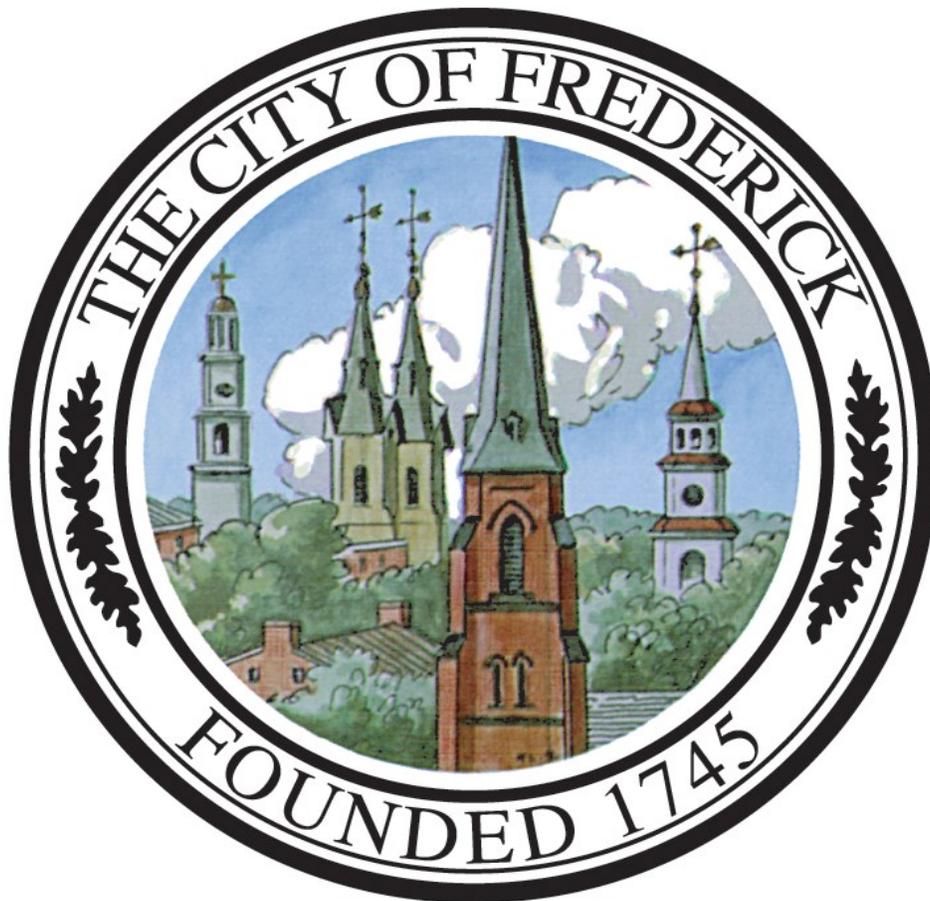


THE CITY OF FREDERICK

FREDERICK, MARYLAND



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year
July 1, 2014—June 30, 2015

THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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, 2015

TABLE OF CONTENTS

	Page (s)
INTRODUCTORY SECTION	
Title Page	1
Table of Contents	2 - 3
Letter of Transmittal	4 - 7
GFOA Certificate of Achievement for Excellence in Financial Reporting	8
Operational Organizational Chart	9
Summary of Elected and Appointed Officials	10
 FINANCIAL SECTION	
Independent Auditor's Report	11 - 12
Management's Discussion and Analysis.....	13 - 23
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	24
Statement of Activities	25
Fund Financial Statements:	
Balance Sheet - Governmental Funds	26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	29 - 30
Statement of Net Position - Proprietary Funds	31
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds..	32
Statement of Cash Flows - Proprietary Funds	33 - 34
Statement of Fiduciary Net Position - Fiduciary Funds	35
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	36
Notes to the Financial Statements	37 - 71
Required Supplementary Information:	
Schedules of Changes in the City's Net Pension Liability and Related Ratios - Thirty Year Pension Plan	72
Schedules of Changes in the City's Net Pension Liability and Related Ratios - Twenty Five Year Pension Plan	73
Schedules of Changes in the City's Net Pension Liability and Related Ratios - Twenty Two Year Pension Plan	74
Schedule of City Contributions - Pension Plans	75
Schedule of Investment Returns - Pension Plans	76
Schedule of Funding Progress - Other Post Employment Benefit Plans	77
Schedule of Employer Contributions - Other Post Employment Benefit Plans	77

**THE CITY OF FREDERICK, MARYLAND
TABLE OF CONTENTS**

	Page (s)
FINANCIAL SECTION (continued)	
Other Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	79
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
CDS Program Fund	80
Weinberg Center Fund	81
Community Development Fund	82
City Housing Fund.....	83
Combining Statement of Net Position - Nonmajor Proprietary Funds	84
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Nonmajor Proprietary Funds	85
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	86 - 87
STATISTICAL SECTION:	
Net Position by Component	88
Changes in Net Position	89 - 90
Fund Balances of Governmental Funds	91
Changes in Fund Balances of Governmental Funds	92
Assessed and Estimated Actual Value of Taxable Property	93
Property Tax Levies and Collections	94
Property Tax Rates and Tax Levies - Direct and Overlapping Governments	94
Schedule of Principal Tax Payers	95
Ratios of Outstanding Debt by Type	96
Ratios of General Bonded Debt Outstanding	96
Direct and Overlapping Debt	97
Legal Debt Margin Information	98
Computation of Legal Debt Margin	98
Ratio of General Fund Annual Debt Service Expenditures to General Fund Revenues	99
Pledged Revenue Coverage	100
Selected Demographic Statistics	101
Principal Employers	102
Authorized Fulltime Equivalent Employees by Function	103
Capital Asset Statistics by Function	104
Operating Indicators by Function	105
SINGLE AUDIT SECTION:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	106 - 107
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	108 - 109
Schedule of Expenditures of Federal Awards	110 - 112
Notes to the Schedule of Expenditures of Federal Awards	113
Schedule of Findings and Questioned Costs	114 - 117
Summary Schedule of Prior Audit Findings	118

Randy McClement
Mayor



Aldermen

Kelly M. Russell
President Pro Tem

Michael C. O'Connor
Philip Dacey
Joshua Bokee
Donna Kuzemchak

October 29, 2015

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, 2015. 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 RSM US 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, 2015, 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, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the City

Founded in 1745, The City of Frederick is one of the most historic and economically vibrant cities in the state of Maryland. Incorporated in 1817, Frederick is the cultural, business and financial center of Frederick County. Its proximity to Washington, D.C. and Baltimore, located near Interstates 70 and 270, make it a logical location for growth and progress. The City currently occupies a land area of approximately 23.248 square miles and serves an estimated population of 68,369. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Mayor and Board of Aldermen.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five aldermen. The governing body is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. The mayor is responsible for carrying out the policies and ordinances of the governing body, and for overseeing the day-to-day operations of the City. The board is elected at large and each member serves a four-year term.

The City provides a full range of services, including police protection, planning and engineering, code enforcement, maintenance of streets and other infrastructure, waste collection and disposal, traffic control, and recreation and parks. Water and sewer, parking, airport, storm water, golf and rental operation facilities are provided by the City under the enterprise fund concept. Provisions are made for public capital improvements through the City's capital improvement program.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the Mayor. The Mayor uses these requests as the starting point for developing a proposed budget. The Mayor presents the proposed budget no later than April 1st of each year. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 20th. 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 29 and 30 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 80.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy

The City of Frederick attracts some 1,000 new residents each year. The City's estimated population of 68,369, coupled with an additional 50,000 residents living in surrounding neighborhoods, represents approximately fifty percent of Frederick County's total population. Professional and business services, along with health and education make up 34% of the City's total number of jobs. The government sector accounts for 23% of the total jobs. The median household income holds at \$83,408. Approximately 49,000 individuals are employed by businesses in the City of Frederick. Some of the larger employers in the City are Fort Detrick (6,400) the national Cancer Institute-Frederick/Leidos Biomedical (2,700), Frederick Regional Health Care (2,232), Wells Fargo Home Mortgage (1,742), State Farm (832), AstraZeneca/MedImmune (630) and Frederick Community College (992).

Abundant, diverse jobs and housing are the primary attractors for new residents moving to Frederick. The City includes approximately 26,000 households, a third of all those located in Frederick County. In 2011, the median home value in Frederick City was \$180,000, and the current 2014 median home sales price is \$263,500.

The City of Frederick is also a major transportation hub. 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 services to Washington D.C.'s Union Station and points in between are also available to City residents. The City and surrounding area is also serviced by Frederick Municipal Airport, the second busiest general aviation airport in Maryland with 77,231 aircraft operations in fiscal 2015. The airport serves as a general aviation reliever airport for Reagan National, Baltimore-Washington International and Washington Dulles International airports. The City's close proximity to urban areas along with the available transportation systems makes Frederick a logical location for growth and progress.

Long-term financial planning

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

One of the major projects in the Capital Improvement Plan is the Monocacy Boulevard project, a four-lane highway connecting I-70 to MD 26 that will provide opportunities for new industrial, commercial and residential development. The total cost of over \$46,200,000 will be financed by a combination of tax increment financing, special assessments and general obligation bonds. Phase I of the project is completed and open to the public. The completion of this section, along with the connection to Schifferstadt Boulevard allows for a cross connection from MD 355 to North Market Street. Phase II of the project will connect northward to Riverside Research Park and the NCI – Advanced Technology Research Facility (ATRF) and the cost of construction is being shared equally by the City and County.

The final phase of the Carroll Creek Park project is under way, constructing improvements primarily east of the Delaplaine Visual Arts Center across East Street to East Patrick Street. The project will include ADA multi-use paths, lighting, furniture, planters, landscaping, fountains, and other park improvements. The project is funded in partnership with Frederick County, developers, and a Federal Transportation Enhancement Program grant. These improvements will provide development opportunities, create jobs and services and enhance the tax base of the City. Construction of this phase of the project began during FY 2014 and a major private rehabilitative project is already underway along the current phase of construction. Douglas Development of Washington, DC is rehabilitating the historic Union Knitting Mill building, which will be anchored by a Frederick-based information technology company.

The City is also encouraging private investment through property and income tax credits for the Historic District, Arts District and the Golden Mile Commercial District. A New Jobs Tax Credit Program has also been established which will award a credit based on the expansion of a facility and the number of new, permanent, full time positions created over a two year period. These short-term tax credits provide needed incentives for private sector capital reinvestment and revitalization in the properties of the area. The city is currently in negotiation with a number of businesses for location and expansion opportunities. Most recently, AstraZeneca/MedImmune announced a planned expansion of its Frederick biologics manufacturing facility, which will result in an investment of \$200 million and add 300 new jobs..

In January 2012, the Mayor and Board of Aldermen began the process of creating a strategic plan for the City. The objectives of the plan are to create strategies, goals and performance based measurements to drive the budget in the short term and transcend multiple administrations in the long term. The main themes of the strategic plan are long term stability, economic development, public safety, infrastructure, environmental sustainability, quality of life, innovative government, planning and development.

Relevant Financial Policies

The City of Frederick has established a "Rainy Day" reserve of unassigned general fund balance that is to equal 12% of total general fund revenues (excluding beginning fund balance) to provide for adequate working capital and to provide funds to meet unforeseen emergencies. At the end of fiscal year 2015, this policy would require a "Rainy Day" reserve of \$8,896,038. The unassigned fund balance in the General Fund was \$11,612,570, exceeding the requirement by \$2,716,532.

Major Initiatives

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

In an effort to help stimulate the local economy and meet citizen and business needs, the City is facilitating efforts by the Downtown Hotel Advisory Committee to attract a privately owned and operated 200 room full service hotel with up to 20,000 square feet of meeting space in downtown Frederick. Recently the Committee announced that it has selected a developer to construct a \$64 million dollar full-service Marriott hotel in downtown Frederick with 207 rooms and 24,000 square feet of meeting space. A report released by the Maryland Stadium Authority confirmed there are a number of quality select-service hotels in the Frederick area providing overnight accommodations and limited event and meeting space for citizen, business and leisure needs. However, there are no full-service hotels with large

meeting capabilities in the Frederick lodging market and there are no hotel rooms in downtown Frederick. This study shows the Frederick lodging market is under-served and downtown Frederick is a great place for a full service hotel.

The Golden Mile Alliance, an organization created to strengthen the Golden Mile corridor along US 40 for businesses and residents, continues to move forward with organizing community events and boosting the identity of the Golden Mile as a major place for retail business in Frederick. They recently were involved in advocating for the implementation of the Golden Mile Small Area Plan and redevelopment of the Frederick Towne Mall. The City is beginning to realize reinvestment and revitalization of businesses along the Golden Mile, including the redevelopment of the former Maryland State Police Barracks (Wawa – under construction), the redevelopment of the Frederick Towne Mall (Frederick Towne Center/Walmart – demolition/construction anticipated by the end of 2015), and the renovation of several restaurants (Famous Dave’s, Red Lobster, and McDonalds).

The City is also investing in the Vision Plan set forth by East Frederick Rising for the 800 acre area which abuts the east side of Downtown Frederick. This group is setting in motion a plan for a world-class sustainable community to deliver a desirable mixed use plan for housing and jobs to encourage developers to reinvest in the east side of the City. Recent announcements in this area include plans by the Matan Companies to develop a mixed-use residential/retail neighborhood on the several hundred acre Renn Farm. Additionally, after issuing an RFP, the City entered into a contract of sale with the Matan Companies for a 6-acre City-owned site (Sites J/K) along Carroll Creek Park for mixed-use development. Lastly, the City entered into a contract of sale with Flying Dog Brewery, which plans to build a new 150,000 square foot facility. The project will result in a \$50 million investment and will create 150 new jobs. The 31 acre site is located on the east side of Downtown Frederick, near Frederick Municipal Airport.

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the thirty second 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 members 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, RSM US LLP, as well as our financial software consultants, Harris Systems U.S.A. Inc., for their cooperation in our efforts to effect a better accounting and reporting responsibility.

Respectfully submitted,

Gerald D. Kolbfleisch

Gerald D. Kolbfleisch
Director of Finance



Government Finance Officers Association

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

Presented to

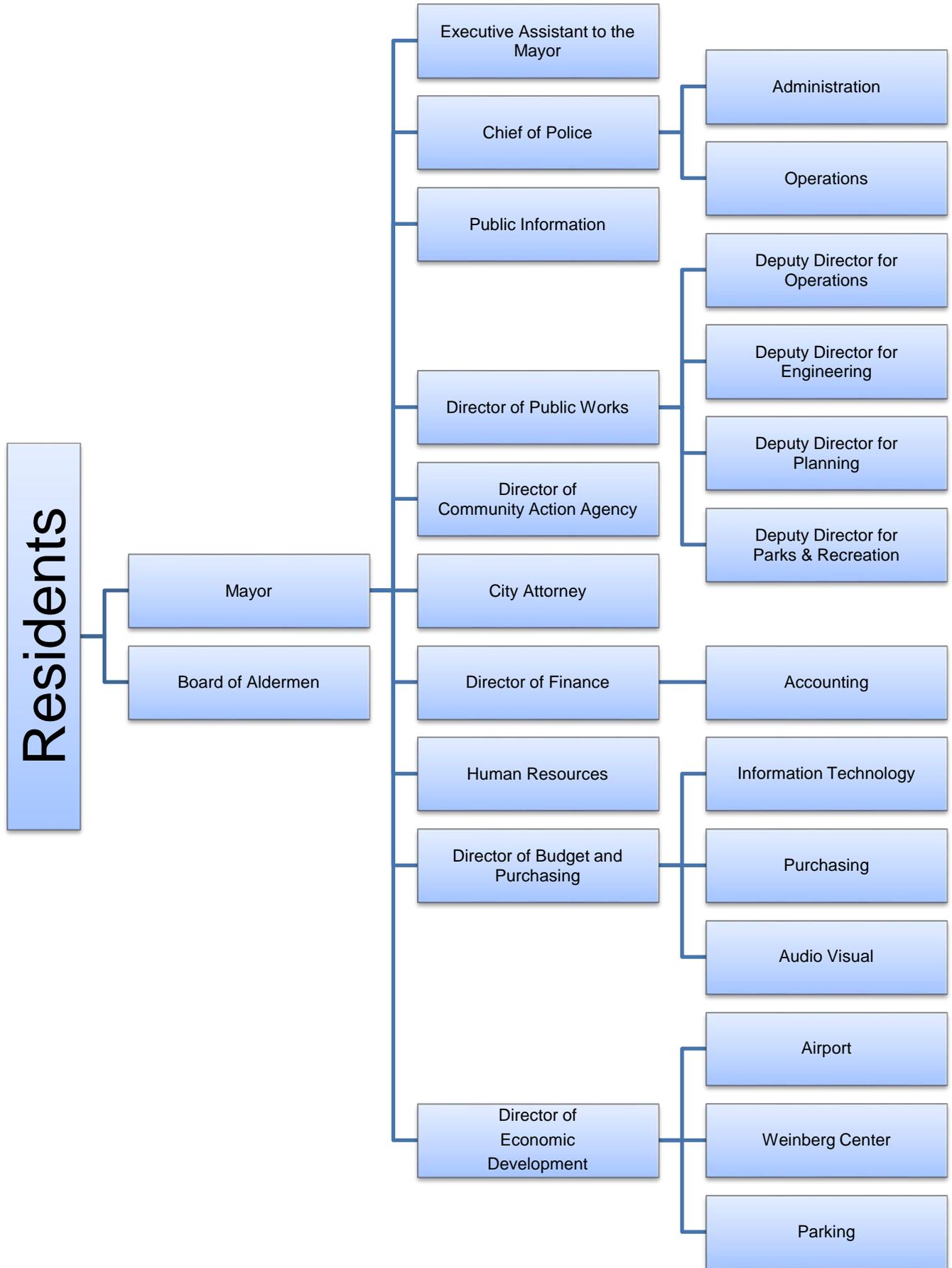
**The City of Frederick
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Organizational Chart



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2015

MAYOR

Randy McClement

BOARD OF ALDERMEN

Kelly M. Russell
President Pro Tem

Michael C. O'Connor
Philip A. Dacey
Joshua L. Bokee
Donna S. Kuzemchak

APPOINTED OFFICIALS

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

Captain Patrick Grossman
Saundra A. Nickols
Tracy A. Coleman
Roelkey I. Myers
Joseph A. Adkins
Marc P. Stachowski
M. Katherine Barkdoll
Michael R. Spurrier
Richard G. Griffin
Gerald D. Kolbfleisch
Shawn R. Ross
Zachary J. Kershner

FINANCIAL SECTION

Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise The City of Frederick, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7, effective July 1, 2014, the City adopted the new accounting guidance of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 23, the Schedules of Changes in the City's Net Pension Liability and Related Ratios on pages 72 through 74, the Schedule of City Contributions – Pension Plans on page 75, the Schedule of Investment Returns – Pension Plans on page 76, the Schedule of Funding Progress – Other Post Employment Benefit Plans and the Schedule of Employer Contributions – Other Post Employment Benefit Plans on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Frederick, Maryland's basic financial statements. The supplementary information, listed in the table of contents as other supplementary information in the financial section and the schedule of expenditures of federal awards in the single audit section, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other information, listed in the table of contents as the introductory and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of The City of Frederick Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Frederick, Maryland's internal control over financial reporting and compliance.

RSM US LLP

Frederick, Maryland
October 29, 2015

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, 2015. The Management's Discussion and Analysis (MD&A) is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its' ability to address the next and subsequent years' challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 4 –7 of this report, and the City's financial statements.

Financial Highlights

The assets and deferred outflow of resources of The City of Frederick exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$200,485,231 (net position). However, the unrestricted amount of the net position is a negative \$58,448,707, which is a result of the implementation of GASB Statement Number 68, requiring that the City report its full net pension liability in the Statement of Net Position. Effective with this fiscal year, the City is required to report the full amount that the total pension liability exceeds the fiduciary net position of the pension plans (net pension liability) in its Statement of Net Position. It is believed that this change will improve the usefulness of the information in the financial report and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

The City's beginning total net position decreased by \$89,581,641, or 31.65%, as a result of the implementation of GASB Statement Number 68. The governmental activities beginning net position decreased by \$73,618,298 and the business-type activities beginning net position decreased by \$15,963,343. The revised beginning net position figures for the governmental activities and business-type activities are \$10,344,694 and \$183,107,112 respectively.

The City's total net position increased by \$7,033,425 for the year, or 3.64% based on the revised beginning net position figure. The governmental net position increased by \$6,423,432 and the business-type net position increased by \$609,993. The unrestricted net position for governmental activities is a negative \$72,695,701 and for business-like activities, a positive \$14,246,994.

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 \$41,021,118, a decrease of \$3,668,912 in comparison to the prior year. An increase of \$379,549 in the fund balance was attributable to non-major governmental funds, a decrease of \$5,449,640 was attributable to the capital improvement program and the remaining change in fund balance was due to an increase of \$1,401,180 in the General Fund.

At June 30, 2015, the total general fund unassigned fund balance was \$11,612,570, or 16.16% of total general fund expenditures and 16.23% of total general fund revenues.

Overview of the Financial Statements

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

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

The statement of net position presents information on all of the City's assets, deferred outflow of resources, liabilities and deferred inflow of resources. The total of assets plus deferred outflows of resources less liabilities and deferred inflows of resources equals net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 24 and 25 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 six 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 four 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 26 - 30 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 31 - 34 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 35 - 36 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 37 - 71 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 72 - 77 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 78 - 87 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$200,485,231 at the close of the most recent fiscal year. It should be noted that the information presented in the following table for fiscal year 2014 has been restated to reflect the changes required by the implementation of GASB Statement Number 68.

The City of Frederick's Net Position

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 50,262,591	\$ 51,641,156	\$ 51,079,665	\$ 47,453,166	\$ 101,342,256	\$ 99,094,322
Capital assets	<u>131,942,724</u>	<u>125,993,034</u>	<u>299,802,495</u>	<u>305,738,787</u>	<u>431,745,219</u>	<u>431,731,821</u>
Total assets	<u>182,205,315</u>	<u>177,634,190</u>	<u>350,882,160</u>	<u>353,191,953</u>	<u>533,087,475</u>	<u>530,826,143</u>
Total deferred outflow of resources	<u>6,120,949</u>	<u>207,407</u>	<u>2,900,480</u>	<u>2,460,005</u>	<u>9,021,429</u>	<u>2,667,412</u>
Long-term liabilities outstanding	162,014,144	160,418,613	164,533,589	167,781,501	326,545,633	328,200,114
Other liabilities	<u>9,043,744</u>	<u>7,078,290</u>	<u>5,330,394</u>	<u>4,763,345</u>	<u>14,374,138</u>	<u>11,841,635</u>
Total liabilities	<u>171,055,788</u>	<u>167,496,903</u>	<u>169,863,983</u>	<u>172,544,846</u>	<u>340,919,771</u>	<u>340,041,749</u>
Total deferred inflow of resources	<u>502,350</u>	<u>-</u>	<u>201,552</u>	<u>-</u>	<u>703,902</u>	<u>-</u>
Net position:						
Net investment in capital assets	78,236,657	68,637,451	159,039,826	158,963,588	237,276,483	227,601,039
Restricted	11,227,170	2,808,140	10,430,285	6,732,260	21,657,455	9,540,400
Unrestricted	<u>(72,695,701)</u>	<u>(61,100,897)</u>	<u>14,246,994</u>	<u>17,411,264</u>	<u>(58,448,707)</u>	<u>(43,689,633)</u>
Total net position	<u>\$ 16,768,126</u>	<u>\$ 10,344,694</u>	<u>\$183,717,105</u>	<u>\$183,107,112</u>	<u>\$200,485,231</u>	<u>\$193,451,806</u>

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

A portion of net position, \$21,657,455, represents resources that are restricted on how they may be used. The remaining balance of net position, a negative \$58,448,707, is classified as unrestricted.

At the end of the current fiscal year, the governmental activities had a negative unrestricted net position of \$72,695,701. The golf course business-type activity had a negative unrestricted net position in the amount of \$6,133,830.

The City's net position increased by \$7,033,425 during the current fiscal year.

Governmental activities. Governmental activities increased the City's net position by \$6,423,432 in the current fiscal year with total revenues from governmental activities increasing by \$6,854,344 and total governmental activities expenses increasing by \$2,894,654.

Taxes increased by \$3,095,338 in fiscal year 2015. Real estate taxes increased approximately \$1,440,000, personal property taxes increased by approximately \$1,359,000 and other taxes increased about \$288,000. The real property tax increase was a combination of slightly increasing assessments and modest new construction. The increase in personal property taxes is due to approximately \$1,379,000 of abatements granted in the previous fiscal year for tax years previous to it. The increase in other taxes is due to growth in income taxes.

Licenses and permits increased approximately \$270,000 from the previous year reflecting a slow but steady increase in building activity.

Intergovernmental revenues increased by approximately \$7,000,000. Operating grants for the community action agency increased by nearly \$1,150,000. The Community Development Block Grant revenue increased by \$377,000 based on increase usage during the current fiscal year. Intergovernmental contributions for capital improvement projects for the current year increased by approximately \$5,600,000.

Fines and forfeitures decreased by nearly \$115,000 with reductions in the three main areas of speed camera program revenues, false alarm fees and red light camera citations by approximately \$61,000, \$22,000 and \$32,000 respectively.

Miscellaneous revenues decreased by approximately \$1,935,000. Developers are required to provide a certain amount of moderately priced housing units or pay a fee in lieu of to aid the City in providing moderately priced housing for low to moderate income families. \$765,700 less was generated through this fee in fiscal year 2015 than in the prior year. Additionally, developers contributed \$1,079,000 less to capital projects in FY 2015 than in FY 2014.

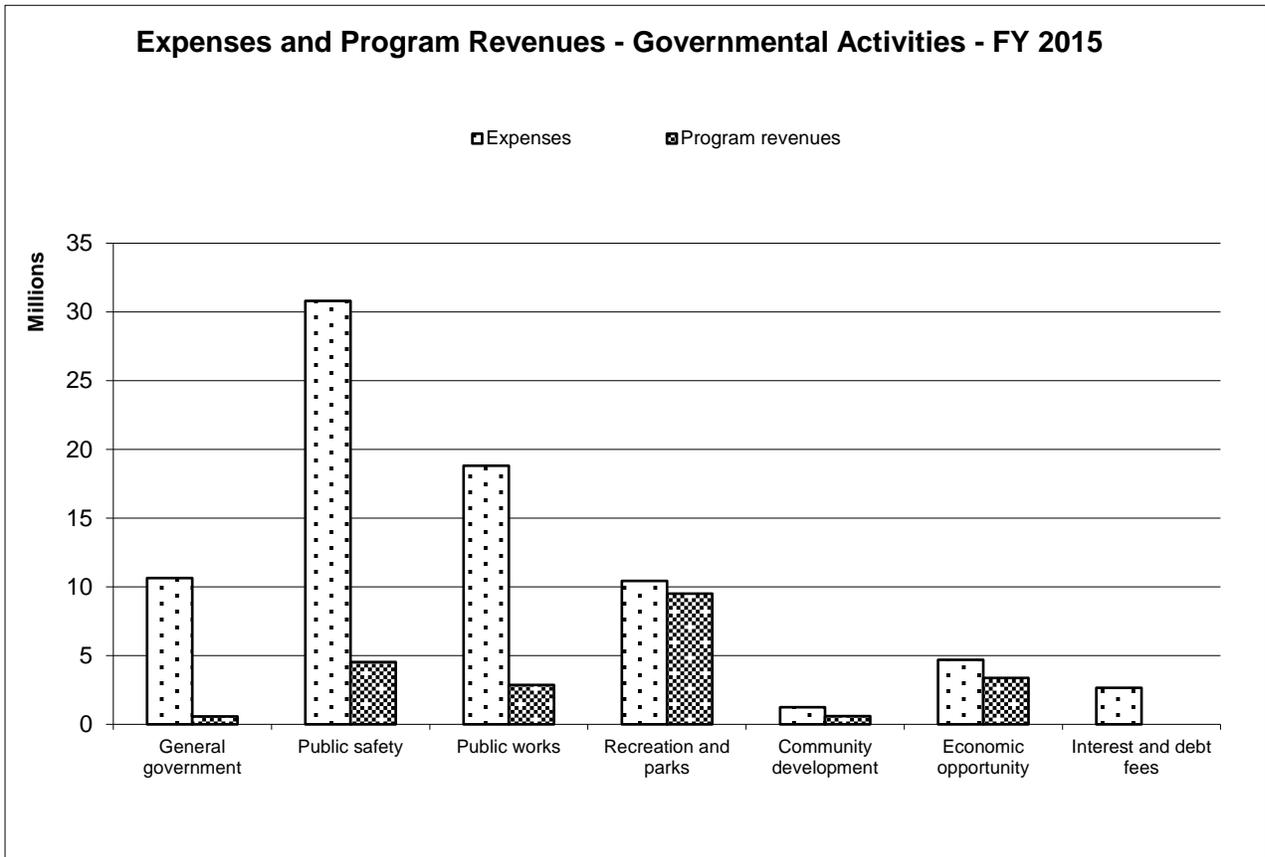
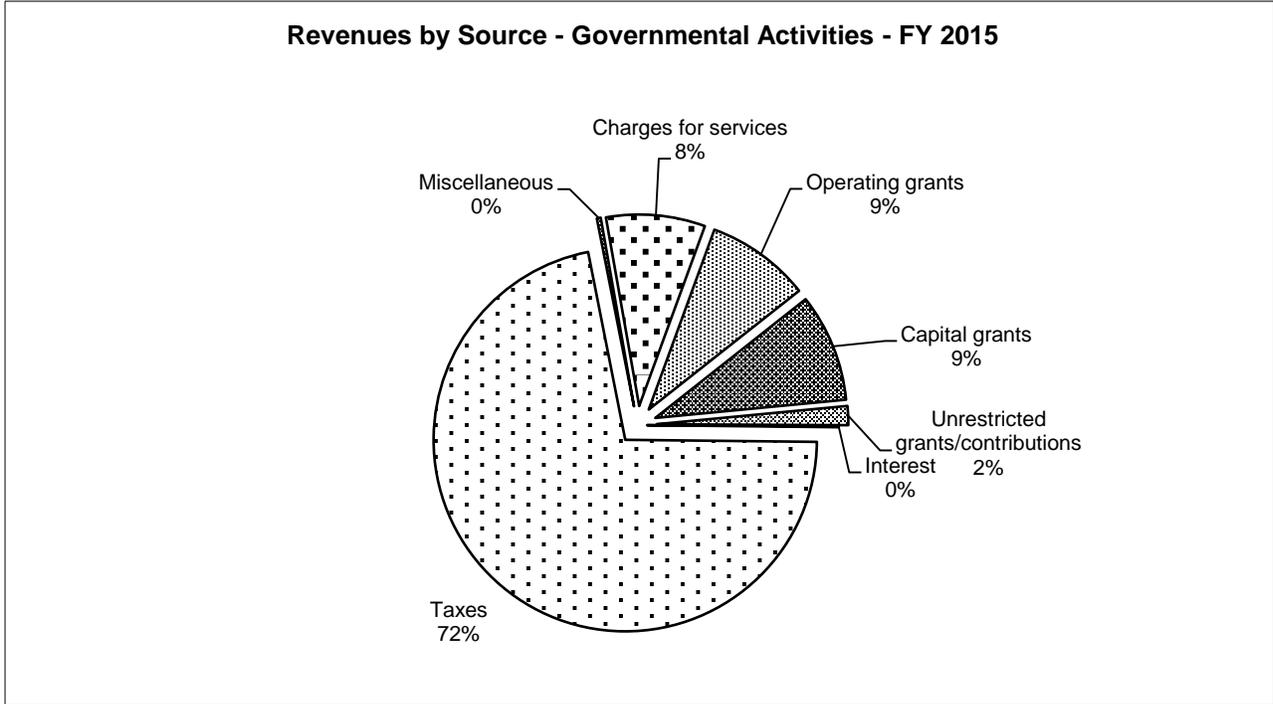
Total expenses increased by \$2,894,654 in fiscal year 2015. The significant changes were in salaries with a \$545,513 (2.0%) increase, personnel benefits with a decrease of \$697,514 (3.0%), supplies with an decrease of \$567,468 (10.7%), other services and charges with a \$2,096,997 increase (22.2%), an increase in capital outlays that did not meet the capitalization criteria of \$244,694 (100.8%) and a decrease in debt service (interest and related fees) of approximately \$160,000 which equates to a 5.7% decrease. Additionally, the City recognized a loss on disposal of capital assets in the amount of \$1,519,791 as a result of transferring a piece of land to the Frederick County Public School System for use as a public school site.

Eligible employees could receive up to a 4.0% merit increase during the fiscal year. The personnel benefits decrease was due to the OPEB liability expense decrease of approximately \$874,000 over the previous year and increased benefit costs associated with the increase in salaries. Contributing to the decrease in supply expenditures were approximately \$300,000 in reduced energy costs with and additional \$237,000 savings on general supplies. Contributions to infrastructure and improvement projects that were not City assets but benefited the City along with the first full year of expenditures for the home energy assistance program resulted in an increase of approximately \$1,750,000 in other services and charges.

The Mayor's directive to department heads to be as frugal as possible given the economic climate continued in the current fiscal year.

The net transfer from business-type activities to the governmental activities totaled \$3,799,914. Transfer to the business-type activities, in the amount of \$76,129 was for airport debt service and operations assistance. \$1,451,043 of the transfer from the business-type activities was a contribution toward capital improvements and \$2,425,000 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 Position

It should be noted that the information in the following table for fiscal year 2014 has not been restated to reflect the changes required by the implementation of GASB Statement Number 68.

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,837,407	\$ 7,611,549	\$ 33,404,585	\$33,262,187	\$ 40,241,992	\$ 40,873,735
Operating grants/contributions	7,196,131	6,232,712	125,751	162,985	7,321,882	6,395,697
Capital grants/contributions	7,475,864	3,934,322	7,243,874	10,783,042	14,719,738	14,717,364
General revenues:						
Taxes	58,761,129	55,665,791	-	-	58,761,129	55,665,791
Non-restricted grants/contributions	1,312,499	1,257,005	-	-	1,312,499	1,257,005
Other	<u>342,660</u>	<u>369,967</u>	<u>96,252</u>	<u>91,504</u>	<u>438,912</u>	<u>461,471</u>
Total revenues	<u>81,925,690</u>	<u>75,071,346</u>	<u>40,870,462</u>	<u>44,299,718</u>	<u>122,796,152</u>	<u>119,371,064</u>
Expenses:						
General government	10,653,257	10,837,533	-	-	10,653,257	10,837
Public safety	30,820,848	31,006,820	-	-	30,820,848	31,006,820
Public works	18,812,241	17,847,442	-	-	18,812,241	17,847,442
Recreation and parks	10,427,738	8,768,838	-	-	10,427,738	8,768,838
Community development	1,245,583	1,000,768	-	-	1,245,583	1,000,768
Economic opportunity	4,692,600	4,135,736	-	-	4,692,600	4,135,736
Interest and long-term debt	2,649,905	2,810,381	-	-	2,649,905	2,810,381
Rental operations	-	-	97,600	36,073	97,600	36,073
Water and sewer	-	-	26,155,942	24,141,597	26,155,942	24,141,597
Golf course	-	-	1,311,234	1,739,533	1,311,234	1,739,533
Airport	-	-	1,680,551	1,800,664	1,680,551	1,800,664
Parking	-	-	4,530,502	4,724,193	4,530,502	4,724,193
Storm water	-	-	<u>2,684,726</u>	<u>2,460,456</u>	<u>2,684,726</u>	<u>2,460,456</u>
Total expenses	<u>79,302,172</u>	<u>76,407,518</u>	<u>36,460,555</u>	<u>34,902,516</u>	<u>115,762,727</u>	<u>111,310,034</u>
Increase/(decrease) in net position						
before transfers	2,623,518	(1,336,172)	4,409,907	9,397,202	7,033,425	8,601,030
Transfers	<u>3,799,914</u>	<u>3,846,402</u>	<u>(3,799,914)</u>	<u>(3,846,402)</u>	-	-
Increase/(decrease) in net position	6,423,432	2,510,230	609,993	5,550,800	7,033,425	8,601,030
Net position, July 1,	<u>10,344,694</u>	<u>81,452,762</u>	<u>183,107,112</u>	<u>193,519,655</u>	<u>193,451,806</u>	<u>274,972,417</u>
Net position, June 30	<u>\$ 16,768,126</u>	83,962,992	<u>\$ 183,717,105</u>	199,070,455	<u>\$ 200,485,231</u>	283,033,447
Restatement	-	<u>(73,618,298)</u>	-	<u>(15,963,343)</u>	-	<u>(89,581,641)</u>
Net position, June 30, restated	-	<u>\$ 10,344,694</u>	<u>\$ 183,107,112</u>	<u>\$ 183,107,112</u>	<u>\$ 193,451,806</u>	<u>\$ 193,451,806</u>

Business-type activities. Business-type activities increased the City's net position by \$609,993 in the current fiscal year. Total revenues decreased by \$3,429,256 while expenses increased by \$1,558,039.

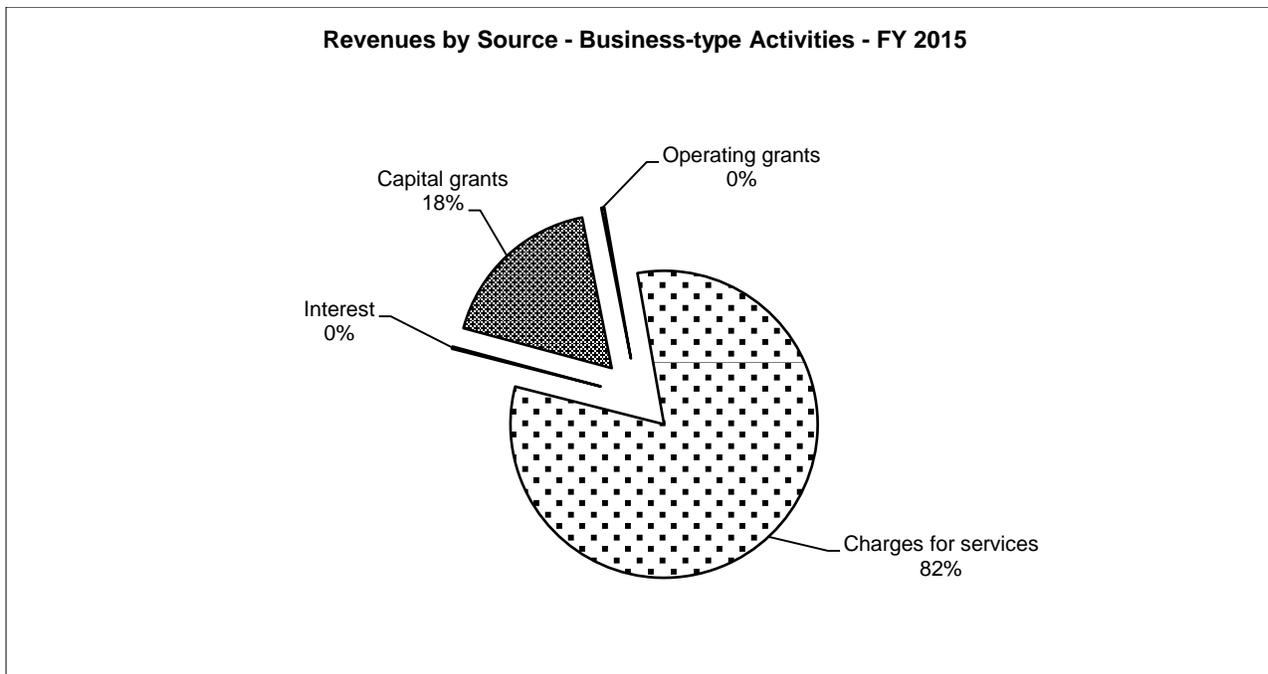
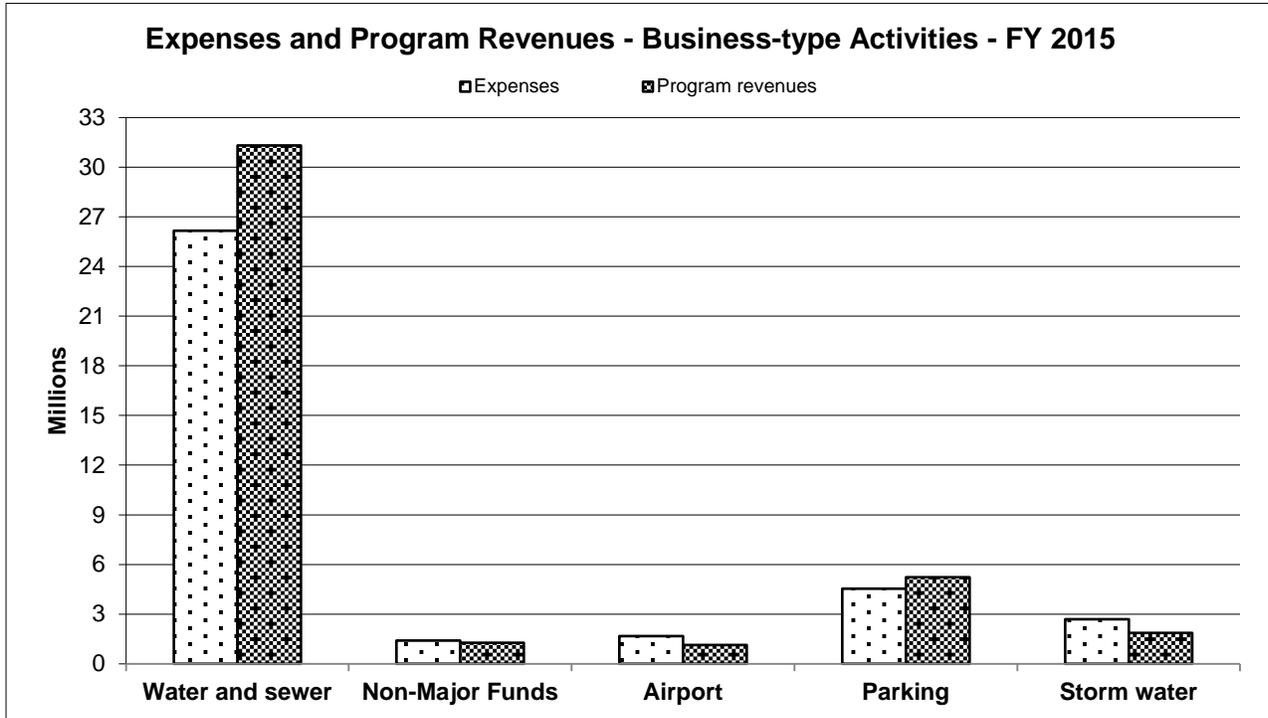
Capital grants and contributions decreased by \$3,539,168, of which \$3,937,688 was attributable to the airport while an increase of \$549,115 was attributable to water and sewer facilities.

Charges for services had a modest increase of \$142,398 and operating grants had a small decrease of \$37,234.

Total expenses increased by \$1,558,039 in fiscal year 2015, an increase of 4.46%. Personnel benefits decreased by approximately \$266,000, and primarily due to decreased pension expense. Supply charges increased approximately \$480,000, and were primarily due to an increase in charges paid to the County for the ready to serve fee as well as actual water purchases made through the Potomac River Water Service Agreement of approximately \$350,000 as well as an increase in general supplies of \$230,000. Due to some needed maintenance on the City's water lines, repairs and maintenance expense increased by approximately \$1,200,000.

As in the governmental activities, department heads within the business-type activities were asked to be as frugal as possible in managing their departments.

Business-type activities transferred \$3,876,043 into governmental activities in FY 2015 and received transfers of \$76,129 from governmental activities for a net amount of \$3,799,914. \$2,425,000 of the transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The remaining \$1,451,043 was for support of five street capital improvement projects. The transfer received from the general fund is for debt service and operational support for the airport.



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2015, the City's governmental funds reported combined ending fund balances of \$41,021,118, a decrease of \$3,668,912 over the prior fiscal year.

Revenues increased by approximately \$8,172,323 over the previous fiscal year.

Taxes increased by \$3,088,713. A significant portion of this increase is due to the recognition of the abatement of personal property taxes in the prior year of approximately \$1,529,000. Additionally, real estate taxes increased approximately \$1,440,000 due to an increase in assessments and modest new construction activity. The City's share of income tax revenue increased by approximately \$363,000.

Licenses and permits had an increase of \$270,278.

Intergovernmental revenues increased by \$6,951,607. \$5,618,218 is related to grants associated with capital improvement projects. Grants to support services provided by the Community Action Agency increased by \$1,148,680. Grant revenue that supports police activities decreased by approximately \$229,000. Community Development Block Grant revenue increased by \$380,234 in fiscal year 2015.

Fines and forfeitures decreased by approximately \$86,000 which gives an indication that the City's programs are encouraging greater conformance with traffic laws.

Miscellaneous revenues decreased by \$2,002,705 with a large part of the change due to the Moderately Priced Dwelling Unit In Lieu of Fee that had its first collections during the previous fiscal year. Developers are required to provide a certain amount of moderately priced housing units or pay a fee in lieu of to aid the City in providing moderately priced housing for low to moderate income families. \$756,700 less was generated through this fee in fiscal year 2015. Additionally, \$1,079,000 less was generated by developer contributions to capital improvement projects than the previous fiscal year.

Expenditures increased by \$8,950,238, or 11.27% over the preceding year. Spending for capital projects increased by \$8,811,363 in the current fiscal year, while other operating costs increased by a very modest \$124,019 and debt service expenditures increased by \$14,856. Salaries were approximately \$713,000 greater than the previous fiscal year as employees were eligible for a merit increase of up to 4%. Expenditures for retirement contributions decreased approximately \$418,000. Expenditures for health care, including a contribution to the OPEB Trust fund, increased by approximately \$535,000. Supply costs decreased which included a reduction of approximately \$320,000 in energy costs. Other services and charges increased by nearly \$1,000,000 and was a result of a full year experience of costs associated with the home energy assistance program (\$610,000), an increase in donations (176,000) and an increase in professional services (\$134,000).

Of the ending fund balance, \$29,408,549 is classified as either non-spendable (inventory, prepaid items or loans – items that are not in a spendable form), restricted (external restrictions as to usage), committed (usage restricted by action of the Mayor and Board of Aldermen) or assigned (usage is constrained by the City's intent to be used for specific purposes) to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$11,612,570, while total fund balance was \$21,311,969. \$6,370,411 of the fund balance is non-spendable, \$194,473 has external restrictions as to usage, \$330,019 has restrictions placed upon it by

the Mayor and Board of Aldermen and \$2,804,496 is classified as assigned. The City has a policy of maintaining an unassigned general fund balance equal to 12% of general fund revenues, not including the use of fund balance, as a “rainy day” reserve to provide for adequate working capital and to provide funds to meet unforeseen emergencies. The rainy day reserve as of June 30, 2015 should be \$8,896,038 \$11,612,570 of unassigned fund balance is available to serve as the rainy reserve, leaving an excess unassigned fund balance of \$2,716,532.

As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures, including transfers to other funds. Unassigned fund balance represents 16.22 percent of total general fund expenditures, while total fund balance represents 29.26 percent of that same amount.

The fund balance for the City’s general fund increased by \$1,401,180 during the current fiscal year. Revenues increased by \$3,713,210, or 5.47 percent. Expenditures decreased by \$240,300 or 0.33 percent. Total other financing sources and uses increased by \$1,953,372.

The general capital improvements project fund has a total fund balance of \$15,530,879, all of which will be used for general capital improvements within the City. This is a decrease of \$5,449,640 over the prior year fund balance. Expenditures for fiscal year 2015 exceeded revenues by \$7,524,207. Transfers into the CIP fund amounted to \$2,138,415 in the current year. Transfers out of the CIP fund totaled \$63,848.

Non-major governmental funds have a \$4,178,271 fund balance at the end of the fiscal year of which \$2,303,997 is non-spendable, \$633,853 is restricted and the balance of \$1,240,421 is assigned. This is an increase over the previous year of \$379,549.

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 in total did not change in fiscal year 2015. However, there were transfers between departments and is summarized as follows:

Decrease in general government	\$ (100,649)
Decrease in public safety	(5,783)
Increase in public works	245,452
Decrease in recreation/parks	(52,020)
Decrease in contingency fund	<u>(87,000)</u>
Total change in budget	<u>\$ -</u>

During the year actual revenues exceeded the amended budget by \$249,305. Taxes were \$684,287 greater than estimated with property taxes being \$332,333 greater than expected and income taxes being \$402,833 more than budgeted. Licenses and permits exceeded budgeted amounts by \$330,146. Intergovernmental revenues were \$13,493 less than budgeted. Fines and forfeitures were \$288,337 less than budgeted and miscellaneous revenues were \$113,922 less than budgeted.

Expenditures were less than the final budgetary estimates by \$3,634,060 or 4.8%. Of this remaining amount, \$1,406,229 was encumbered at year end. Departments were aware of the economic challenges facing the City during the fiscal year and were strongly encouraged to avoid unnecessary expenditures. We believe these efforts enabled the City to avoid or delay additional expenditures in the current year.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2015, amounts to \$431,745,219 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, equipment and construction in progress. The City's total net investment in capital assets for the current fiscal year increased by \$13,398. Net capital assets for governmental activities increased by 5.94 percent and decreased by 1.93 percent for business type activities.

Major capital asset events during the current fiscal year include:

- 1) Developer provided improvements of streets, curbs, sidewalks, street lights, water lines, sewer lines and storm drains totaled approximately \$704,000.
- 2) Expenditures for the water and sewer improvements for FY 2015 totaled \$10,980,961.
- 3) Construction in progress of approximately \$13,000,000.
- 4) General governmental machinery and equipment acquisitions, \$1,272,177.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 47,932,144	\$ 41,039,785	\$ 88,971,929
Buildings	8,236,711	49,073,554	57,310,265
Other improvements	16,016,030	183,311,539	199,327,569
Infrastructure	39,180,825	-	39,180,825
Machinery and equipment	4,577,897	2,832,539	7,410,436
Construction in progress	<u>15,999,117</u>	<u>23,545,078</u>	<u>39,544,195</u>
Total	<u>\$ 131,942,724</u>	<u>\$ 299,802,495</u>	<u>\$ 431,745,219</u>

Additional information on the City's capital assets can be found in note 4 on pages 47 - 48 of this report.

Long-term debt. At the end of the current fiscal year, the City had total gross debt outstanding of \$205,350,712, including outstanding debt premium. Of this amount, \$203,999,146 carried the full faith, credit and taxing power of the City. The remaining \$1,351,566 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties will be assessed as an additional fee to cover any shortfall.

The City of Frederick's Outstanding Long-term Obligations

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation debt	\$ 58,138,000	\$ 137,637,877	\$ 203,949,134
Tax increment financing debt	1,351,566	-	1,462,807
Premiums	2,292,201	5,931,068	9,222,116
Net OPEB obligation	20,819,253	4,871,481	23,810,504
Net pension liability	76,610,379	15,687,584	92,297,963
Compensated absences	<u>2,800,645</u>	<u>405,580</u>	<u>3,114,917</u>
Total	<u>\$ 162,012,044</u>	<u>\$ 164,533,590</u>	<u>\$ 326,545,634</u>

The City carries a "Aa1" rating from Moody's, a "AA" rating from Standard & Poor's and a "AA+" rating from Fitch.

The City has established the debt limit as three 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 \$202,389,716 and the legal debt margin of the City is \$106,341,490.

Additional information on the City's long-term debt can be found in note 6 on pages 50 - 52 of this report.

Economic Factors and Next Year's Budgets and Rates

When preparing the City's budget for the 2016 fiscal year, there were many economic factors and trends taken into consideration. Those considerations included: inflationary trends in the City and surrounding areas, and the unemployment rate for the City and surrounding areas and changes in the assessable tax base. The estimated unemployment rate for the City for June 2015 was 5.2 percent, which is a 0.6 percent decrease from June 2014. The estimated rate for June 2015 for the county was 5.0 percent, the state was 5.2 percent and the nation was 5.5 percent.

The fiscal year 2016 budget calls for maintaining the same level of key services. The City was able to maintain the tax rate of \$.7305 in preparing the FY 2016 budget.

Real property taxes are based on assessments that are supplied by the State Department of Assessments and Taxation and are updated every three years. The City was reassessed for fiscal year 2015. Based on figures supplied by the state, it is estimated that the City will receive approximately \$1,950,000 more in real estate taxes in fiscal year 2016 compared to fiscal year 2015 actuals.

The general fund unassigned fund balance at June 30, 2015 was \$11,612.570.

Requests for information

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

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 665,494	\$ 48,570	\$ 714,064
Investments	408,784	-	408,784
Equity in pooled cash/investments	25,481,374	50,305,873	75,787,247
Receivables (net of allowance of uncollectibles)	6,843,065	4,574,796	11,417,861
Inventories	669,206	481,327	1,150,533
Prepays	564,921	135,696	700,617
Internal balances	5,040,557	(5,040,557)	-
Temporarily restricted assets:			
Cash and cash equivalents	10,589,190	573,960	11,163,150
Capital assets (net of accumulated depreciation):			
Land	47,932,144	41,039,785	88,971,929
Buildings and systems	8,236,711	49,073,554	57,310,265
Improvements other than buildings	16,016,030	183,311,539	199,327,569
Infrastructure	39,180,825	-	39,180,825
Machinery and equipment	4,577,897	2,832,539	7,410,436
Construction in progress	15,999,117	23,545,078	39,544,195
Total assets	<u>182,205,315</u>	<u>350,882,160</u>	<u>533,087,475</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	179,854	2,235,726	2,415,580
Deferred outflows for pension	5,941,095	664,754	6,605,849
Total deferred outflows of resources	<u>6,120,949</u>	<u>2,900,480</u>	<u>9,021,429</u>
LIABILITIES			
Accounts payable and other current liabilities	3,519,585	3,057,792	6,577,377
Accrued liabilities	3,316,017	1,959,232	5,275,249
Deposits	1,567,551	114,413	1,681,964
Unearned revenue	640,591	198,957	839,548
Noncurrent liabilities:			
Due within one year	6,766,366	8,458,975	15,225,341
Due in more than one year	78,635,299	140,387,030	219,022,329
Net pension liability	76,610,379	15,687,584	92,297,963
Total liabilities	<u>171,055,788</u>	<u>169,863,983</u>	<u>340,919,771</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows for pension	<u>502,350</u>	<u>201,552</u>	<u>703,902</u>
NET POSITION			
Net investment in capital assets	78,236,657	159,039,826	237,276,483
Restricted for:			
Water/sewer improvements	-	10,426,874	10,426,874
Parks improvements	10,398,843	-	10,398,843
Weinberg Center	612,441	-	612,441
Debt service	190,348	3,411	193,759
Other	25,538	-	25,538
Unrestricted/(deficit)	(72,695,701)	14,246,994	(58,448,707)
Total net position	<u>\$ 16,768,126</u>	<u>\$ 183,717,105</u>	<u>\$ 200,485,231</u>

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

The City of Frederick, Maryland
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities:							
General government	\$ 10,653,257	\$ 579,356	\$ 5,237	\$ -	\$ (10,068,664)	\$ -	\$ (10,068,664)
Public safety	30,820,848	3,033,180	1,507,709	492	(26,279,467)	-	(26,279,467)
Public works	18,812,241	324,695	1,612,806	936,754	(15,937,986)	-	(15,937,986)
Recreation and parks	10,427,738	2,899,507	122,560	6,499,219	(906,452)	-	(906,452)
Community development	1,245,583	600	599,736	-	(645,247)	-	(645,247)
Economic opportunity	4,692,600	69	3,348,083	39,399	(1,305,049)	-	(1,305,049)
Interest and long-term debt	2,649,905	-	-	-	(2,649,905)	-	(2,649,905)
Total governmental activities	<u>79,302,172</u>	<u>6,837,407</u>	<u>7,196,131</u>	<u>7,475,864</u>	<u>(57,792,770)</u>	<u>-</u>	<u>(57,792,770)</u>
Business-type activities:							
Rental operations	97,600	10,167	25,120	-	-	(62,313)	(62,313)
Water and sewer	26,155,942	24,406,817	-	6,898,094	-	5,148,969	5,148,969
Golf course	1,311,234	1,223,105	-	-	-	(88,129)	(88,129)
Airport	1,680,551	964,476	-	165,415	-	(550,660)	(550,660)
Parking	4,530,502	5,115,880	100,631	-	-	686,009	686,009
Storm water	2,684,726	1,684,140	-	180,365	-	(820,221)	(820,221)
Total business-type activities	<u>36,460,555</u>	<u>33,404,585</u>	<u>125,751</u>	<u>7,243,874</u>	<u>-</u>	<u>4,313,655</u>	<u>4,313,655</u>
Total primary government	<u>\$ 115,762,727</u>	<u>\$ 40,241,992</u>	<u>\$ 7,321,882</u>	<u>\$ 14,719,738</u>	<u>(57,792,770)</u>	<u>4,313,655</u>	<u>(53,479,115)</u>
General revenues:							
Property taxes					51,078,544	-	51,078,544
Income taxes					7,373,159	-	7,373,159
Other taxes					309,426	-	309,426
Grants/contributions not restricted to specific programs					1,312,499	-	1,312,499
Interest earnings					73,588	96,252	169,840
Miscellaneous revenues					269,072	-	269,072
Transfers					3,799,914	(3,799,914)	-
Total general revenues and transfers					<u>64,216,202</u>	<u>(3,703,662)</u>	<u>60,512,540</u>
Change in net position					6,423,432	609,993	7,033,425
Net position - beginning, (as restated Note 7)					10,344,694	183,107,112	193,451,806
Net position - ending					<u>\$ 16,768,126</u>	<u>\$ 183,717,105</u>	<u>\$ 200,485,231</u>

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

The City of Frederick, Maryland
Balance Sheet
Governmental Funds
June 30, 2015

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,675	\$ -	\$ 661,819	\$ 665,494
Investments	129,404	-	279,380	408,784
Equity in pooled cash/investments	19,038,618	5,488,169	954,587	25,481,374
Receivables (net of allowance for uncollectibles)	1,011,590	-	2,302,747	3,314,337
Inventories	669,206	-	-	669,206
Prepaid items	563,671	-	1,250	564,921
Advances to other funds	5,040,557	-	-	5,040,557
Cash - restricted	190,347	10,398,843	-	10,589,190
Intergovernmental receivable	874,176	2,605,173	49,379	3,528,728
Total assets	<u>\$ 27,521,244</u>	<u>\$ 18,492,185</u>	<u>\$ 4,249,162</u>	<u>\$ 50,262,591</u>
LIABILITIES				
Accounts payable	\$ 837,120	\$ 2,646,869	\$ 35,596	\$ 3,519,585
Accrued liabilities	2,472,042	1,077	20,099	2,493,218
Deposits	1,560,269	221	7,061	1,567,551
Unearned revenue	632,456	-	8,135	640,591
Total liabilities	<u>5,501,887</u>	<u>2,648,167</u>	<u>70,891</u>	<u>8,220,945</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	323,949	-	-	323,949
Unavailable revenue - grants/other revenues	383,439	313,139	-	696,578
Total deferred inflows of resources	<u>707,388</u>	<u>313,139</u>	<u>-</u>	<u>1,020,527</u>
FUND BALANCES				
Nonspendable	6,370,411	-	2,303,997	8,674,408
Restricted	194,473	10,398,843	633,853	11,227,169
Committed	330,019	-	-	330,019
Assigned	2,804,496	5,132,036	1,240,421	9,176,953
Unassigned	11,612,570	-	-	11,612,570
Total fund balances	<u>21,311,969</u>	<u>15,530,879</u>	<u>4,178,271</u>	<u>41,021,118</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 27,521,244</u>	<u>\$ 18,492,185</u>	<u>\$ 4,249,162</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the governmental funds.	131,942,724
Earned but unavailable revenue is not recorded in the governmental funds.	1,020,527
Accrued interest payable is not recorded in the governmental funds.	(822,798)
Net pension liability is not included in the governmental funds.	(76,610,379)
Deferred outflows for pensions is not included in the governmental funds.	5,941,095
Deferred inflows for pensions is not included in the governmental funds.	(502,350)
Long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the governmental funds.	(85,401,665)
Refunding charge is not included in the governmental funds	179,854
Net position of governmental activities	<u>\$ 16,768,126</u>

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

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 50,929,610	\$ -	\$ -	\$ 50,929,610
Payment in lieu of taxes	1,476	-	-	1,476
BRAC zone payments	20,639	-	-	20,639
Income taxes	7,373,159	-	-	7,373,159
Business taxes	272,614	-	-	272,614
Gross receipts taxes	36,812	-	-	36,812
Discount allowance	(341,795)	-	-	(341,795)
Penalties/interest on delinquent taxes	409,600	-	-	409,600
Licenses and permits	2,814,748	-	-	2,814,748
Intergovernmental	6,489,434	6,102,490	711,030	13,302,954
Charges for services	1,550,725	-	1,093,537	2,644,262
Fines and forfeitures	1,008,463	-	78,644	1,087,107
Miscellaneous	986,293	555,811	739,060	2,281,164
Total revenues	<u>71,551,778</u>	<u>6,658,301</u>	<u>2,622,271</u>	<u>80,832,350</u>
EXPENDITURES				
Current:				
General government	9,956,282	-	-	9,956,282
Public safety	30,043,497	-	68,187	30,111,684
Public works	13,722,434	-	-	13,722,434
Recreation and parks	5,157,442	-	1,782,936	6,940,378
Community development	788,212	-	425,176	1,213,388
Economic opportunity	4,420,686	-	-	4,420,686
Debt service:				
Principal	5,084,241	-	-	5,084,241
Interest	2,694,300	-	-	2,694,300
Other fees	8,296	-	-	8,296
Capital projects	-	14,182,508	-	14,182,508
Total expenditures	<u>71,875,390</u>	<u>14,182,508</u>	<u>2,276,299</u>	<u>88,334,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(323,612)</u>	<u>(7,524,207)</u>	<u>345,972</u>	<u>(7,501,848)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,548,848	2,138,415	93,577	4,780,840
Transfers out	(857,078)	(63,848)	(60,000)	(980,926)
Insurance reimbursements	23,662	-	-	23,662
Capital asset disposition	9,360	-	-	9,360
Total other financing sources (uses)	<u>1,724,792</u>	<u>2,074,567</u>	<u>33,577</u>	<u>3,832,936</u>
Net change in fund balances	<u>1,401,180</u>	<u>(5,449,640)</u>	<u>379,549</u>	<u>(3,668,912)</u>
Fund balances - beginning	19,910,789	20,980,519	3,798,722	44,690,030
Fund balances - ending	<u>\$ 21,311,969</u>	<u>\$ 15,530,879</u>	<u>\$ 4,178,271</u>	<u>\$ 41,021,118</u>

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

The City of Frederick, Maryland
 Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of
 Governmental Funds To the Statement of Activities
 For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$ (3,668,912)
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.	6,975,628
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net position.	(1,025,938)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,351,605
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,481,152)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	272,201
Change in net position of governmental activities	<u>\$ 6,423,432</u>

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

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 50,597,277	\$ 50,597,277	\$ 50,929,610	\$ 332,333
Payment in lieu of taxes	1,275	1,275	1,476	201
BRAC zone payments	-	-	20,639	20,639
Income taxes	6,970,276	6,970,276	7,373,159	402,883
Business taxes	400,000	400,000	272,614	(127,386)
Gross receipts taxes	24,000	24,000	36,812	12,812
Discount allowance	(330,000)	(330,000)	(341,795)	(11,795)
Penalties/interest on delinquent taxes	355,000	355,000	409,600	54,600
Licenses and permits	2,484,602	2,484,602	2,814,748	330,146
Intergovernmental	6,502,927	6,502,927	6,489,434	(13,493)
Charges for services	1,900,101	1,900,101	1,550,725	(349,376)
Fines and forfeitures	1,296,800	1,296,800	1,008,463	(288,337)
Miscellaneous	1,100,215	1,100,215	986,293	(113,922)
Total revenues	<u>71,302,473</u>	<u>71,302,473</u>	<u>71,551,778</u>	<u>249,305</u>
EXPENDITURES				
Current:				
General government:				
Executive and legislative	895,353	917,353	904,959	12,394
Legal services	768,274	768,274	703,768	64,506
Registration and election	3,542	3,542	31	3,511
Finance and accounting	1,441,662	1,288,562	1,088,285	200,277
Purchasing	659,079	699,079	674,604	24,475
Budgeting	205,468	205,468	206,317	(849)
Information technology	1,091,822	1,091,822	918,428	173,394
Geographic information system	284,834	284,834	238,562	46,272
Audio visual	216,685	216,685	216,847	(162)
Human resources	869,609	869,609	755,204	114,405
Safety	273,511	273,511	250,425	23,086
Planning and zoning	1,406,275	1,406,275	1,333,719	72,556
Code enforcement	693,269	693,269	665,378	27,891
Facilities maintenance	955,826	946,277	902,348	43,929
Asset management	602,313	602,313	428,260	174,053
Municipal Annex	395,929	395,929	385,954	9,975
Community promotion	80,885	80,885	74,321	6,564
Special events	217,309	217,309	208,872	8,437
Total general government	<u>11,061,645</u>	<u>10,960,996</u>	<u>9,956,282</u>	<u>1,004,714</u>
Public safety:				
Police department	28,244,200	28,244,200	27,684,513	559,687
Fire and rescue services	288,456	288,456	286,191	2,265
Building inspection	1,254,982	1,253,527	1,211,862	41,665
Electrical inspection	338,876	338,876	308,966	29,910
Construction inspection	567,843	563,515	551,965	11,550
Total public safety	<u>30,694,357</u>	<u>30,688,574</u>	<u>30,043,497</u>	<u>645,077</u>
Public works:				
General administration	1,462,161	1,461,171	1,313,406	147,765
Machinery & equipment maintenance	1,091,187	1,079,012	982,118	96,894
Engineering	1,460,002	1,460,002	1,387,787	72,215
Waste collection and disposal	3,708,131	3,708,131	3,607,681	100,450
Streets, roadways and alleys	2,828,401	2,735,980	2,558,655	177,325
Snow removal	344,187	717,206	689,315	27,891
Street lighting	2,749,620	2,736,081	2,500,093	235,988
Traffic lines	779,460	771,018	670,832	100,186
Bus service	12,547	12,547	12,547	-
Total public works	<u>14,435,696</u>	<u>14,681,148</u>	<u>13,722,434</u>	<u>958,714</u>

(continued)

The City of Frederick, Maryland
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual (continued)
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Recreation and parks:				
Municipal parks	3,744,148	3,692,128	3,275,887	416,241
Harry Grove stadium	232,060	232,060	194,076	37,984
Recreation centers	1,458,155	1,458,155	1,333,518	124,637
Burck Street Center	23,200	23,200	10,064	13,136
Recreation commission	115,614	115,614	89,806	25,808
Swimming pools	265,809	265,809	254,091	11,718
Total recreation and parks	<u>5,838,986</u>	<u>5,786,966</u>	<u>5,157,442</u>	<u>629,524</u>
Community development:				
Community development	70,291	70,291	67,380	2,911
Economic development	881,529	881,529	720,832	160,697
Total community development	<u>951,820</u>	<u>951,820</u>	<u>788,212</u>	<u>163,608</u>
Economic opportunity:				
Community Action Agency	4,627,824	4,627,824	4,420,686	207,138
Total economic opportunity	<u>4,627,824</u>	<u>4,627,824</u>	<u>4,420,686</u>	<u>207,138</u>
Miscellaneous	<u>100,000</u>	<u>13,000</u>	<u>-</u>	<u>13,000</u>
Debt service:				
Principal	5,084,242	5,084,242	5,084,241	1
Interest	2,698,010	2,698,010	2,694,300	3,710
Other fees	16,870	16,870	8,296	8,574
Total debt service	<u>7,799,122</u>	<u>7,799,122</u>	<u>7,786,837</u>	<u>12,285</u>
Total expenditures	<u>75,509,450</u>	<u>75,509,450</u>	<u>71,875,390</u>	<u>3,634,060</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,206,977)</u>	<u>(4,206,977)</u>	<u>(323,612)</u>	<u>3,883,365</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,510,000	2,510,000	2,548,848	38,848
Transfers out	(892,000)	(892,000)	(857,078)	34,922
Insurance reimbursements	5,000	5,000	23,662	18,662
Capital asset disposition	3,500	3,500	9,360	5,860
Total other financing sources (uses)	<u>1,626,500</u>	<u>1,626,500</u>	<u>1,724,792</u>	<u>98,292</u>
Net change in fund balances	<u>(2,580,477)</u>	<u>(2,580,477)</u>	<u>1,401,180</u>	<u>3,981,657</u>
Fund balance - beginning	<u>11,438,994</u>	<u>11,438,994</u>	<u>19,910,789</u>	<u>8,471,795</u>
Fund balance - ending	<u>\$ 8,858,517</u>	<u>\$ 8,858,517</u>	<u>\$ 21,311,969</u>	<u>\$ 12,453,452</u>

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

The City of Frederick, Maryland
Statement of Net Position
Proprietary Funds
June 30, 2015

	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	\$ -	\$ 5,710	\$ 48,570
Equity in pooled cash/investments	37,225,520	2,570,775	5,347,252	5,128,415	33,911	50,305,873
Receivables (net of allowance of uncollectibles)	4,055,163	43,314	36,084	253,799	7	4,388,367
Inventories	392,480	-	-	-	88,847	481,327
Prepays	131,540	2,500	-	156	1,500	135,696
Total current assets	<u>41,804,703</u>	<u>2,616,589</u>	<u>5,426,196</u>	<u>5,382,370</u>	<u>129,975</u>	<u>55,359,833</u>
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	426,584	-	147,376	-	-	573,960
Long term receivables	186,429	-	-	-	-	186,429
Capital assets:						
Land	4,012,280	33,542,866	3,443,239	10,750	30,650	41,039,785
Buildings and systems	30,308,274	12,798,815	43,962,447	-	180,795	87,250,331
Improvements other than buildings	181,443,095	7,260,922	242,107	61,325,048	5,565,390	255,836,562
Machinery and equipment	7,099,976	1,291,931	1,980,568	1,318,577	943,236	12,634,288
Construction in progress	20,438,865	2,261,341	839,913	4,959	-	23,545,078
Less accumulated depreciation	(68,370,538)	(9,624,818)	(18,960,760)	(20,040,242)	(3,507,191)	(120,503,549)
Total noncurrent assets	<u>175,544,965</u>	<u>47,531,057</u>	<u>31,654,890</u>	<u>42,619,092</u>	<u>3,212,880</u>	<u>300,562,884</u>
Total assets	<u>217,349,668</u>	<u>50,147,646</u>	<u>37,081,086</u>	<u>48,001,462</u>	<u>3,342,855</u>	<u>355,922,717</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refunding	1,760,727	26,574	448,425	-	-	2,235,726
Deferred charge on pension	528,524	13,533	42,372	38,407	41,918	664,754
Total deferred outflows of resources	<u>2,289,251</u>	<u>40,107</u>	<u>490,797</u>	<u>38,407</u>	<u>41,918</u>	<u>2,900,480</u>
LIABILITIES						
Current liabilities:						
Accounts payable	2,918,771	19,284	68,046	3,143	48,548	3,057,792
Accrued liabilities	1,427,605	90,279	372,082	32,146	37,120	1,959,232
Deposits	33,009	81,113	-	-	291	114,413
Unearned revenue	65,602	19,757	52,803	-	60,795	198,957
Advances from other funds	-	-	-	-	5,040,557	5,040,557
Compensated absences	313,639	11,269	27,290	33,831	18,650	404,679
Bonds, notes, and loans payable	5,589,388	967,381	1,399,927	51,405	46,195	8,054,296
Total current liabilities	<u>10,348,014</u>	<u>1,189,083</u>	<u>1,920,148</u>	<u>120,525</u>	<u>5,252,156</u>	<u>18,829,926</u>
Noncurrent liabilities:						
Net pension liability	12,808,271	387,512	971,653	931,923	588,225	15,687,584
OPEB liabilities	3,604,739	135,110	274,254	384,529	472,849	4,871,481
Compensated absences	901	-	-	-	-	901
Bonds, notes, and loans payable	103,713,098	11,051,907	19,103,436	881,863	764,344	135,514,648
Total noncurrent liabilities	<u>120,127,009</u>	<u>11,574,529</u>	<u>20,349,343</u>	<u>2,198,315</u>	<u>1,825,418</u>	<u>156,074,614</u>
Total liabilities	<u>130,475,023</u>	<u>12,763,612</u>	<u>22,269,491</u>	<u>2,318,840</u>	<u>7,077,574</u>	<u>174,904,540</u>
DEFERRED INFLOWS OF RESOURCES:						
Pension deferrals	172,153	2,924	8,225	12,236	6,014	201,552
NET POSITION						
Net investment in capital assets	67,816,676	35,538,343	11,596,642	41,685,824	2,402,341	159,039,826
Restricted for:						
Other improvements	10,426,874	-	-	-	-	10,426,874
Debt service	101	-	3,310	-	-	3,411
Unrestricted/(deficit)	10,748,092	1,882,874	3,694,215	4,022,969	(6,101,156)	14,246,994
Total net position	<u>\$ 88,991,743</u>	<u>\$ 37,421,217</u>	<u>\$ 15,294,167</u>	<u>\$ 45,708,793</u>	<u>\$ (3,698,815)</u>	<u>\$ 183,717,105</u>

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

The City of Frederick, Maryland
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Operating revenues:						
Charges for services:						
Water and sewer charges	\$ 22,982,677	\$ -	\$ -	\$ -	\$ -	\$ 22,982,677
Golf course fees	-	-	-	-	1,194,873	1,194,873
Airport fees	-	939,444	-	-	-	939,444
Parking fees	-	-	3,805,649	-	-	3,805,649
Stormwater management fees	-	-	-	1,682,396	-	1,682,396
Licenses and permits	284,691	-	147,252	-	-	431,943
Fines and forfeitures	136,925	-	673,826	-	-	810,751
Miscellaneous	264,638	22,651	365,670	339	37,204	690,502
Total operating revenues	<u>23,668,931</u>	<u>962,095</u>	<u>4,992,397</u>	<u>1,682,735</u>	<u>1,232,077</u>	<u>32,538,235</u>
Operating expenses:						
Finance	304,094	-	-	-	-	304,094
Plumbing inspection	323,732	-	-	-	-	323,732
Water service	4,421,126	-	-	-	-	4,421,126
Water chemicals	386,855	-	-	-	-	386,855
Water treatment	5,380,362	-	-	-	-	5,380,362
Sewage collection/disposal	3,263,747	-	-	-	-	3,263,747
Sewage maintenance/house connections	750,763	-	-	-	-	750,763
Inflow and infiltration	307,876	-	-	-	-	307,876
Plant maintenance	1,200,608	-	-	-	-	1,200,608
Public housing	-	-	-	-	82,390	82,390
Golf course maintenance	-	-	-	-	562,469	562,469
Golf course clubhouse	-	-	-	-	481,207	481,207
Golf course restaurant	-	-	-	-	56,843	56,843
Airport	-	543,873	-	-	-	543,873
Parking facilities	-	-	1,978,175	-	-	1,978,175
Stormwater management activities	-	-	-	971,314	-	971,314
Depreciation	5,875,939	853,214	1,470,058	1,671,023	189,082	10,059,316
Total operating expenses	<u>22,215,102</u>	<u>1,397,087</u>	<u>3,448,233</u>	<u>2,642,337</u>	<u>1,371,991</u>	<u>31,074,750</u>
Operating income/(loss)	<u>1,453,829</u>	<u>(434,992)</u>	<u>1,544,164</u>	<u>(959,602)</u>	<u>(139,914)</u>	<u>1,463,485</u>
Nonoperating revenues/(expenses)						
Intergovernmental	-	-	100,631	-	25,120	125,751
Interest income	70,460	5,132	9,897	10,636	127	96,252
Gain on disposal of capital assets	5,260	-	-	-	-	5,260
Loss on disposal of capital assets	(4,588)	-	-	-	-	(4,588)
Other nonoperating revenues	161,748	-	-	-	-	161,748
Debt premium amortization	575,466	2,381	123,483	1,405	1,195	703,930
Interest expense	(3,679,857)	(282,739)	(1,036,401)	(42,381)	(36,835)	(5,078,213)
Other nonoperating expenses	(260,983)	(725)	(45,868)	(8)	(8)	(307,592)
Total nonoperating revenue/(expenses)	<u>(3,132,494)</u>	<u>(275,951)</u>	<u>(848,258)</u>	<u>(30,348)</u>	<u>(10,401)</u>	<u>(4,297,452)</u>
Income/(loss) before contributions and transfers	<u>(1,678,665)</u>	<u>(710,943)</u>	<u>695,906</u>	<u>(989,950)</u>	<u>(150,315)</u>	<u>(2,833,967)</u>
Capital contributions	6,898,094	165,415	-	180,365	-	7,243,874
Transfers in	-	76,129	-	-	-	76,129
Transfers out	(3,601,043)	-	(195,000)	(80,000)	-	(3,876,043)
Change in net position	<u>1,618,386</u>	<u>(469,399)</u>	<u>500,906</u>	<u>(889,585)</u>	<u>(150,315)</u>	<u>609,993</u>
Total net position - beginning, (as restated Note 7)	<u>87,373,357</u>	<u>37,890,616</u>	<u>14,793,261</u>	<u>46,598,378</u>	<u>(3,548,500)</u>	<u>183,107,112</u>
Total net position - ending	<u>\$ 88,991,743</u>	<u>\$ 37,421,217</u>	<u>\$ 15,294,167</u>	<u>\$ 45,708,793</u>	<u>\$ (3,698,815)</u>	<u>\$ 183,717,105</u>

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

The City of Frederick, Maryland
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Cash flows from operating activities:						
Receipts from customers and users	\$ 22,946,007	\$ 989,375	\$ 5,001,986	\$ 1,718,841	\$ 1,239,119	\$ 31,895,328
Receipts from other sources	1,232,148	-	100,631	-	-	1,332,779
Payments to vendors	(12,168,352)	(330,732)	(1,227,541)	(562,270)	(739,643)	(15,028,538)
Payments to employees	(4,023,769)	(192,350)	(676,003)	(387,136)	(474,083)	(5,753,341)
Net cash provided (used) by operating activities	<u>7,986,034</u>	<u>466,293</u>	<u>3,199,073</u>	<u>769,435</u>	<u>25,393</u>	<u>12,446,228</u>
Cash flows from noncapital financing activities:						
Transfers out	(3,601,043)	-	(195,000)	(80,000)	-	(3,876,043)
Transfers in	-	76,129	-	-	-	76,129
Operating subsidy	-	-	-	-	25,120	25,120
Due to other funds	-	-	-	-	16,746	16,746
Net cash provided (used) by noncapital financing activities	<u>(3,601,043)</u>	<u>76,129</u>	<u>(195,000)</u>	<u>(80,000)</u>	<u>41,866</u>	<u>(3,758,048)</u>
Cash flows from capital and related financing activities:						
Capital contributions	7,131,819	186,872	-	180,365	-	7,499,056
Capital asset acquisitions	(2,375,458)	(211,794)	-	(554,375)	(31,070)	(3,172,697)
Proceeds sale of capital assets	5,673	-	-	-	-	5,673
Principal payments	(4,925,889)	(960,000)	(1,297,000)	(45,000)	(40,000)	(7,267,889)
Interest payments	(3,728,125)	(283,783)	(1,058,193)	(42,981)	(37,369)	(5,150,451)
Proceeds from insurance reimbursements	-	-	-	-	-	-
Proceeds from debt issue	4,067,632	-	-	-	-	4,067,632
Other debt related costs	(85,573)	(725)	(1,428)	(9)	(7)	(87,742)
Net cash provided (used) by capital and related financing activities	<u>90,079</u>	<u>(1,269,430)</u>	<u>(2,356,621)</u>	<u>(462,000)</u>	<u>(108,446)</u>	<u>(4,106,418)</u>
Cash flows from investing activities:						
Interest earned	70,452	5,136	9,894	10,636	127	96,245
Net cash provided by investing activities	<u>70,452</u>	<u>5,136</u>	<u>9,894</u>	<u>10,636</u>	<u>127</u>	<u>96,245</u>
Net increase (decrease) in cash equivalents	4,545,522	(721,872)	657,346	238,071	(41,060)	4,678,007
Cash equivalents - beginning	33,106,582	3,292,647	4,880,142	4,890,344	80,681	46,250,396
Cash equivalents - ending	<u>\$ 37,652,104</u>	<u>\$ 2,570,775</u>	<u>\$ 5,537,488</u>	<u>\$ 5,128,415</u>	<u>\$ 39,621</u>	<u>\$ 50,928,403</u>

(continued)

The City of Frederick, Maryland
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds					Total
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	
Reconciliation of operating income to net cash provided/(used) by operating activities:						
Operating income/(loss)	\$ 1,453,829	\$ (434,992)	\$ 1,544,164	\$ (959,602)	\$ (139,914)	\$ 1,463,485
Other Cash Receipts that do not result from Transactions defined as Capital and Related Financing, Noncapital Financing or Investing Activities.	180,548	-	100,631	-	-	281,179
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	5,875,939	853,214	1,470,058	1,671,023	189,082	10,059,316
(Increase)/decrease in accounts receivable	339,716	26,810	13,126	36,106	41	415,799
(Increase)/decrease in inventory	(8,556)	-	-	-	17,507	8,951
(Increase)/decrease in prepaids	(31,783)	(2,500)	-	(6)	4,000	(30,289)
(Decrease)/increase in accounts payable	37,731	(7,669)	24,409	(8,980)	(6,712)	38,779
(Decrease)/increase in unearned revenue	(1,039)	3,763	(3,537)	-	7,120	6,307
(Decrease)/increase in deposits	(10,002)	(3,292)	-	-	(119)	(13,413)
(Decrease)/increase in OPEB liability	265,211	11,323	30,929	43,979	69,162	420,604
(Decrease)/increase in net pension liability	(121,644)	17,926	9,754	(24,434)	(95,676)	(214,074)
(Decrease)/increase in wages payable	17,293	(585)	9,501	2,016	(5,184)	23,041
(Decrease)/increase in compensated absences	(11,209)	2,295	38	9,333	(13,914)	(13,457)
Total adjustments	6,351,657	901,285	1,554,278	1,729,037	165,307	10,701,564
Net cash provided (used) by operating activities	\$ 7,986,034	\$ 466,293	\$ 3,199,073	\$ 769,435	\$ 25,393	\$ 12,446,228

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

The City of Frederick, Maryland
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	30-Year Pension Trust Fund	25-Year Pension Trust Fund	22-Year Pension Trust Fund	OPEB Trust Fund
ASSETS:				
Cash and short-term investments	\$ 331,875	\$ 823,272	\$ 1,228,812	\$ 827,341
Receivables				
Accounts receivable - employee	1,205	64,134	80,005	853
Total receivables	<u>1,205</u>	<u>64,134</u>	<u>80,005</u>	<u>853</u>
Investments, at fair value:				
Equities	12,554,885	31,144,557	46,486,257	16,836,860
Fixed income	6,114,055	15,166,967	22,638,163	7,150,466
Total investments	<u>18,668,940</u>	<u>46,311,524</u>	<u>69,124,420</u>	<u>23,987,326</u>
Total assets	<u>19,002,020</u>	<u>47,198,930</u>	<u>70,433,237</u>	<u>24,815,520</u>
LIABILITIES:				
Benefits payable	2,289	32,175	19,021	403,276
Accounts payable	17,473	24,676	31,421	6,542
Total liabilities	<u>19,762</u>	<u>56,851</u>	<u>50,442</u>	<u>409,818</u>
NET POSITION				
Restricted for pension/other benefits	<u>\$ 18,982,258</u>	<u>\$ 47,142,079</u>	<u>\$ 70,382,795</u>	<u>\$ 24,405,702</u>

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

The City of Frederick, Maryland
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	30-Year Pension Trust Fund	25-Year Pension Trust Fund	22-Year Pension Trust Fund	OPEB Trust Fund
ADDITIONS:				
Contributions - employer	\$ 1,644,971	\$ 4,432,497	\$ 4,823,368	\$ 5,884,430
Contributions - employees	16,059	837,770	944,683	93,300
Total Contributions	<u>1,661,030</u>	<u>5,270,267</u>	<u>5,768,051</u>	<u>5,977,730</u>
Investment income:				
Net appreciation/(depreciation)	431,649	1,094,017	1,611,884	579,389
Interest	382,496	967,335	1,416,337	418,178
Less investment expense	<u>(10,166)</u>	<u>(25,761)</u>	<u>(37,734)</u>	<u>(25,694)</u>
Net investment income	803,979	2,035,591	2,990,487	971,873
Total Additions	<u>2,465,009</u>	<u>7,305,858</u>	<u>8,758,538</u>	<u>6,949,603</u>
DEDUCTIONS:				
Pension/OPEB benefits	846,944	4,913,799	3,812,932	2,689,737
Service charges	<u>69,599</u>	<u>152,410</u>	<u>190,255</u>	<u>451,209</u>
Total Deductions	<u>916,543</u>	<u>5,066,209</u>	<u>4,003,187</u>	<u>3,140,946</u>
Change in net position	1,548,466	2,239,649	4,755,351	3,808,657
Net position - beginning	17,433,792	44,902,430	65,627,444	20,597,045
Net position - ending	<u>\$ 18,982,258</u>	<u>\$ 47,142,079</u>	<u>\$ 70,382,795</u>	<u>\$ 24,405,702</u>

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

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

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

Blended Component Unit:

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

Separate financial statements for the Weinberg Center of the Arts component unit are not available.

Fiduciary funds are used to report assets held in a trust or agency capacity for others and which therefore cannot be used to support the City's own programs.

Fiduciary Funds:

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

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

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

Retiree Benefit Trust of The City of Frederick - This plan is for the benefit of current retirees and current active employees that are or may receive other post employee benefits from the City of Frederick under the Retiree Health and Welfare Benefit Plan. The Director of Finance serves as the trustee for the trust.

Separate financial statements for the fiduciary funds are not available.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues 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. Expenditures for pension and OPEB benefits are recognized when payment is made to pension or OPEB plan and adjusted for any amounts normally expected to be liquidated with expendable available financial resources.

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund types:

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

The *OPEB trust fund* accounts for activities of the City's retiree health and welfare benefit plan for qualified employees.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include the City's water and sewer fund charges to other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various other functions.

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

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance

Cash and Investments

Cash balances from all funds are combined and invested to the extent possible in certificates of deposit and other authorized investments and are reflected in the statements of net position and balance sheet as Equity in pooled cash/investments. Earnings from these investments are allocated among the various participating funds based on the average monthly inter-fund balances. Investments are stated at cost plus accrued interest, which approximates fair value, except for investments in the pension and OPEB trust funds, which are reported at fair value.

For purposes of reporting the statement of cash flows, the City includes the following as cash and cash equivalents:

1. Demand deposit accounts which are not subject to withdrawal restriction or penalties.
2. Individual fund amounts due from the City's pooled cash/investment account, which is recorded as Equity in pooled cash/investments in the various individual funds only.
3. Restricted cash and cash equivalents.

Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are classified as nonspendable fund balance in the applicable governmental fund to indicate that they are not available for appropriation and are not expendable available financial resources.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

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 in the governmental fund financial statements. 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 funds and at the lower of cost or market in the proprietary funds. Inventory consists of expendable supplies held for consumption or items for resale. Inventory in the general fund is recorded under the consumption method, as an expenditure when used, and is equally offset within the nonspendable classification of fund balance in the governmental funds 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, 2015, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded under the consumption method and are also offset within the non-spendable classification of fund balance in the governmental funds financial statements.

Restricted assets

Unspent bond proceeds and grant funds received in advance are restricted for use to certain capital improvement projects, and as a result are classified as restricted assets on the statement of net position and 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 statements of net position and balance sheet.

Capital assets

In the government wide financial statements and the proprietary funds financial statements, 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. Infrastructure must cost more than \$100,000 to be capitalized. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

In the governmental fund financial statements, capital outlays are considered expenditures.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

Deferred outflows of resources

In addition to assets, the statement of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category, a deferred charge of refunding and a deferred charge for pension activity reported in the government-wide and proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred charge for pension activity is a result of smoothing differences in actual versus expected experience, projected versus actual investment earnings and changes in assumptions. The amounts for experience and changes in assumptions are recognized over the remaining future working lifetime of all participants in the pension plans and the variance in projected versus actual investment earnings is recognized over a five year period.

Unearned revenue

Governmental funds, along with proprietary funds, also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the governmental funds reported \$640,591 in unearned revenue and proprietary funds reported \$198,957.

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 the proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary funds statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized 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. Lastly, debt service payments are considered expenditures in the period due.

Deferred inflows of resources

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Two items qualify for reporting in this category, one which arises only under the modified accrual basis of accounting is *unavailable revenue* and the other is a *deferred charge for pension activity*, which is a result from a change in assumptions. Accordingly, the unavailable revenue is only reported in the governmental funds balance sheet. The City reports unavailable revenues from property taxes, grants and other revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred charge for pension activity is only reported in the government-wide and proprietary funds statements of net position. This amount is recognized over the remaining future working lifetime of all participants in the pension plans.

Fund balance

In the governmental funds financial statements, fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

The *restricted* fund balance includes amounts that are restricted to specific purposes when the constraints are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority, the Mayor and Board of Aldermen, are to be reported as *committed* fund balance. The action to establish, modify or rescind commitments would be adoption of an ordinance by a majority vote of the Aldermen taken at a public meeting.

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, are to be reported as *assigned* fund balance. The Mayor and Board of Aldermen, through the capital budget process, or the Purchasing Supervisor, or her/his designee, through the requisition process may assign fund balance for the City. The requisition process was approved by the Mayor and Board of Aldermen as part of the City's Purchasing Policies and Procedures.

Unassigned fund balance is the residual classification for the general fund.

For fund balance classification purposes, when restricted and unrestricted amounts are available for expenditure use, the City would use the restricted amounts first. For expenditures where committed, assigned and unassigned amounts are available for use, the City would first use committed, then assigned and then unassigned fund balance amounts.

Net position

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

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

2. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, not reported in the fund.” The details of this \$131,972,724 difference are as follows:

Capital assets	\$ 230,674,516
Less: Accumulated depreciation	<u>(98,731,792)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ <u>131,942,724</u>

Another element of that reconciliation states that “long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$85,401,665 difference are as follows:

Bonds payable	\$ 59,489,566
Add: Issuance premium (to be amortized over life of debt)	2,292,201
Add: Other post-employment benefits	20,819,253
Add: Compensated absences	<u>2,800,645</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$ <u>85,401,665</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

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

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$6,975,628 difference are as follows:

Capital outlay	\$ 14,081,445
Depreciation expense	<u>(7,105,817)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 6,975,628</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$ 1,025,938 difference are as follows:

In the statement of activities, only the <i>gain/loss</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining book value of the capital assets sold.	\$ (1,534,908)
Donation and/or transfer of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not capitalized.	<u>508,970</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (1,025,938)</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$ 5,351,605 difference are as follows:

Principal repayments	\$ 5,084,241
Amortization of bond premiums	294,917
Amortization of debt refunding	<u>(27,553)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 5,351,605</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.” The details of this \$ 1,481,152 difference are as follows:

Compensated absences	\$ 104,765
Pension expense, including pension deferrals, resulting in a net pension liability reduction	(30,548)
Other post-employment benefits	1,459,626
Accrued interest	<u>(52,691)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 1,481,152</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

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 January 1st, the Mayor requests all departments to submit their proposed operating budgets for the fiscal year commencing the following July 1.
2. On or before April 1st, 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.
3. On or before April 1st, the Board of Aldermen shall approve the place and time of at least two meetings where the budget will be considered and at which any interested person may be heard concerning the budget.
4. Prior to June 20th, the budget is legally enacted through the passage of a special ordinance. If the Board of Aldermen fail to enact a special ordinance, then the Mayor's budget, as proposed, shall be deemed to have been adopted by the Board of Aldermen.
5. 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.
6. Over-expenditures at the departmental level are prohibited by Charter.

The City utilizes the modified accrual basis of accounting in preparing its operating budgets. Annual operating budgets are adopted for the general and special revenue funds. Appropriations which have not been expended or lawfully encumbered lapse at the end of the budget year. Any lawfully encumbered appropriations at year end are carried forward to the following year and increase the following year's budget appropriation by the amount of the encumbrance(s).

As of June 30, 2015 the amount of departmental encumbrances within the governmental funds are as follows;

General Fund -	\$ 1,412,431
CDS Program Fund -	5,025
Weinberg Center for the Arts -	12,241
Community Development -	267
General CIP fund -	9,444,101

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 2015, the budget department exceeded its budget by \$849 and the audio visual department exceeded its budget by \$4,968 in the general fund. These over-expenditures were covered by departmental savings in other departments.

No budget amendments, defined as an increase or decrease in the total budget amount for a fund, were made in fiscal year 2015.

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

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

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, (5) the Maryland Local Government Investment Pool, or (6) 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 City’s investment policy for operating funds allows investment 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.

The pension trust fund’s and OPEB trust fund’s investment portfolio includes investments in fixed income securities, equities, and money market funds. As of June 30, the pension fund asset allocation is 75% equities and 25% fixed income and cash. The OPEB trust fund has an asset allocation of 65% equities and 35% fixed income securities. These investment types are not limited by statute.

As of June 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	\$ 40,534,946
OPEB Fund investments	23,987,326
Pension Fund investments	<u>134,104,884</u>
Total fair value of investments	<u>\$ 198,627,156</u>

Interest rate risk. In accordance with its investment policy for its operating funds, 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. There is no limit on maturity dates for the pension and OPEB trust funds.

Credit risk. The City of Frederick’s investment policy does not specifically address credit risk. As of June 30, 2015, the Maryland Local Government Investment Pool was rated AAAM by Standard & Poor’s. Regulatory oversight for the local government investment pool rests with the Maryland State Treasurer’s Office and the fair value of the pool is the same as the value of the pool shares. The pension and OPEB investments in fixed income mutual funds are not rated.

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 \$47,373,256, and the bank balance was \$48,276,511. As of June 30, 2015, 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. Additionally, the Weinberg Center for the Arts Inc. had deposits of \$940,298.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

4. Detailed notes on all funds (continued)

	<u>Pension Trust Investments</u>			<u>OPEB Trust</u>
	<u>30-Year Plan</u>	<u>25-Year Plan</u>	<u>22-Year Plan</u>	<u>OPEB Plan</u>
Mutual fund - equities				
Domestic	\$ 7,406,582	\$ 18,373,303	\$ 27,423,928	\$ 9,710,253
Global	3,209,425	7,961,531	11,883,353	4,465,433
International	<u>1,938,879</u>	<u>4,809,723</u>	<u>7,178,975</u>	<u>2,661,173</u>
Total equities	<u>\$ 12,554,886</u>	<u>\$ 31,144,557</u>	<u>\$ 46,486,256</u>	<u>\$ 16,836,859</u>
Mutual funds - fixed income	\$ 6,114,055	\$ 15,166,967	\$ 22,638,163	\$ 7,150,466
Cash and short-term investments				
Cash management account	\$ 58,693	\$ 145,598	\$ 217,319	\$ 4,050
Disbursement payment account	<u>273,181</u>	<u>677,674</u>	<u>1,011,494</u>	<u>823,292</u>
Total cash and short-term investments	<u>\$ 331,874</u>	<u>\$ 823,272</u>	<u>\$ 1,228,813</u>	<u>\$ 827,342</u>
Total	<u>\$ 19,000,815</u>	<u>\$ 47,134,796</u>	<u>\$ 70,353,232</u>	<u>\$ 24,814,667</u>

Petty cash amounts at June 30, 2015 totaled \$48,035.

Receivables

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

	<u>General</u>	<u>CIP</u>	<u>Water & Sewer</u>	<u>Airport</u>	<u>Parking</u>	<u>Storm Water Management</u>	<u>Non-major Funds</u>	<u>Total</u>
Taxes	\$ 481,364	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,364
Loans/notes	96,977	-	186,429	-	-	-	2,302,747	2,586,153
Intergovernmental	874,176	2,605,173	12,770	15,911	35,976	-	49,379	3,593,385
Interest	641	-	26	-	8	-	-	675
Other	<u>620,352</u>	<u>-</u>	<u>4,058,160</u>	<u>32,309</u>	<u>100</u>	<u>253,799</u>	<u>7,954</u>	<u>4,972,674</u>
Gross receivables	2,073,510	2,605,173	4,257,385	48,220	36,084	253,799	2,360,080	11,634,251
Less: allowance for un-collectibles	<u>(187,744)</u>	<u>-</u>	<u>(15,793)</u>	<u>(4,906)</u>	<u>-</u>	<u>-</u>	<u>(7,947)</u>	<u>(216,390)</u>
Net receivables	<u>\$ 1,885,766</u>	<u>\$ 2,605,173</u>	<u>\$ 4,241,592</u>	<u>\$ 43,314</u>	<u>\$ 36,084</u>	<u>\$ 253,799</u>	<u>\$ 2,352,133</u>	<u>\$ 11,417,861</u>

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 49,090,625	\$ 361,310	\$ 1,519,791	\$ -	\$ 47,932,144
Construction in progress	<u>4,924,618</u>	<u>11,199,557</u>	<u>3,654</u>	<u>(121,404)</u>	<u>15,999,117</u>
Total capital assets, not being depreciated	<u>54,015,243</u>	<u>11,560,867</u>	<u>1,523,445</u>	<u>(121,404)</u>	<u>63,931,261</u>
Capital assets, being depreciated:					
Buildings	29,185,462	-	-	-	29,185,462
Other improvements	31,568,460	390,150	10,336	102,212	32,050,486
Infrastructure	81,067,558	1,370,874	-	19,192	82,457,624
Machinery and equipment	<u>22,126,671</u>	<u>1,272,178</u>	<u>365,227</u>	<u>16,060</u>	<u>23,049,682</u>
Total capital assets, being depreciated	<u>163,948,151</u>	<u>3,033,202</u>	<u>375,563</u>	<u>137,464</u>	<u>166,743,254</u>
Less accumulated depreciation for:					
Buildings	20,094,420	854,331	-	-	20,948,751
Other improvements	14,582,945	1,461,847	10,336	-	16,034,456
Infrastructure	39,992,148	3,284,651	-	-	43,276,799
Machinery and equipment	<u>17,300,847</u>	<u>1,504,987</u>	<u>350,109</u>	<u>16,060</u>	<u>18,471,785</u>
Total accumulated depreciation	<u>91,970,360</u>	<u>7,105,816</u>	<u>360,445</u>	<u>16,060</u>	<u>98,731,791</u>
Total capital assets, being depreciated, net	<u>71,977,791</u>	<u>(4,072,614)</u>	<u>15,118</u>	<u>121,404</u>	<u>68,011,463</u>
Governmental activities capital assets, net	<u>\$ 125,993,034</u>	<u>\$ 7,488,253</u>	<u>\$ 1,538,563</u>	<u>\$ -</u>	<u>\$ 131,942,724</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 40,034,269	\$ -	\$ -	\$ 5,516	\$ 41,039,785
Construction in progress	<u>30,884,485</u>	<u>3,092,346</u>	<u>21,855</u>	<u>(10,409,898)</u>	<u>23,545,078</u>
Total capital assets, not being depreciated	<u>71,918,754</u>	<u>3,092,346</u>	<u>21,855</u>	<u>(10,404,382)</u>	<u>64,584,863</u>
Capital assets, being depreciated:					
Buildings	87,250,331	-	-	-	87,250,331
Other improvements	245,181,974	274,355	24,149	10,404,382	255,836,562
Machinery and equipment	<u>12,063,057</u>	<u>783,179</u>	<u>184,889</u>	<u>(16,060)</u>	<u>12,634,287</u>
Total capital assets, being depreciated	<u>344,484,362</u>	<u>1,057,534</u>	<u>209,038</u>	<u>10,388,322</u>	<u>355,721,180</u>
Less accumulated depreciation for:					
Buildings	35,800,720	2,376,057	-	-	38,176,777
Other improvements	65,663,819	6,885,353	24,149	-	72,525,023
Machinery and equipment	<u>9,199,790</u>	<u>797,906</u>	<u>179,888</u>	<u>(16,060)</u>	<u>9,801,748</u>
Total accumulated depreciation	<u>110,664,329</u>	<u>10,059,316</u>	<u>204,037</u>	<u>(16,060)</u>	<u>120,503,548</u>
Total capital assets, being depreciated, net	<u>233,820,033</u>	<u>(9,001,782)</u>	<u>5,001</u>	<u>10,404,382</u>	<u>235,217,632</u>
Business-type activities capital assets, net	<u>\$ 305,738,787</u>	<u>\$ (5,909,436)</u>	<u>\$ 26,856</u>	<u>\$ -</u>	<u>\$ 299,802,495</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	\$ 183,310
Public safety	394,879
Public works	4,196,736
Recreation and parks	2,261,737
Economic opportunity	<u>69,154</u>
Total depreciation expense – governmental activities	<u>\$ 7,105,816</u>
Business-type activities:	
Rental operations	\$ 15,210
Water and sewer	5,875,939
Golf course	173,872
Airport	853,214
Parking	1,470,058
Storm water	<u>1,671,023</u>
Total depreciation expense – business-type activities	<u>\$ 10,059,316</u>

Construction commitments

The City has active construction projects as of June 30, 2015. At year end the City's commitments with contractors for major projects are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Ballenger-McKinney Wastewater Treatment Plant	\$ 15,253,959	\$ 1,672,087
ENR Upgrade Waste Water Treatment Plant	3,324,544	39,897,828
North Side Water Tank	318,380	4,549,520
Water Loss Reduction	1,622,095	1,548,459
Water Resource Project	-	5,560,131
Carroll Creek Linear Park Phase II	8,268,188	7,129,399

The Ballenger-McKinney Wastewater Treatment Plant is primarily debt funded. The ENR Upgrade to the Waste Water Treatment Plant is funded with a combination of state grants and debt. The North Side Water Tank is funded from operating revenues. The Water Loss Reduction and Water Resource projects are funded with operating funds and debt. The Carroll Creek Linear Park Phase II is funded from grants, developer contributions and debt.

Inter-fund receivables, payables and transfers

The composition of inter-fund balances as of June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Golf Course	\$ 5,040,557

The \$5,040,557 balance due to the general fund from the golf course resulted from accumulated net losses within the golf course operation. It is not anticipated that this balance will be repaid within the subsequent fiscal year.

Inter-fund transfers:

	<u>Transfers In:</u>				<u>Total</u>
	<u>General Fund</u>	<u>CIP Fund</u>	<u>Non-major Governmental</u>	<u>Airport Fund</u>	
Transfer out:					
General fund	\$ -	\$ 687,372	\$ 93,577	\$ 76,129	\$ 857,078
Non-major governmental fund	60,000	-	-	-	60,000
CIP Fund	63,848	-	-	-	63,848
Water and sewer fund	2,150,000	1,451,043	-	-	3,601,043
Parking fund	195,000	-	-	-	195,000
Storm water management fund	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,000</u>
Total transfers out	<u>\$2,548,848</u>	<u>\$2,138,415</u>	<u>\$ 93,577</u>	<u>\$ 76,129</u>	<u>\$ 4,856,969</u>

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

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

4. Detailed notes on all funds (continued)

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

The \$93,577 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.

\$76,129 was transferred from the general fund to the airport fund to assist in debt service and operations.

5. Fund balances

The classification of governmental funds balances as of June 30, 2015 is as follows.

	<u>General</u>	<u>General CIP</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ 669,206	\$ -	\$ -	\$ 669,206
Prepaid items	563,671	-	1,250	564,921
Loans	96,977	-	2,302,747	2,399,724
Advances to other funds	5,040,557	-	-	5,040,557
Restricted for:				
Parks/recreation	-	7,590,504	-	7,590,504
Harry Grove Stadium	-	305,342	-	305,342
Parks impact fees	-	2,502,997	-	2,502,997
Weinberg Center	-	-	612,441	612,441
Debt service reserve	188,809	-	-	188,809
Street lights/signals/sidewalks	2,743	-	-	2,743
Pathways	1,383	-	-	1,383
Other purposes	1,539	-	21,412	22,951
Committed to:				
General government	5,019	-	-	5,019
Streets/roadways	325,000	-	-	325,000
Assigned:				
General government	460,014	73,555	-	533,569
Public safety	217,823	-	5,025	222,848
Public works	301,147	-	-	301,147
Streets/roadways	-	1,456,267	-	1,456,267
Street lights/signals/sidewalks	-	73,422	-	73,422
Pathways	-	82,827	-	82,827
Parks/recreations	315,824	186,000	-	501,824
Weinberg Center	-	-	12,241	12,241
Community development	-	-	266	266
Economic development	94,100	-	-	94,100
Community action	23,522	-	-	23,522
Subsequent years budget	1,392,065	-	172,473	1,564,538
Other purposes	-	3,259,965	1,050,415	4,310,381
Unassigned:	<u>11,612,570</u>	<u>-</u>	<u>-</u>	<u>11,612,570</u>
Total fund balances	<u>\$ 21,311,969</u>	<u>\$ 15,530,879</u>	<u>\$ 4,178,271</u>	<u>\$ 41,021,119</u>

Rainy Day Reserve Policy

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

At June 30th, the City had sufficient unassigned General Fund fund balance to meet the Rainy Day Reserve Requirement.

THE CITY OF FREDERICK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 7/1/2014	Additions FY '15	Reductions FY '15	Outstanding 6/30/2015	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	03/26/09	03/01/29	3.0 - 5.0%	\$ 46,420,000	\$ -	\$ (2,535,000)	\$ 43,885,000	\$ 2,655,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	5,011,000	-	(1,406,000)	3,605,000	496,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	11,680,000	-	(1,032,000)	10,648,000	1,083,000
Tax Increment Financing	12/99	06/24	5.95%	1,462,807	-	(111,241)	1,351,566	117,860
Subtotal				64,573,807	-	(5,084,241)	59,489,566	4,351,860
Add remaining premium				2,587,118	-	(294,917)	2,292,201	294,917
Total bonds and notes payable				67,160,925	-	(5,379,158)	61,781,767	4,646,777
Other Obligations:								
Compensated Absences				2,695,880	2,435,072	(2,330,307)	2,800,645	2,119,589
Net Pension Liabilities				71,202,182	20,979,409	(15,571,212)	76,610,379	-
OPEB Liabilities				19,359,627	6,257,407	(4,797,781)	20,819,253	-
Total Governmental Activity Long-term Obligations				\$ 160,418,614	\$ 29,671,888	\$ (28,078,458)	\$ 162,012,044	\$ 6,766,366
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	\$ 5,150,000	\$ -	\$ (2,530,000)	\$ 2,620,000	\$ 2,620,000
Water and Sewer	03/26/09	03/01/34	3.0 - 5.0%	40,505,000	-	(235,000)	40,270,000	615,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	2,425,000	-	(547,000)	1,878,000	380,000
Refunding Bonds Series B	12/28/11	12/01/28	2.0 - 4.0%	6,965,000	-	(370,000)	6,595,000	250,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	32,061,000	-	(78,000)	31,983,000	82,000
Total General Obligation Bonds				87,106,000	-	(3,760,000)	83,346,000	3,947,000
State Loan Fund - BNR	08/23/01	02/01/22	2.30%	2,412,415	-	(278,104)	2,134,311	284,501
State Loan Fund - ENR	03/23/12	02/01/33	0.80%	13,284,727	607,925	(694,265)	13,198,387	699,819
State Loan Fund - Series 2012A	10/19/12	02/01/33	0.80%	1,912,558	1,807,312	(193,520)	3,526,350	195,068
State Loan Fund - Series 2012B	10/19/12	02/01/33	0.00%	559,434	480,425	-	1,039,859	-
State Loan Fund - Series 2015	06/12/15	02/01/37	0.90%	-	1,171,970	-	1,171,970	-
Total Water & Sewer Debt				105,275,134	4,067,632	(4,925,889)	104,416,877	5,126,388
Golf Course Facilities Bonds	03/26/09	03/01/29	3.0 - 5.0%	835,000	-	(40,000)	795,000	45,000
Total Golf Course Obligations				835,000	-	(40,000)	795,000	45,000
Refunding Bonds 2011	12/28/11	12/01/21	2.0 - 2.5%	2,080,000	-	(245,000)	1,835,000	250,000
Taxable Refunding Bond of 2013	01/23/13	09/01/23	2.28%	10,885,000	-	(715,000)	10,170,000	715,000
Total Airport Debt				12,965,000	-	(960,000)	12,005,000	965,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	1,330,000	-	(655,000)	675,000	675,000
Parking Facilities - Taxable	03/26/09	03/01/29	3.264-6.933%	10,045,000	-	(425,000)	9,620,000	450,000
Refunding Bonds Series A	12/28/11	12/01/21	2.0 - 2.75%	1,574,000	-	(217,000)	1,357,000	174,000
Refunding Bonds of 2013	01/29/13	09/01/25	2.0 - 5.0%	7,854,000	-	-	7,854,000	-
Total Parking Facilities				20,803,000	-	(1,297,000)	19,506,000	1,299,000
Stormwater Facilities	03/26/09	03/01/29	3.0 - 5.0%	960,000	-	(45,000)	915,000	50,000
Total Stormwater Facilities				960,000	-	(45,000)	915,000	50,000
Total business-type activities debt				140,838,134	4,067,632	(7,267,889)	137,637,877	7,485,388
Other Obligations:								
Add remaining premium				6,634,998		(703,930)	5,931,068	568,909
Compensated Absences				419,037	408,257	(421,714)	405,580	404,680
Net Pension Liabilities				15,438,455	2,795,059	(2,545,930)	15,687,584	-
OPEB liabilities				4,450,877	1,507,253	(1,086,649)	4,871,481	-
Total business-type activities obligations				\$ 167,781,501	\$ 8,778,201	\$ (12,026,112)	\$ 164,533,590	\$ 8,458,977

Ninety-nine percent of the compensated absences, pension and OPEB liabilities in the governmental activities will be paid out of the general fund. The remaining one percent will be paid out of nonmajor governmental funds.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

6. Long term obligations (continued)

In fiscal year 2012, the City entered into a loan agreement with the Maryland Water Quality Financing Administration to assist in financing the City's share of the County's Ballenger/McKinney Waste Water Treatment Plant. The proceeds of the loan are forwarded to the City as work on the project progresses. In fiscal year 2015, the City received \$607,925 bringing the total received through June 30, 2015 to \$14,581,406. The total amount of the loan agreement is \$14,874,000.

In fiscal year 2013, the City entered into loan agreements with the Maryland Water Quality Financing Administration to assist in financing the Gas House Pike Waste Water Treatment Plant ENR Upgrade – Solids Processing Rehabilitation Design-Build Project. The Series 2012A loan was for \$4,146,000 and is paid to the City in installments as the work progresses. The interest rate on this loan is 0.80% and is to be repaid over a period of twenty years. As of June 30, 2015, the City has received \$3,911,854 of this loan.

The Series 2012B loan was for \$1,116,000. The Administration shall forgive repayment of the principal amount of the loan and the interest payable thereon so long as the City performs all of the obligations under the loan agreement. At any time prior to October 19, 2022, the principal advanced under the loan agreement shall be payable in full on demand by the Administration in accordance with the loan agreement together with interest at a rate of 3.52% per annum accruing from the date on which such demand is made by the Administration. As of June 30, 2015, the City has received \$1,039,859 under this agreement.

The current obligation of \$1,039,859 under the Series 2012B loan is reflected in the preceding schedule of long-term obligations; however, there is no allowance for repayment included in the following amortization schedule for this obligation since it is anticipated that this loan will be fully forgiven.

In fiscal year 2015, the City entered into loan agreements with the Maryland Water Quality Financing Administration to assist in financing the Gas House Pike Waste Water Treatment Plant ENR Upgrade Project. The Series 2015 loan was for \$28,142,000 and is paid to the City in installments as the work progresses. The interest rate on this loan is 0.90% and is to be repaid over a period of twenty years. As of June 30, 2015, the City has received \$1,171,970 of this loan.

The annual requirements to amortize all long term debt, exclusive of the Maryland Water Quality Financing Administration 2012B Series, as of June 30, 2015, are set forth in the two tables below:

Fiscal Year	Governmental Activities		Business-type Activities		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 4,234,000	\$ 2,501,834	\$ 7,485,388	\$ 5,040,555	\$ 11,719,388	\$ 7,542,389	\$ 19,261,777
2017	4,252,000	2,355,296	7,586,091	4,774,959	11,838,091	7,130,255	18,968,346
2018	4,421,000	2,182,171	9,052,971	4,491,169	13,473,971	6,673,340	20,147,311
2019	4,513,000	2,014,961	8,193,123	4,188,492	12,706,123	6,203,453	18,909,576
2020	4,680,000	1,829,369	8,505,461	3,877,747	13,185,461	5,707,116	18,892,577
2021 - 2025	21,208,000	6,163,965	49,613,247	13,954,425	70,821,247	20,118,390	90,939,637
2026 - 2030	14,830,000	1,826,251	31,778,707	6,256,076	46,608,707	8,082,327	54,691,034
2031 - 2034	-	-	14,383,030	1,555,120	14,383,030	1,555,120	15,938,150
Totals	\$ <u>58,138,000</u>	\$ <u>18,873,847</u>	\$ <u>136,598,018</u>	\$ <u>44,138,543</u>	\$ <u>194,736,018</u>	\$ <u>63,012,390</u>	\$ <u>257,748,408</u>

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2015 are as follows:

Fiscal Year	Tax Incremental Financing Bonds		
	Principal	Interest	Total
2016	\$ 117,860	\$ 30,910	\$ 148,770
2017	124,873	28,215	153,088
2018	132,302	25,359	157,661
2019	140,174	22,333	162,507
2020	148,515	14,887	163,402
2021 - 2024	<u>687,842</u>	<u>31,493</u>	<u>719,335</u>
Totals	\$ <u>1,351,566</u>	\$ <u>129,517</u>	\$ <u>1,481,083</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

6. Long term obligations (continued)

Computation of Legal Debt Margin:

Assessed value		<u>\$6,746,323,850</u>
Debt limit (3% of assessed value per City Charter)		\$ 202,389,716
Amount of debt applicable to debt limit:		
Total bonded debt	\$184,279,835	
Other debt	<u>21,070,877</u>	
		\$205,350,712
Less: Water and sewer debt	<u>109,302,486</u>	
Total amount of debt applicable to debt limit		<u>96,048,226</u>
Legal debt margin		<u>\$ 106,341,490</u>

Schedule of Intended Source of Funds for Debt Retirement:

	<u>Debt Amount</u>
General revenue	\$ 60,430,201
Water and sewer charges	109,302,486
Airport charges	12,019,288
Parking charges and fines	20,503,363
Storm water charges	933,269
Cash flow from golf course operations	810,539
Incremental tax revenue	<u>1,351,566</u>
	<u>\$ 205,350,712</u>

Although a large portion of City debt is to be paid from revenue sources other than taxes, virtually all of the City's debt is backed by the full faith, credit and taxing power of the City. The following computation of direct and overlapping debt is limited to the City's direct debt related to governmental activities.

Computation of Direct and Overlapping Debt:

	Net Debt	Percentage	Amount
<u>Jurisdiction</u>	<u>Outstanding</u>	<u>Applicable</u>	<u>Applicable</u>
The City of Frederick	\$ 61,781,767	100.00%	\$ 61,781,767
Frederick County	<u>654,413,663</u>	25.28%	<u>165,435,774</u>
Total	<u>\$ 716,195,430</u>		<u>\$ 227,217,541</u>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

7. Restatement of Net Position

In fiscal year 2015, the City implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*, which requires an adjustment of prior period information to reflect the net pension liability at the beginning of the reporting period. The adjustments resulting from this change are reflected as a restatement of beginning total net position in the proprietary fund type and the Statement of Activities within the government-wide financial statements.

Following are the restatements made to beginning total net position for each proprietary fund:

	<u>Water & Sewer</u>	<u>Airport</u>	<u>Parking</u>	<u>Storm Water</u>	<u>Non-major Proprietary Funds</u>
Total net position, June 30 2014, as previously reported	\$ 100,370,520	\$ 38,252,500	\$ 15,772,078	\$ 47,539,291	\$ (2,863,934)
Cumulative effect of restatement:					
Net pension asset	(423,619)	(2,907)	(51,065)	(10,728)	(36,569)
Net pension liability	(12,573,544)	(358,977)	(927,752)	(930,185)	(647,997)
Total net position, June 30 2014, as restated	<u>\$ 87,373,357</u>	<u>\$ 37,890,616</u>	<u>\$ 14,793,261</u>	<u>\$ 46,598,378</u>	<u>\$ (3,548,500)</u>

Following is the restatement made to the beginning total net position for governmental activities and business-type activities (sum of funds listed above) in the government-wide financial statements:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Total net position, June 30 2014, as previously reported	\$ 83,962,992	\$ 199,070,455
Cumulative effect of restatement:		
Net pension asset	(2,416,117)	(524,888)
Net pension liability	(71,202,181)	(15,438,455)
Total net position, June 30 2014, as restated	<u>\$ 10,344,694</u>	<u>\$183,107,112</u>

8. Pension Plans

Article VIII, section 8 of the Charter authorizes the City to provide retirement benefits to City employees. The City, acting through the Mayor and Board of Aldermen, retains responsibility for control and administration of the pension plans. 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 pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Administrative costs are financed by the pension plans.

Separate, audited GAAP-basis pension plan reports are not available for the defined benefit pension plans. However, financial reporting for the pension plans are included with the fiduciary fund statements within this report.

The total pension liability for each plan was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3.00%
- Salary Increases: 3.00% plus service based increases
- Investment Return: 7.50%, net of investment expense and including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables, for Males and Females. A six year set-forward is applied for disabled lives. Blue Collar adjustments are applied for the 22-Year Plan participants. Mortality rates are adjusted for future mortality improvement by applying 20 years of Scale AA.

The total pension liability as of June 30, 2015 is equal to the July 1, 2014 Entry Age actuarial accrued liability, adjusted for assumption changes, as well as total normal cost, one year of interest, and reduced by benefits paid during the year, adjusted by one half year of interest.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Changes in Actuarial assumptions. The discount rates for each plan have been adjusted since the prior GASB valuation, based on changes to the City's pension funding policy. The June 30, 2015 total pension liability has also been adjusted for the mortality improvement scale as noted above. The net impact of these two assumption changes resulted in a 0.6% increase in the City's total pension liability.

The City's contributions to the pension funds are determined annually, based on separate valuations for each of the three plans, and in accordance with the written funding policy. The Entry Age cost method is used for this purpose, with a 27 year (as of July 1, 2014) closed amortization of the unfunded actuarial liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each asset class. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, and the final investment return assumption, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Return – Portfolio</u>	<u>Weight</u>
Domestic Equity	5.70%	50%
International Equity	5.80%	20%
Fixed income	2.10%	27%
Cash Equivalents	0.80%	3%
Total Weighted Average Real Return	4.60%	
Plus Inflation	<u>3.00%</u>	
Total Return without Adjustment	7.60%	
Risk Adjustment	<u>(0.10%)</u>	
Total Expected Return	7.50%	

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Aggregate information for all pension plans as of June 30, 2015:

	<u>30-Year Plan</u>	<u>25-Year Plan</u>	<u>22-Year Plan</u>	<u>Total All Plans</u>
Total pension liability	\$ 31,136,636	\$ 91,828,558	\$ 105,839,902	\$228,805,096
Plan fiduciary net position	18,982,258	47,142,079	70,382,795	136,507,132
Net pension liability	12,154,378	44,686,479	35,457,107	92,297,964
Plan fiduciary net position as percentage of total pension liability	60.96%	51.34%	66.50%	59.66%
Deferred outflows of resources	839,176	1,724,130	4,042,544	6,605,850
Deferred inflows of resources	-	703,903	-	703,903
Pension expense	1,593,300	4,000,663	5,062,253	10,656,216

The City of Frederick Thirty-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, 2014	94
Vested terminated employees	100
Active employees - vested 100%	121
Active employees – non-vested	50

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

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

One year of continuous service, age 18 and agree in writing to make required contributions

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

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

Normal Retirement Age: Employees hired prior to July 1, 2012:
Age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service,
age 65 with 2 years of service,
or if earlier, when the participant has reached 30 years of service.

Employees hired on or after July 1, 2012:
Date on which the combined age and eligibility service of the participant equals 90.

Early Retirement Age: Employees hired prior to July 1, 2012:
Age 55 and the completion of 15 years of service

Employees hired on or after July 1, 2012:
Age 60 and the completion of 15 years of eligibility service

Normal Form of Benefit: Monthly life annuity with guaranteed return of employee contributions.

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

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

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

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

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

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

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

<p>Termination Prior to Retirement: <i>Less than 5 years of eligibility service:</i> <i>5 years of eligibility service or more:</i></p>	<p>Employees hired prior to July 1, 2012: Return of employee contributions with 5% interest.</p> <p>At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.</p>
<p><i>Less than 10 years of eligibility service:</i> <i>10 years of service or more:</i></p>	<p>Employees hired after June 30, 2012: Return of employee contributions with 5% interest.</p> <p>At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.</p>
<p>Disability:</p>	<p>Must be totally and permanently disabled.</p>
<p><i>Line of Duty:</i></p>	<p>The sum of the annuity equivalent of the employee's accumulated contributions and 66 2/3% of final average earnings, payable immediately, unreduced, but not greater than 100% of final average earnings.</p>
<p><i>Ordinary Disability:</i></p>	<p>Employees hired prior to July 1, 2012: Five years of eligibility service is required to receive non-duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 62, earning years of credited service between the date of disability and the participant's 62nd birthday, to a maximum of 30 years of credited service, payable immediately, unreduced.</p> <p>Employees hired after June 30, 2012: Ten years of eligibility service is required to receive non duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 65, earning years of credited service between the date of disability and the participant's 65th birthday, payable immediately, unreduced.</p>
<p>Pre-Retirement Spouse's Benefit: Married, eligible for early retirement (or dies within 10 years of Normal Retirement) and actively employed at date of death:</p>	<p>The participant's surviving spouse will receive a monthly benefit equal to the accrued benefit, reduced actuarially for early commencement and the joint and 100% survivor option, provided certain requirements are met.</p>
<p>Other Pre Retirement Death Benefits: With 1 year of eligibility service</p>	<p>The greater of return of employee contributions with 5.0% interest or a lump sum equal to the participant's annual base salary at time of death.</p>
<p>With less than 1 year of eligibility service</p>	<p>Refund of employee contributions with 5.0% interest.</p>

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Investments:

The pension plan's guidelines have been established to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The guidelines discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time periods. The following are the asset allocation guidelines as of June 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	20%
Fixed income bonds	27%
Cash	3%

Investment in any one fund that represents five percent or more of the plan's fiduciary net position is as follows:

<u>Investment Fund</u>	<u>Percentage of Plan Fiduciary Net Position</u>
Vanguard Mid Cap Value Index	5.60%
Vanguard Institutional Index	23.76%
American Funds International Growth and Income	6.04%
Blackrock Low Duration Bond BR	5.67%
Fidelity Spartan Intermediate Treasury Bond Index Advantage	11.13%
Lord Abbett Short Duration Income	5.69%
Federated Short-Intermediate Total Return Bond	5.11%

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.36%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the City:

The components of the net pension liability of the City at June 30, 2015, were as follows:

Total pension liability	\$ 31,136,636
Plan fiduciary net position	<u>18,982,258</u>
City's net pension liability	<u>\$ 12,154,378</u>
Plan fiduciary net position as a percentage of total pension liability	60.96%

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of actuarial experience analysis prior to 2010.

A review of current assumptions found them to be reasonably consistent with recent plan experience and benefit provisions. A full assumption review study is underway and will likely result in several adjustments to the assumptions.

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's net pension liability	\$ 16,144,863	\$ 12,154,378	\$ 8,798,700

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Changes in the net pension liability:

Total pension liability, July 1, 2014	\$28,800,655
Service cost	593,382
Interest	2,119,478
Difference between expected and actual experience	97,488
Changes in assumptions	372,567
Benefit payments, including refunds	<u>(846,944)</u>
Total pension liability, June 30, 2015	\$ 31,136,636
Plan fiduciary net position, July 1, 2014	\$ 17,433,792
Contributions – City	1,644,971
Contributions – employees	16,059
Net investment income	803,979
Benefit payments, including refunds	(846,944)
Administrative expenses	<u>(69,599)</u>
Plan fiduciary net position, June 30, 2015	\$ 18,982,258
Net pension liability, July 1, 2014	\$ 11,366,873
Net pension liability, June 30, 2015	\$ 12,154,378

Changes in Actuarial assumptions. The discount rate for the plan has been adjusted since the prior GASB valuation, based on changes to the City's pension funding policy. The June 30, 2015 total pension liability has also been adjusted for the mortality improvement scale as noted above. The net impact of these two assumption changes resulted in a 1.6% increase in the City's total pension liability.

The pension expense for the fiscal year is \$1,593,300.

As of June 30, 2015, the balance of deferred outflows of resources for the pension plan totaled \$839,176 and was classified as follows:

Differences between expected and actual experience	\$ 77,990
Changes in assumptions	298,054
Net difference between projected and actual earnings on investments	463,132

The deferred outflows of resources will be recognized in future periods as follows:

Year Ending June 30,	2016	2017	2018	2019	<u>Remaining Balance</u>
	\$ 209,794	\$ 209,794	\$ 209,794	\$ 209,794	\$ 629,382
					419,588
					209,794
					-

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, 2014	176
Vested terminated employees	78
Active employees - vested 100%	162
Active employees – non-vested	70

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Eligibility: All employees, including Aldermen but excluding police officers hired prior to 03/17/11, who work at least 20 hours per week, become participants on the first day of the month following the date all the requirements below are met:

One year of continuous service, age 18 and agree in writing to make required contributions

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

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

Normal Retirement Age: Employees hired prior to July 1, 2012:
Age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service,
age 65 with 2 years of service,
or if earlier, when the participant has reached 25 years of service.

Employees hired on or after July 1, 2012:
Date on which the combined age and eligibility service of the participant equals 90.

Early Retirement Age: Employees hired prior to July 1, 2012:
Age 55 and the completion of 15 years of service

Employees hired on or after July 1, 2012:
Age 60 and the completion of 15 years of eligibility service

Normal Form of Benefit: Monthly life annuity with guaranteed return of employee contributions.

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

Employee Contributions: Employees hired prior to July 1, 2012:
Participants contribute 7.0% of compensation.
5.0% of compensation for participants hired prior to February 18, 1987.
Employees hired after June 30, 2012:
Participants contribute 7.5% of compensation.

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

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

Employees hired after June 30, 2012:
The average of the highest 5 consecutive plan years of the last 10 plan years of compensation.

Normal Retirement Benefit Formula: Employees hired prior to July 1, 2012:
2.0% of Final Average Earnings for each year of credited service.
Employees hired after June 30, 2012:
1.5% of Final Average Earnings for each year of credited service.

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

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Termination Prior to Retirement: Employees hired prior to July 1, 2012:	
<i>Less than 5 years of eligibility service:</i>	Return of employee contributions with 5% interest.
<i>5 years of eligibility service or more:</i>	At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.
Employees hired after June 30, 2012:	
<i>Less than 10 years of eligibility service:</i>	Return of employee contributions with 5% interest.
<i>10 years of eligibility service or more:</i>	At the discretion of the employee, either a return of contributions with interest or the accrued normal retirement benefit taking into account final earnings and service at date of termination, payable at normal retirement date. If employee contributions are refunded there may be a residual employer provided benefit. There is no minimum annuity benefit based on the actuarial equivalent of the employee contributions.
Disability:	Must be totally and permanently disabled.
<i>Line of Duty:</i>	The sum of the annuity equivalent of the employee's accumulated contributions and 66 2/3% of final average earnings, payable immediately, unreduced, but not greater than 100% of final average earnings.
<i>Ordinary Disability:</i>	Employees hired prior to July 1, 2012: Five years of eligibility service is required to receive non-duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 62, earnings years of credited service between the date of disability and the participant's 62 nd birthday, to a maximum of 25 years of credited service, payable immediately, unreduced. Employees hired after June 30, 2012: Ten years of eligibility service is required to receive non duty disability benefits. The benefit equals the amount the participant would have received if he had worked until age 65, earning years of credited service between the date of disability and the participant's 65 th birthday, payable immediately, unreduced.
Pre-Retirement Spouse's Benefit:	
Married, eligible for early retirement (or within 10 years of Normal Retirement) and actively employed at date of death:	The participant's surviving spouse will receive a monthly benefit equal to the accrued benefit, reduced actuarially for early commencement and the joint and 100% survivor option, provided certain requirements are met.
Other Pre Retirement Death Benefits:	
With 1 year of eligibility service	The greater of return of employee contributions with 5.0% interest or a lump sum equal to the participant's annual base salary at time of death.
With less than 1 year of eligibility service	Refund of employee contributions with 5.0% interest.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Investments:

The pension plan's guidelines have been established to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The guidelines discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time periods. The following are the asset allocation guidelines as of June 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	20%
Fixed income bonds	27%
Cash	3%

Investment in any one fund that represents five percent or more of the plan's fiduciary net position is as follows:

<u>Investment Fund</u>	<u>Percentage of Plan Fiduciary Net Position</u>
Vanguard Mid Cap Value Index	5.60%
Vanguard Institutional Index	23.76%
American Funds International Growth and Income	6.04%
Blackrock Low Duration Bond BR	5.67%
Fidelity Spartan Intermediate Treasury Bond Index Advantage	11.13%
Lord Abbett Short Duration Income	5.69%
Federated Short-Intermediate Total Return Bond	5.11%

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the City:

The components of the net pension liability of the City at June 30, 2015, were as follows:

Total pension liability	\$ 91,828,558
Plan fiduciary net position	<u>47,142,079</u>
City's net pension liability	<u>\$ 44,686,479</u>
Plan fiduciary net position as a percentage of total pension liability	51.33%

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of actuarial experience analysis prior to 2010.

A review of current assumptions found them to be reasonably consistent with recent plan experience and benefit provisions. A full assumption review study is underway and will likely result in several adjustments to the assumptions.

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's net pension liability	\$ 55,700,940	\$ 44,686,479	\$ 35,493,568

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Changes in the net pension liability:

Total pension liability, July 1, 2014	\$89,000,516
Service cost	1,576,778
Interest	6,348,421
Difference between expected and actual experience	696,521
Changes in assumptions	(879,879)
Benefit payments, including refunds	<u>(4,913,799)</u>
Total pension liability, June 30, 2015	\$ 91,828,558
Plan fiduciary net position, July 1, 2014	\$ 44,902,430
Contributions – City	4,432,497
Contributions – employees	837,770
Net investment income	2,035,591
Benefit payments, including refunds	(4,913,799)
Administrative expenses	<u>(152,410)</u>
Plan fiduciary net position, June 30, 2015	\$ 47,142,079
Net pension liability, July 1, 2014	\$ 44,098,086
Net pension liability, June 30, 2015	\$ 44,686,479

Changes in Actuarial assumptions. The discount rate for the plan has been adjusted since the prior GASB valuation, based on changes to the City's pension funding policy. The June 30, 2015 total pension liability has also been adjusted for the mortality improvement scale as noted above. The net impact of these two assumption changes resulted in a 0.99% decrease in the City's total pension liability.

The pension expense for the fiscal year is \$4,000,663.

As of June 30, 2015, the balance of deferred outflows of resources for the pension plan totaled \$1,724,130 and the deferred inflows of resources totaled \$703,903 and were classified as follows:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 557,217	-
Changes in assumptions	-	703,903
Net difference between projected and actual earnings on investments	1,166,913	-

The net amount of outflows/(inflows) of resources will be recognized in future periods as follows:

Year Ending June 30,		<u>Remaining Balance</u>
2016	\$ 255,056	\$ 765,171
2017	255,056	510,115
2018	255,056	255,059
2019	255,059	-

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, 2014	75
Vested terminated employees	25
Active employees - vested 100%	101
Active employees – non-vested	40

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

- Normal Retirement Age: Age 62 with 5 years of service,
age 63 with 4 years of service,
age 64 with 3 years of service,
age 65 with 2 years of service,
or if earlier, when the participant has reached 22 years of service.
- Early Retirement Age: Age 55 and the completion of 15 years of service
- Normal Form of Benefit: Monthly life annuity with guaranteed return of employee contributions.
- Cost of Living Increase: Retiree benefits are adjusted each July 1. The revised benefit amount is the lesser of:
a. Prior year benefit plus base benefit multiplied by increase/decrease in the current
CPI from CPI of prior year, or
b. Benefit increased by 3%.
- Employee Contributions: Participants contribute 8.0% of compensation. The City credits an additional \$400
plus 8 times the participant's hourly rate on July 1 of each year.
- Compensation: Total compensation, excluding compensation from which the participant did not make required
contributions.
- Final Average Earnings: The average of the highest 3 consecutive years of the last 10 years compensation.
- Normal Retirement Benefit Formula: 60.0% of Final Average Earnings for 22 years of service, plus 1.5% of
Final Average Earnings times service in excess of 22 years.
- Early Retirement Benefit Formula: Normal retirement benefit reduced by 0.5% for each month that benefit
commencement precedes 62.
- Termination Prior to Retirement:
Less than 5 years of service: Return of employee contributions with 5% interest.
5 years of service or more: At the discretion of the employee, either a return of contributions with
interest or the accrued normal retirement benefit taking into account final
earnings and service at date of termination, payable at normal retirement
date. If employee contributions are refunded there may be a residual
employer provided benefit. There is no minimum annuity benefit based on
the actuarial equivalent of the employee contributions.
- Disability: Must be totally and permanently disabled.
Line of Duty/Catastrophic: 66 2/3% of final average earnings, payable immediately, unreduced.
Line of Duty/Non-catastrophic: Greater of 33 1/3% of final average earnings or the accrued benefit, payable
immediately.
Ordinary Disability: Five years of service are required to receive non-duty disability benefits. The benefit is
66 2/3% of final earnings, payable immediately, unreduced.
- Pre-Retirement Spouse's Benefit:
Married, eligible for early retirement and actively employed at date of death: The participant's surviving spouse will receive a monthly
benefit equal to the accrued benefit, reduced actuarially for
early commencement and the joint and 100% survivor
option, provided certain requirements are met.
- Other Pre Retirement Death Benefits: Return of employee contributions with 5.0% interest plus a lump sum of
one year's earnings.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Investments:

The pension plan's guidelines have been established to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The guidelines discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time periods. The following are the asset allocation guidelines as of June 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	20%
Fixed income bonds	27%
Cash	3%

Investment in any one fund that represents five percent or more of the plan's fiduciary net position is as follows:

<u>Investment Fund</u>	<u>Percentage of Plan Fiduciary Net Position</u>
Vanguard Mid Cap Value Index	5.60%
Vanguard Institutional Index	23.76%
American Funds International Growth and Income	6.04%
Blackrock Low Duration Bond BR	5.67%
Fidelity Spartan Intermediate Treasury Bond Index Advantage	11.13%
Lord Abbett Short Duration Income	5.69%
Federated Short-Intermediate Total Return Bond	5.11%

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the City:

The components of the net pension liability of the City at June 30, 2015, were as follows:

Total pension liability	\$ 105,839,902
Plan fiduciary net position	<u>70,382,795</u>
City's net pension liability	<u>\$ 35,457,107</u>
Plan fiduciary net position as a percentage of total pension liability	66.50%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables, for Males or Females. A six-year set-forward is applied for disabled lives. Blue Collar adjustments are applied for the 22-Year Plan participants. Mortality rates are adjusted for future mortality improvements by applying 20 years of Scale AA.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of actuarial experience analysis prior to 2010.

A review of current assumptions found them to be reasonably consistent with recent plan experience and benefit provisions. A full assumption review study is underway and will likely result in several adjustments to the assumptions.

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's net pension liability	\$ 50,221,637	\$ 35,457,107	\$ 23,342,558

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

8. Pension Plans (continued)

Changes in the net pension liability:

Total pension liability, July 1, 2014	\$ 96,803,122
Service cost	2,768,660
Interest	7,278,042
Difference between expected and actual experience	881,368
Changes in assumptions	1,921,642
Benefit payments, including refunds	<u>(3,812,932)</u>
Total pension liability, June 30, 2015	\$ 105,839,902
Plan fiduciary net position, July 1, 2014	\$ 65,627,444
Contributions – City	4,823,368
Contributions – employees	944,683
Net investment income	2,990,487
Benefit payments, including refunds	<u>(3,812,932)</u>
Administrative expenses	<u>(190,255)</u>
Plan fiduciary net position, June 30, 2015	\$ 70,382,795
Net pension liability, July 1, 2014	\$ 31,175,678
Net pension liability, June 30, 2015	\$ 35,457,107

Changes in Actuarial assumptions. The discount rate for the plan has been adjusted since the prior GASB valuation, based on changes to the City's pension funding policy. The June 30, 2015 total pension liability has also been adjusted for the mortality improvement scale as noted above. The net impact of these two assumption changes resulted in a 1.99% increase in the City's total pension liability.

The pension expense for the fiscal year is \$5,062,253.

As of June 30, 2015, the balance of deferred outflows of resources for the pension plan totaled \$4,042,544 and were classified as follows:

	<u>Deferred Outflows</u>
Differences between expected and actual experience	\$ 734,473
Changes in assumptions	1,601,368
Net difference between projected and actual earnings on investments	1,706,703

The deferred outflows of resources will be recognized in future periods as follows:

Year Ending June 30,	2016	2017	2018	2019	2020	<u>Remaining Balance</u>
	\$ 893,845	\$ 893,845	\$ 893,845	\$ 893,844	\$ 467,165	\$ 3,148,699
						2,254,854
						1,361,009
						467,165
						-

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.

9. Post-Employment Health Care Benefits

Pursuant to Sections 35-B and 137 of the City Charter, the City provides Other Post-Employment Benefits (OPEB) to all employees who qualify as a retiree and meet specific service requirements. Two hundred seventy eight (278) retirees are eligible for life insurance coverage. Five hundred and Twelve (512) retirees and dependents are currently enrolled in either the City's Group Health Insurance or the Medicare Advantage Plans. The City provides three Group Health Insurance open access plans for pre-Medicare retirees hired prior to September 1, 2013 and their dependents. Retirees that are Medicare eligible are enrolled in a Medicare Advantage plan. The cost of retiree health care and life insurance benefits is recognized as a deduction in the OPEB plan when claims are due to be paid. For fiscal year 2015, deductions for benefits totaled approximately \$ 2,690,000.

The financial statements of the City's OPEB plan are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions are recognized when due and the City has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Separate, audited GAAP-basis OPEB plan reports are not available for the other post-employment benefit plan.

Investments of the OPEB plan are reported at fair value.

General Provisions—Other Post-Employment Benefits (OPEB):

Group Health Insurance :

Pre-Medicare Eligibility – Pre-Medicare retirees hired prior to September 1, 2013 may choose from three medical plans: an Open Access Plus In-Network (OAPIN) Plan, an Open Access Plus (OAP) Plan (which provides both in- and out-of network benefits) and an Open Access Plus High Deductible health Plan (HDHP) with a health savings account.

The retiree cost and the City subsidy for the pre-Medicare Group Health Insurance is determined based on the retiree's date of hire, years of service, age and date of retirement.

Post-Medicare Eligibility - Once a retiree or retiree's dependent becomes Medicare entitled, either by age or disability, they are no longer eligible to participate in the City's Group Health Insurance Plan, but may enroll in a Medicare Advantage Plan offered by the City, which requires the participant to pay a monthly cost share of the premium.

The City contributes to a Retirement Health Savings (RHS) Plan for each eligible civilian employee hired on or after September 1, 2013. Once the employee meets vesting requirements, they may use RHS assets to pay medical expenses following retirement. These employees are not eligible to participate in any other post-employment benefits sponsored by the City.

Group Term Life Insurance:

Employees hired prior to July 1, 2003 may be eligible to receive \$3,000 in Group Term Life Insurance coverage at retirement depending on years of service. The City pays the entire premium cost for this coverage. Employees hired on or after July 1, 2003 are not eligible to receive the post retirement Group Term Life Insurance benefit.

Group Dental Insurance:

Retirees may elect Group Dental Insurance on a voluntary basis, and the retiree is responsible for 100 percent of the premium costs based upon the coverage level selected.

Funding Policy:

The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC consisted of the normal cost of \$3,144,638, the amortization of unfunded accrued liability of \$4,847,302 and interest of \$479,516. The City contributed \$6,852,736 for the year ended June 30, 2015 for current health care and life insurance premiums. This includes an estimated \$968,306 of implicit retiree costs.

The City established an OPEB trust in fiscal year 2011 to pre-fund future benefits.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

9. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation:

The City had an actuarial valuation performed as of July 1, 2014 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, 2015. The annual OPEB costs and net OPEB obligation for the current year were as follows:

Annual required contribution	\$ 8,471,456
Interest on net OPEB obligation	1,428,630
Adjustment to annual required contribution	<u>(1,167,120)</u>
Annual OPEB cost	8,732,966
Contributions made	<u>(6,852,736)</u>
Increase in net OPEB obligation	1,880,230
Net OPEB obligation beginning of year	<u>23,810,504</u>
Net OPEB obligation end of year	<u>\$ 25,690,734</u>

Three-Year Trend Information

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 8,869,359	\$ 6,913,055	77.94%	\$ 20,961,561
2014	9,345,148	6,496,205	69.51%	23,810,504
2015	8,732,966	6,852,736	78.47%	25,690,734

Additional information for the OPEB plan as of the latest actuarial valuation is as follows:

Actuarial valuation date -	July 1, 2014
Actuarial value of assets -	\$ 20,245,974
Actuarial accrued liability -	119,136,169
Total unfunded actuarial liability -	98,890,195
Actuarial value of assets as a percentage of actuarial accrued liability -	16.99%
Annual covered payroll -	\$ 24,438,846
Ratio of the unfunded actuarial liability to annual covered payroll -	404.64%

Funded status and progress:

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

Actuarial methods and assumptions:

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

The projected unit credit method was used in this valuation.

The unfunded liability was amortized over a period of 30 years as a level percentage of pay. The amortization period is closed as of 01/01/14.

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

9. Post-Employment Health Care Benefits (continued)

Normal Cost: Determined for each active employee as the Actuarial Present Value of benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each individual's service between date of hire and date of full benefit eligibility.

Accumulated Post-Retirement Benefit Obligation (APBO): The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year. The APBO is also referred to as the Actuarial Accrued Liability.

Interest assumptions – discount rate of 6.0% and payroll growth of 3.0%.

Healthcare cost trend assumptions –

<u>Medical and Prescription Drug</u>	<u>Base</u>
2014	7.75%
2015	7.50%
2016	7.25%
2017	7.00%
2018	6.75%
2019	6.50%
2020	6.25%
2021	6.00%
2022	5.75%
2023	5.50%
2024	5.25%
2025 +	4.75%

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

Disability assumptions –	<u>Age</u>	<u>22-Year Plan</u>	<u>25-Year Plan</u>	<u>30-Year Plan</u>
	25	0.090%	0.060%	0.060%
	35	0.133%	0.089%	0.089%
	45	0.459%	0.306%	0.306%
	55	1.206%	0.804%	0.804%
Turnover assumptions –	<u>Age</u>	<u>22-Year Plan</u>	<u>25-Year Plan</u>	<u>30-Year Plan</u>
	25	5.29%	7.72%	7.72%
	35	4.70%	6.86%	6.86%
	45	3.54%	5.16%	5.16%
	55	0.94%	1.37%	1.37%

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

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

THE CITY OF FREDERICK, MARYLAND
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

9. Post-Employment Health Care Benefits (continued)

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

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

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

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

Expected Annual Claims: (2014-2015 basis)	Age	Retiree	Spouse (if covered)
	45	\$ 7,555	\$ 8,206
	50	8,971	9,744
	55	10,548	11,456
	60	12,112	13,155
	65	5,465	5,936
	70	5,858	6,362
	75	6,126	6,654
	80	6,281	6,822
	85+	6,408	6,959

For retirees with family coverage, child(ren) claims are expected to be \$3,028 (2014-2015 basis).
 Children are assumed to be 30 years younger than the retiree.

Marriage Assumption/Age Difference: For actives, 95% are assumed to be married with males one year older than females. For retirees, use actual marital status. Assume 20% of future retirees will have family coverage.

Changes since Prior Valuation: The expected claims and healthcare trend assumptions have been updated since the prior valuation. The assumed payroll increase has also decreased from 4% to 3%.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

10. Commitments and contingencies

Grant Compliance - The City participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits of some of these programs through June 30, 2015, 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.

The United States Supreme Court has reached a decision in *Maryland State Comptroller of Treasury v. Wynne*. The Court determined that the State of Maryland's income tax law was unconstitutional because it does not provide state residents with a full credit for taxes paid on income earned in other states. As a result, the State of Maryland will be required to provide refunds to taxpayers who had not received the full credit. The City has not yet determined its share of the liability, if any, that exists as a result of this case.

11. Conduit Debt Obligations

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

As of June 30, 2015 there were thirteen series of Industrial/Economic Revenue Bonds outstanding. The aggregate principal amount payable for these issues could not be determined; however, their original issue amounts totaled \$53,074,353.

12. Risk Management

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

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

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

13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2015 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 72, *Fair Value Measurement and Application*, will be effective for the City with its fiscal year that ends on June 30, 2016. The primary objective of this Statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

GASB Statement Number 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, will be effective for the City with its year ending June 30, 2016. This Statement seeks to improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities.

THE CITY OF FREDERICK, MARYLAND
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

13. New Governmental Accounting Standards Board Standards (continued)

GASB Statement Number 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the City with its year ending June 30, 2017. The objective of this Statement is to improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year.

GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the City with its year ending June 30, 2018. The requirements of this Statement seeks to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and to enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. It is believed that decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. It is also believed that the consistency, comparability and transparency of the information reported by employers and governmental non-employer contributing entities will be improved.

GASB Statement Number 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for the City with its year ending June 30, 2016. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles.

GASB Statement No. 77, *Tax Abatement Disclosures*, is effective for the City beginning with its year ending June 30, 2017 and requires state and local governments, for the first time, to disclose information about tax abatement agreements. The Statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

The City of Frederick, Maryland
 Required Supplementary Information (unaudited)
 Schedule of Changes in the City's Net Pension Liability and Related Ratios
 as of June 30, 2015
 Thirty Year Pension Plan

	<u>2014</u>	<u>2015</u>
Total pension liability:		
Service cost	\$ 655,407	\$ 593,382
Interest	1,978,567	2,119,478
Difference between expected and actual experience	-	97,488
Changes in assumptions	-	372,567
Benefits payments, including refunds	<u>(773,254)</u>	<u>(846,944)</u>
Net change in total pension liability	1,860,720	2,335,971
Total pension liability, beginning	<u>26,939,945</u>	<u>28,800,665</u>
Total pension liability, ending	<u>\$ 28,800,665</u>	<u>\$ 31,136,636</u>
Plan fiduciary net position:		
Contributions, employer	\$ 1,748,679	\$ 1,644,971
Contributions, employee	8,713	16,059
Net investment income	2,450,240	803,979
Benefits payments, including refunds	(773,254)	(846,944)
Administrative expense	<u>(16,552)</u>	<u>(69,599)</u>
Net change in plan fiduciary net position:	3,417,826	1,548,466
Plan fiduciary net position, beginning	<u>14,015,966</u>	<u>17,433,792</u>
Plan fiduciary net position, ending	<u>\$ 17,433,792</u>	<u>\$ 18,982,258</u>
City's net pension liability, beginning	<u>\$ 12,923,979</u>	<u>\$ 11,366,873</u>
City's net pension liability, ending	<u>\$ 11,366,873</u>	<u>\$ 12,154,378</u>
Plan fiduciary net position as a percentage of total pension liability	60.53%	60.96%
Covered payroll	\$ 8,643,500	\$ 8,457,143
City's net position liability as a percentage of covered payroll	131.51%	143.72%

Information for fiscal years prior to 2014 is not readily available.

The City of Frederick, Maryland
 Required Supplementary Information (unaudited)
 Schedule of Changes in the City's Net Pension Liability and Related Ratios
 as of June 30, 2015
 Twenty Five Year Pension Plan

	<u>2014</u>	<u>2015</u>
Total pension liability:		
Service cost	\$ 1,726,237	\$ 1,576,778
Interest	6,052,538	6,348,421
Difference between expected and actual experience	-	696,521
Changes in assumptions	-	(879,879)
Benefits payments, including refunds	<u>(4,994,295)</u>	<u>(4,913,799)</u>
Net change in total pension liability	2,784,480	2,828,042
Total pension liability, beginning	<u>86,216,036</u>	<u>89,000,516</u>
Total pension liability, ending	<u><u>\$ 89,000,516</u></u>	<u><u>\$ 91,828,558</u></u>
Plan fiduciary net position:		
Contributions, employer	\$ 4,596,936	\$ 4,432,497
Contributions, employee	797,029	837,770
Net investment income	6,306,412	2,035,591
Benefits payments, including refunds	(4,994,295)	(4,913,799)
Administrative expense	<u>(42,600)</u>	<u>(152,410)</u>
Net change in plan fiduciary net position:	6,663,482	2,239,649
Plan fiduciary net position, beginning	<u>38,238,948</u>	<u>44,902,430</u>
Plan fiduciary net position, ending	<u><u>\$ 44,902,430</u></u>	<u><u>\$ 47,142,079</u></u>
City's net pension liability, beginning	<u>\$ 47,977,088</u>	<u>\$ 44,098,086</u>
City's net pension liability, ending	<u><u>\$ 44,098,086</u></u>	<u><u>\$ 44,686,479</u></u>
Plan fiduciary net position as a percentage of total pension liability	50.45%	51.34%
Covered payroll	\$ 11,239,261	\$ 11,415,648
City's net position liability as a percentage of covered payroll	392.36%	391.45%

Information for fiscal years prior to 2014 is not readily available.

The City of Frederick, Maryland
 Required Supplementary Information (unaudited)
 Schedule of Changes in the City's Net Pension Liability and Related Ratios
 as of June 30, 2015
 Twenty Two Year Pension Plan

	<u>2014</u>	<u>2015</u>
Total pension liability:		
Service cost	\$ 2,631,974	\$ 2,768,660
Interest	6,768,531	7,278,042
Difference between expected and actual experience	-	881,368
Changes in assumptions	-	1,921,642
Benefits payments, including refunds	<u>(3,301,079)</u>	<u>(3,812,932)</u>
Net change in total pension liability	6,099,426	9,036,780
Total pension liability, beginning	<u>90,703,696</u>	<u>96,803,122</u>
Total pension liability, ending	<u><u>\$ 96,803,122</u></u>	<u><u>\$ 105,839,902</u></u>
Plan fiduciary net position:		
Contributions, employer	\$ 5,067,852	\$ 4,823,368
Contributions, employee	870,282	944,683
Net investment income	9,215,191	2,990,487
Benefits payments, including refunds	(3,301,079)	(3,812,932)
Administrative expense	<u>(62,249)</u>	<u>(190,255)</u>
Net change in plan fiduciary net position:	11,789,997	4,755,351
Plan fiduciary net position, beginning	<u>53,837,447</u>	<u>65,627,444</u>
Plan fiduciary net position, ending	<u><u>\$ 65,627,444</u></u>	<u><u>\$ 70,382,795</u></u>
City's net pension liability, beginning	<u>\$ 36,866,249</u>	<u>\$ 31,175,678</u>
City's net pension liability, ending	<u><u>\$ 31,175,678</u></u>	<u><u>\$ 35,457,107</u></u>
Plan fiduciary net position as a percentage of total pension liability	67.79%	66.50%
Covered payroll	\$ 10,684,088	\$ 10,676,578
City's net position liability as a percentage of covered payroll	291.80%	332.10%

Information for fiscal years prior to 2014 is not readily available.

The City of Frederick, Maryland
Required Supplementary Information (unaudited)
Schedule of City Contributions
Last 10 Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
30-Year Pension Trust Fund:										
Actuarially determined contribution	\$ 923,773	\$ 834,948	\$ 846,175	\$ 886,197	\$ 1,342,669	\$ 1,518,438	\$ 1,686,613	\$ 1,701,812	\$ 1,748,679	\$ 1,644,971
Contribution	923,773	834,948	846,175	886,197	1,342,669	1,518,438	1,686,613	1,754,139	1,748,679	1,644,971
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (52,327)	\$ -	\$ -
Covered payroll	\$ 7,121,925	\$ 7,888,669	\$ 7,160,069	\$ 7,780,038	\$ 8,685,338	\$ 8,854,752	\$ 8,724,909	\$ 8,210,675	\$ 8,643,500	\$ 8,457,143
Contributions as a percentage of covered payroll	12.97%	10.58%	11.82%	11.39%	15.46%	17.15%	19.33%	21.36%	20.23%	19.45%
25-Year Pension Trust Fund:										
Actuarially determined contribution	\$ 2,419,945	\$ 2,721,772	\$ 2,764,732	\$ 2,774,792	\$ 3,479,683	\$ 3,854,773	\$ 4,219,798	\$ 4,290,877	\$ 4,596,936	\$ 4,432,497
Contribution	2,419,945	2,721,772	2,764,732	2,774,792	3,479,683	3,854,773	4,219,798	4,408,803	4,596,936	4,432,497
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (117,926)	\$ -	\$ -
Covered payroll	\$ 8,728,421	\$ 8,913,644	\$ 8,238,801	\$ 9,582,428	\$ 10,747,148	\$ 10,615,123	\$ 11,012,096	\$ 10,660,897	\$ 11,239,261	\$ 11,415,648
Contributions as a percentage of covered payroll	27.72%	30.53%	33.56%	28.96%	32.38%	36.31%	38.32%	41.35%	40.90%	38.83%
22-Year Pension Trust Fund:										
Actuarially determined contribution	\$ 2,746,631	\$ 3,287,281	\$ 4,126,228	\$ 4,066,446	\$ 4,130,255	\$ 4,952,458	\$ 5,216,531	\$ 5,757,450	\$ 5,067,852	\$ 4,823,368
Contribution	2,746,631	3,287,281	4,126,228	4,066,446	4,130,255	4,952,458	5,216,531	5,987,197	5,067,852	4,823,368
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (229,747)	\$ -	\$ -
Covered payroll	\$ 8,384,676	\$ 8,357,560	\$ 9,118,974	\$ 9,849,864	\$ 9,671,091	\$ 9,598,238	\$ 9,968,446	\$ 9,686,182	\$ 10,684,088	\$ 10,676,578
Contributions as a percentage of covered payroll	32.76%	39.33%	45.25%	41.28%	42.71%	51.60%	52.33%	61.81%	47.43%	45.18%

The City of Frederick, Maryland
Pension Trust Funds
Required Supplementary Information (unaudited)
Schedule of Investment Returns
Fiscal Year Ending June 30, 2015

	<u>2014</u>	<u>2015</u>
30 Year Plan:		
Annual money weighted rate of return, net of investment expense	16.81%	4.36%
25 Year Plan:		
Annual money weighted rate of return, net of investment expense	16.32%	4.37%
22 Year Plan:		
Annual money weighted rate of return, net of investment expense	16.66%	4.38%

Information for fiscal years prior to 2014 is not readily available.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/06	-	\$ 88,005,000	\$ 88,005,000	0.00%	24,235,022	363.13%
08/01/08	-	157,062,000	157,062,000	0.00%	24,517,844	640.60%
07/01/10	-	127,998,804	127,998,804	0.00%	29,103,577	439.80%
07/01/12	10,457,567	114,742,755	104,285,188	9.11%	23,077,699	451.89%
07/01/14	20,245,974	119,136,169	98,890,195	16.99%	24,438,846	404.64%

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

Fiscal Year	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 7,474,000	\$ 2,229,200	29.83%	\$ 5,244,800
2010	12,628,000	3,299,727	26.13%	14,433,073
2011	11,120,616	11,598,116	104.29%	13,859,114
2012	11,120,616	5,882,079	52.89%	19,005,256
2013	8,996,061	6,913,055	76.85%	20,961,561
2014	8,996,061	6,496,205	72.21%	23,810,504
2015	8,471,456	6,852,736	80.89%	25,690,734

OTHER SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are restricted to expenditures for specified purposes.

CDS Program Fund - This fund is used to account for the activities of the City involving its controlled dangerous substance program.

Weinberg Center for the Arts - This fund is used to record the activities of the Weinberg Center for the Arts.

Community Development Fund - Transactions involving the City's Community Development Block Grants and related community development activities are recorded in this fund.

City Housing Fund - This fund is used to record transactions for the City's Moderately Priced Dwelling Unit program.

The City of Frederick, Maryland
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue Funds				Total Nonmajor Governmental Funds
	CDS Program	Weinberg Center	Community Development	City Housing Fund	
ASSETS					
Cash and cash equivalents	\$ -	\$ 661,819	\$ -	\$ -	\$ 661,819
Equity in pooled cash/investments	144,385	64,061	108,392	637,749	954,587
Investments	-	279,380	-	-	279,380
Receivables (net of allowance for uncollectibles)	-	-	2,302,747	-	2,302,747
Prepaid items	-	1,250	-	-	1,250
Intergovernmental receivable	-	-	49,379	-	49,379
Total assets	<u>\$ 144,385</u>	<u>\$ 1,006,510</u>	<u>\$ 2,460,518</u>	<u>\$ 637,749</u>	<u>\$ 4,249,162</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 126	\$ 35,351	\$ 119	\$ -	\$ 35,596
Accrued liabilities	-	17,370	2,729	-	20,099
Deposits	7,061	-	-	-	7,061
Unearned revenue	-	-	8,135	-	8,135
Total liabilities	<u>7,187</u>	<u>52,721</u>	<u>10,983</u>	<u>-</u>	<u>70,891</u>
Fund balances:					
Nonspendable	-	1,250	2,302,747	-	2,303,997
Restricted	21,412	612,441	-	-	633,853
Assigned	115,786	340,098	146,788	637,749	1,240,421
Total fund balances	<u>137,198</u>	<u>953,789</u>	<u>2,449,535</u>	<u>637,749</u>	<u>4,178,271</u>
Total liabilities and fund balances	<u>\$ 144,385</u>	<u>\$ 1,006,510</u>	<u>\$ 2,460,518</u>	<u>\$ 637,749</u>	<u>\$ 4,249,162</u>

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue Funds				Total Nonmajor Governmental Funds
	CDS Program	Weinberg Center	Community Development	City Housing Fund	
REVENUES:					
Intergovernmental	\$ -	\$ 120,444	\$ 590,586	\$ -	\$ 711,030
Charges for services	-	1,093,537	-	-	1,093,537
Fines and forfeitures	78,644	-	-	-	78,644
Miscellaneous	657	736,589	305	1,509	739,060
Total revenues	<u>79,301</u>	<u>1,950,570</u>	<u>590,891</u>	<u>1,509</u>	<u>2,622,271</u>
EXPENDITURES:					
Current:					
Public safety	68,187	-	-	-	68,187
Recreation and parks	-	1,782,936	-	-	1,782,936
Community development	-	-	303,635	121,541	425,176
Total expenditures	<u>68,187</u>	<u>1,782,936</u>	<u>303,635</u>	<u>121,541</u>	<u>2,276,299</u>
Excess (Deficiency) of Revenues over Expenditures	<u>11,114</u>	<u>167,634</u>	<u>287,256</u>	<u>(120,032)</u>	<u>345,972</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	93,577	-	-	93,577
Transfers out	-	-	(60,000)	-	(60,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>93,577</u>	<u>(60,000)</u>	<u>-</u>	<u>33,577</u>
Net Change in Fund Balances	11,114	261,211	227,256	(120,032)	379,549
Fund Balance - beginning	126,084	692,578	2,222,279	757,781	3,798,722
Fund Balance - ending	<u>\$ 137,198</u>	<u>\$ 953,789</u>	<u>\$ 2,449,535</u>	<u>\$ 637,749</u>	<u>\$ 4,178,271</u>

The City of Frederick, Maryland
 CDS Program Fund
 Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fines and forfeitures	\$ 40,000	\$ 40,000	\$ 78,644	\$ 38,644
Miscellaneous	-	-	657	657
Total Revenues	<u>40,000</u>	<u>40,000</u>	<u>79,301</u>	<u>39,301</u>
EXPENDITURES:				
CDS Enforcement	<u>110,627</u>	<u>110,627</u>	<u>68,187</u>	<u>42,440</u>
Total Expenditures	<u>110,627</u>	<u>110,627</u>	<u>68,187</u>	<u>42,440</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(70,627)</u>	<u>(70,627)</u>	<u>11,114</u>	<u>81,741</u>
Net Change in Fund Balances	(70,627)	(70,627)	11,114	81,741
Budgetary Fund Balance - beginning	<u>70,627</u>	<u>70,627</u>	<u>126,084</u>	<u>55,457</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,198</u>	<u>\$ 137,198</u>

The City of Frederick, Maryland
 Weinberg Center Fund
 Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 94,000	\$ 94,000	\$ 120,444	\$ 26,444
Charges for services	932,050	932,050	1,093,537	161,487
Miscellaneous	656,100	656,100	736,589	80,489
Total Revenues	<u>1,682,150</u>	<u>1,682,150</u>	<u>1,950,570</u>	<u>268,420</u>
EXPENDITURES:				
Weinberg Center	<u>1,821,266</u>	<u>1,821,266</u>	<u>1,782,936</u>	<u>38,330</u>
Total Expenditures	<u>1,821,266</u>	<u>1,821,266</u>	<u>1,782,936</u>	<u>38,330</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(139,116)</u>	<u>(139,116)</u>	<u>167,634</u>	<u>306,750</u>
OTHER FINANCING SOURCES:				
Transfer in	<u>128,499</u>	<u>128,499</u>	<u>93,577</u>	<u>(34,922)</u>
Total Other Financing Sources	<u>128,499</u>	<u>128,499</u>	<u>93,577</u>	<u>(34,922)</u>
Net Change in Fund Balances	(10,617)	(10,617)	261,211	271,828
Budgetary Fund Balance - beginning	<u>10,617</u>	<u>10,617</u>	<u>692,578</u>	<u>681,961</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,789</u>	<u>\$ 953,789</u>

The City of Frederick, Maryland
 Community Development Fund
 Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 313,000	\$ 313,000	\$ 590,586	\$ 277,586
Miscellaneous	25,000	25,000	305	(24,695)
Total Revenues	<u>338,000</u>	<u>338,000</u>	<u>590,891</u>	<u>252,891</u>
EXPENDITURES:				
Community development	<u>414,270</u>	<u>444,270</u>	<u>303,635</u>	<u>140,635</u>
Total Expenditures	<u>414,270</u>	<u>444,270</u>	<u>303,635</u>	<u>140,635</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(76,270)</u>	<u>(106,270)</u>	<u>287,256</u>	<u>393,526</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>-</u>	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>
Net Change in Fund Balance	(76,270)	(106,270)	227,256	333,526
Budgetary Fund Balance - beginning	<u>76,270</u>	<u>106,270</u>	<u>2,222,279</u>	<u>2,116,009</u>
Budgetary Fund Balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,449,535</u>	<u>\$ 2,449,535</u>

The City of Frederick, Maryland
City Housing Fund
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Miscellaneous	\$ -	\$ -	\$ 1,509	\$ 1,509
Total Revenues	-	-	1,509	1,509
EXPENDITURES:				
MPDU housing	756,700	756,700	121,541	635,159
Total Expenditures	756,700	756,700	121,541	635,159
Excess (Deficiency) of Revenues over Expenditures	(756,700)	(756,700)	(120,032)	636,668
Net Change in Fund Balance	(756,700)	(756,700)	(120,032)	636,668
Budgetary Fund Balance - beginning	756,700	756,700	757,781	1,081
Budgetary Fund Balance - ending	\$ -	\$ -	\$ 637,749	\$ 637,749

Nonmajor Proprietary Funds

Proprietary Funds

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

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

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

The City of Frederick, Maryland
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2015

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 600	\$ 5,110	\$ 5,710
Equity in pooled cash/investments	-	33,911	33,911
Receivables (net of allowance of uncollectibles)	-	7	7
Inventories	88,847	-	88,847
Prepays	1,500	-	1,500
Total current assets	<u>90,947</u>	<u>39,028</u>	<u>129,975</u>
Noncurrent assets:			
Capital assets:			
Land	-	30,650	30,650
Buildings and systems	-	180,795	180,795
Improvements other than buildings	5,565,390	-	5,565,390
Machinery and equipment	868,410	74,826	943,236
Less accumulated depreciation	(3,284,248)	(222,943)	(3,507,191)
Total noncurrent assets	<u>3,149,552</u>	<u>63,328</u>	<u>3,212,880</u>
Total assets	<u>3,240,499</u>	<u>102,356</u>	<u>3,342,855</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension deferrals	<u>41,918</u>	<u>-</u>	<u>41,918</u>
LIABILITIES			
Current liabilities:			
Accounts payable	42,719	5,829	48,548
Accrued liabilities	36,886	234	37,120
Deposits	-	291	291
Unearned revenue	60,795	-	60,795
Advances from other funds	5,040,557	-	5,040,557
Compensated absences	18,650	-	18,650
Bonds, notes, and loans payable	46,195	-	46,195
Total current liabilities	<u>5,245,802</u>	<u>6,354</u>	<u>5,252,156</u>
Noncurrent liabilities:			
Net pension liability	588,225	-	588,225
OPEB liabilities	472,849	-	472,849
Bonds, notes, and loans payable	764,344	-	764,344
Total noncurrent liabilities	<u>1,825,418</u>	<u>-</u>	<u>1,825,418</u>
Total liabilities	<u>7,071,220</u>	<u>6,354</u>	<u>7,077,574</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension deferrals	<u>6,014</u>	<u>-</u>	<u>6,014</u>
NET POSITION			
Net investment in capital assets	2,339,013	63,328	2,402,341
Unrestricted/(deficit)	(6,133,830)	32,674	(6,101,156)
Total net position	<u>\$ (3,794,817)</u>	<u>\$ 96,002</u>	<u>\$ (3,698,815)</u>

The City of Frederick, Maryland
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	\$ 1,194,873	\$ -	\$ 1,194,873
Miscellaneous	27,037	10,167	37,204
Total operating revenues	<u>1,221,910</u>	<u>10,167</u>	<u>1,232,077</u>
Operating expenses:			
Public housing	-	82,390	82,390
Golf course maintenance	562,469	-	562,469
Golf course clubhouse	481,207	-	481,207
Golf course restaurant	56,843	-	56,843
Depreciation	173,872	15,210	189,082
Total operating expenses	<u>1,274,391</u>	<u>97,600</u>	<u>1,371,991</u>
Operating income/(loss)	<u>(52,481)</u>	<u>(87,433)</u>	<u>(139,914)</u>
Nonoperating revenues/(expenses)			
Intergovernmental	-	25,120	25,120
Interest income	-	127	127
Debt premium amortization	1,195	-	1,195
Interest expense	(36,835)	-	(36,835)
Other nonoperating expenses	(8)	-	(8)
Total nonoperating revenue/(expenses)	<u>(35,648)</u>	<u>25,247</u>	<u>(10,401)</u>
Income/(loss) before transfers	(88,129)	(62,186)	(150,315)
Total net position - beginning, previously reported	(3,022,122)	158,188	(2,863,934)
Restatement	(684,566)	-	(684,566)
Total net position - beginning, restated	<u>(3,706,688)</u>	<u>158,188</u>	<u>(3,548,500)</u>
Total net position - ending	<u>\$ (3,794,817)</u>	<u>\$ 96,002</u>	<u>\$ (3,698,815)</u>

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,229,078	\$ 10,041	\$ 1,239,119
Payments to vendors	(663,062)	(76,581)	(739,643)
Payments to employees	(474,317)	234	(474,083)
Net cash provided (used) by operating activities	<u>91,699</u>	<u>(66,306)</u>	<u>25,393</u>
Cash flows from noncapital financing activities:			
Operating subsidy	-	25,120	25,120
Due to other funds	16,746	-	16,746
Net cash provided (used) by noncapital financing activities	<u>16,746</u>	<u>25,120</u>	<u>41,866</u>
Cash flows from capital and related financing activities:			
Principal payments	(40,000)	-	(40,000)
Interest payments	(37,369)	-	(37,369)
Other debt related costs	(7)	-	(7)
Capital asset acquisition	(31,070)	-	(31,070)
Net cash (used) by capital and related financing activities	<u>(108,446)</u>	<u>-</u>	<u>(108,446)</u>
Cash flows from investing activities:			
Interest earned	1	126	127
Net cash provided by investing activities	<u>1</u>	<u>126</u>	<u>127</u>
Net increase (decrease) in cash equivalents	-	(41,060)	(41,060)
Cash equivalents - beginning	600	80,081	80,681
Cash equivalents - ending	<u>\$ 600</u>	<u>\$ 39,021</u>	<u>\$ 39,621</u>

(continued)

The City of Frederick, Maryland
Combining Statement of Cash Flows (continued)
Nonmajor Proprietary Funds
For the Year Ended June 30, 2015

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Rental Operations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	<u>\$ (52,481)</u>	<u>\$ (87,433)</u>	<u>\$ (139,914)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	173,872	15,210	189,082
(Increase)/decrease in accounts receivable	48	(7)	41
(Increase)/decrease in inventory	17,507	-	17,507
Decrease in prepaids	4,000	-	4,000
(Decrease)/increase in accounts payable	(12,521)	5,809	(6,712)
(Decrease)/increase in deferred revenue	7,120	-	7,120
(Decrease)/increase in deposits	-	(119)	(119)
(Decrease)/increase in OPEB liability	69,162	-	69,162
(Decrease)/increase in net pension liability	(95,676)	-	(95,676)
(Decrease)/increase in wages payable	(5,418)	234	(5,184)
(Decrease)/increase in compensated absences	(13,914)	-	(13,914)
Total adjustments	<u>144,180</u>	<u>21,127</u>	<u>165,307</u>
Net cash provided (used) by operating activities	<u>\$ 91,699</u>	<u>\$ (66,306)</u>	<u>\$ 25,393</u>

STATISTICAL SECTION

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Net investment in capital assets	\$ 55,805,720	\$ 55,591,683	\$ 57,992,552	\$ 59,517,153	\$ 59,765,449	\$ 58,911,146	\$ 58,971,758	\$ 61,782,387	\$ 68,637,451	\$ 78,236,657
Restricted	795,991	1,190,033	1,873,394	2,649,212	1,547,698	1,818,497	1,741,456	2,114,030	2,808,140	11,227,170
Unrestricted	20,230,961	24,074,161	27,035,600	24,402,118	20,703,812	21,647,000	20,401,656	17,556,345	12,517,401	(72,695,701)
Total governmental activities net position	\$ 76,832,672	\$ 80,855,877	\$ 86,901,546	\$ 86,568,483	\$ 82,016,959	\$ 82,376,643	\$ 81,114,870	\$ 81,452,762	\$ 83,962,992	\$ 16,768,126
Business-type activities										
Net investment in capital assets	\$ 144,403,887	\$ 158,629,713	\$ 162,281,588	\$ 152,780,782	\$ 155,252,838	\$ 162,204,773	\$ 156,954,179	\$ 155,846,982	\$ 158,963,588	\$ 159,039,826
Restricted	12,695,679	9,463,659	6,343,147	4,801,857	498,487	1,849,613	3,036,286	6,704,374	6,732,260	10,430,285
Unrestricted	18,833,302	18,780,578	20,668,350	24,273,420	22,761,675	22,069,063	28,979,873	30,968,299	33,374,607	14,246,994
Total business-type activities net position	\$ 175,932,868	\$ 186,873,950	\$ 189,293,085	\$ 181,856,059	\$ 178,513,000	\$ 186,123,449	\$ 188,970,338	\$ 193,519,655	\$ 199,070,455	\$ 183,717,105
Primary government										
Net investment in capital assets	\$ 200,209,607	\$ 214,221,396	\$ 220,274,140	\$ 212,297,935	\$ 215,018,287	\$ 221,115,919	\$ 215,925,937	\$ 217,629,369	\$ 227,601,039	\$ 237,276,483
Restricted	13,491,670	10,653,692	8,216,541	7,451,069	2,046,185	3,668,110	4,777,742	8,818,404	9,540,400	21,657,455
Unrestricted	39,064,263	42,854,739	47,703,950	48,675,538	43,465,487	43,716,063	49,381,529	48,524,644	45,892,008	(58,448,707)
Total primary government net position	\$ 252,765,540	\$ 267,729,827	\$ 276,194,631	\$ 268,424,542	\$ 260,529,959	\$ 268,500,092	\$ 270,085,208	\$ 274,972,417	\$ 283,033,447	\$ 200,485,231

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 7,381,790	\$ 8,442,242	\$ 9,921,865	\$ 13,843,701	\$ 11,112,807	\$ 9,605,846	\$ 9,674,531	\$ 10,551,754	\$ 10,837,533	\$ 10,653,257
Public safety	20,289,857	22,335,882	24,930,778	27,774,500	29,380,419	28,689,755	29,619,355	29,614,505	31,006,820	30,820,848
Public works	13,955,935	14,025,384	14,258,037	16,085,179	17,920,281	16,782,556	16,913,468	18,022,285	17,847,442	18,812,241
Recreation and parks	5,334,442	6,473,547	7,218,619	8,537,986	8,593,681	8,904,412	8,787,099	8,672,576	8,768,838	10,427,738
Community development	711,756	1,035,084	1,030,103	1,042,266	1,233,762	1,074,238	1,055,298	657,361	1,000,768	1,245,583
Economic opportunity	2,323,843	2,413,856	2,665,212	2,762,777	3,550,150	3,160,817	3,265,475	3,327,477	4,135,736	4,692,600
Interest on long-term debt	1,999,391	1,924,408	1,757,506	2,096,126	3,130,649	3,230,708	3,165,462	2,562,813	2,810,381	2,649,905
Miscellaneous	15,216	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	52,012,230	56,650,403	61,782,120	72,142,535	74,921,749	71,448,332	72,480,688	73,408,771	76,407,518	79,302,172
Business-type activities:										
Rental operations	22,433	36,695	47,628	46,580	51,008	57,746	50,991	50,788	36,073	97,600
Water and sewer	14,709,615	16,114,447	15,719,737	21,183,272	19,495,148	18,387,834	22,986,792	22,448,787	24,141,597	26,155,942
Golf course	1,612,515	1,758,967	1,848,767	1,781,729	1,964,708	1,829,914	1,781,409	2,056,395	1,739,533	1,311,234
Airport	1,764,846	1,332,623	1,501,508	1,783,928	2,317,740	2,028,957	2,492,055	2,042,753	1,800,664	1,680,551
Parking	3,724,869	3,792,464	3,447,433	3,611,042	4,025,218	4,760,912	4,468,651	4,634,473	4,724,193	4,530,502
Storm water	1,984,030	1,989,406	2,087,634	2,357,663	2,344,948	2,512,994	2,524,774	2,425,996	2,460,456	2,684,726
Total business-type activities expenses	23,818,308	25,024,602	24,652,707	30,764,214	30,198,770	29,578,357	34,304,672	33,659,192	34,902,516	36,460,555
Total primary government expenses	\$ 75,830,538	\$ 81,675,005	\$ 86,434,827	\$ 102,906,749	\$ 105,120,519	\$ 101,026,689	\$ 106,785,360	\$ 107,067,963	\$ 111,310,034	\$ 115,762,727
Program Revenues										
Government activities:										
Charges for services:										
Public safety	\$ 2,731,753	\$ 2,914,865	\$ 1,966,484	\$ 1,749,465	\$ 2,523,502	\$ 1,818,954	\$ 3,017,097	\$ 2,833,586	\$ 3,075,163	\$ 3,033,180
Recreation and parks	1,347,786	1,989,950	1,974,985	2,426,172	2,223,533	2,543,464	2,264,643	2,921,182	2,756,033	2,899,507
Other activities	1,616,970	899,633	1,021,607	909,424	646,804	793,407	867,871	976,649	1,780,353	904,720
Operating grants and contributions	6,413,053	6,796,260	6,226,986	6,093,560	5,587,027	4,195,169	4,766,506	4,109,780	6,232,712	7,196,131
Capital grants and contributions	3,074,822	2,633,527	2,850,668	4,706,273	2,569,066	1,813,587	1,706,795	3,607,381	3,934,322	7,475,864
Total governmental activities program revenues	15,184,384	15,234,235	14,040,730	15,884,894	13,549,932	11,164,581	12,622,912	14,448,578	17,778,583	21,509,402
Business-type activities:										
Charges for services:										
Water and sewer	12,827,261	14,829,193	14,510,771	14,524,384	16,433,555	19,343,380	21,495,925	24,489,123	24,136,052	24,406,817
Golf course	1,739,201	1,761,511	1,758,726	1,531,269	1,529,491	1,520,422	1,556,753	1,574,674	1,429,603	1,223,105
Airport	1,045,308	1,116,295	1,164,930	1,135,860	943,969	864,021	818,464	843,707	867,135	964,476
Parking	3,148,483	3,349,077	3,808,048	3,894,883	3,632,117	4,400,010	4,541,440	4,686,233	5,075,188	5,115,880
Other activities	818,503	955,642	1,100,508	1,340,575	1,510,399	1,740,966	1,746,214	1,742,777	1,754,209	1,694,307
Operating grants and contributions	103,762	177,585	166,747	131,486	136,640	141,820	638,020	175,352	162,985	125,751
Capital grants and contributions	14,414,700	8,667,779	4,699,256	2,102,232	4,213,433	10,429,437	7,314,724	7,309,417	10,783,042	7,243,874
Total business-type activities program revenues	34,097,218	30,857,082	27,208,986	24,660,689	28,399,604	38,440,056	38,111,540	40,821,283	44,208,214	40,774,210
Total primary government revenues	\$ 49,281,602	\$ 46,091,317	\$ 41,249,716	\$ 40,545,583	\$ 41,949,536	\$ 49,604,637	\$ 50,734,452	\$ 55,269,861	\$ 61,986,797	\$ 62,283,612
Net (expense)/revenue										
Governmental activities	\$ (36,827,846)	\$ (41,416,168)	\$ (47,741,390)	\$ (56,257,641)	\$ (61,371,817)	\$ (60,283,751)	\$ (59,857,776)	\$ (58,960,193)	\$ (58,628,935)	\$ (57,792,770)
Business-type activities	10,278,910	5,832,480	2,556,279	(6,103,525)	(1,799,166)	8,861,699	3,806,868	7,162,091	9,305,698	4,313,655
Total primary government net expense	\$ (26,548,936)	\$ (35,583,688)	\$ (45,185,111)	\$ (62,361,166)	\$ (63,170,983)	\$ (51,422,052)	\$ (56,050,908)	\$ (51,798,102)	\$ (49,323,237)	\$ (53,479,115)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 31,426,436	\$ 35,077,508	\$ 37,948,719	\$ 40,656,389	\$ 43,570,134	\$ 46,567,875	\$ 43,816,598	\$ 48,901,253	\$ 48,266,570	\$ 51,078,544
Income taxes	5,166,640	5,627,603	5,995,166	5,806,339	5,548,046	6,090,857	6,587,811	6,796,948	7,010,102	7,373,159
Other taxes	389,999	402,365	431,408	346,904	305,873	317,816	401,280	405,339	389,119	309,426
Unrestricted grants and contributions	3,728,364	4,695,551	5,259,594	5,769,443	5,146,165	5,848,174	5,094,664	1,667,027	1,257,005	1,312,499
Interest earnings	886,927	1,201,986	1,129,019	526,778	274,691	191,738	157,056	107,835	97,008	73,588
Gain/(loss) on sale of capital assets	1,221,775	5,857	232,107	361,697	23,614	39,538	258,914	20,515	-	-
Miscellaneous	56,199	49,751	52,893	41,093	41,622	36,819	1,181,437	278,909	272,959	269,072
Transfers	7,267,939	(1,621,248)	2,738,153	2,415,935	1,910,148	1,448,229	1,098,243	1,724,528	3,846,402	3,799,914
Transfer of capital assets	-	-	-	-	-	-	-	-	-	-
Total governmental activities	50,144,279	45,439,373	53,787,059	55,924,578	56,820,293	60,541,046	58,596,003	59,902,354	61,139,165	64,216,202
Business-type activities:										
Interest earnings	3,356,010	3,487,354	2,601,009	1,082,434	366,255	196,979	138,264	125,716	91,504	96,252
Transfers	(7,267,939)	1,621,248	(2,738,153)	(2,415,935)	(1,910,148)	(1,448,229)	(1,098,243)	(1,724,528)	(3,846,402)	(3,799,914)
Transfer of capital assets	-	-	-	-	-	-	-	-	-	-
Total business-type activities	(3,911,929)	5,108,602	(137,144)	(1,333,501)	(1,543,893)	(1,251,250)	(959,979)	(1,598,812)	(3,754,898)	(3,703,662)
Total primary government	\$ 46,232,350	\$ 50,547,975	\$ 53,649,915	\$ 54,591,077	\$ 55,276,400	\$ 59,289,796	\$ 57,636,024	\$ 58,303,542	\$ 57,384,267	\$ 60,512,540
Change in Net Position										
Governmental activities	\$ 13,316,433	\$ 4,023,205	\$ 6,045,669	\$ (333,063)	\$ (4,551,524)	\$ 257,295	\$ (1,261,773)	\$ 942,161	\$ 2,510,230	\$ 6,423,432
Business-type activities	6,366,981	10,941,082	2,419,135	(7,437,026)	(3,343,059)	7,610,449	2,846,889	5,563,279	5,550,800	609,993
Total primary government	\$ 19,683,414	\$ 14,964,287	\$ 8,464,804	\$ (7,770,089)	\$ (7,894,583)	\$ 7,867,744	\$ 1,585,116	\$ 6,505,440	\$ 8,061,030	\$ 7,033,425

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General fund										
Reserved	\$ 5,288,664	\$ 5,793,698	\$ 10,213,220	\$ 5,906,069	\$ 5,802,406	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:										
Designated	3,047,463	2,042,750	4,946,108	2,752,110	926,039	-	-	-	-	-
Undesignated	7,270,067	11,623,563	5,709,009	11,430,350	14,153,802	-	-	-	-	-
Nonspendable	-	-	-	-	-	5,284,535	5,269,844	5,553,876	5,816,997	6,370,411
Restricted	-	-	-	-	-	197,938	197,674	195,938	194,814	194,473
Committed	-	-	-	-	-	524,324	522,177	1,192,444	329,649	330,019
Assigned	-	-	-	-	-	2,781,723	6,446,946	11,528,480	2,976,063	2,804,496
Unassigned	-	-	-	-	-	17,048,404	15,252,943	5,945,753	10,593,266	11,612,570
Total general fund	<u>\$ 15,606,194</u>	<u>\$ 19,460,011</u>	<u>\$ 20,868,337</u>	<u>\$ 20,088,529</u>	<u>\$ 20,882,247</u>	<u>\$ 25,836,924</u>	<u>\$ 27,689,584</u>	<u>\$ 24,416,491</u>	<u>\$ 19,910,789</u>	<u>\$ 21,311,969</u>
All other governmental funds										
Reserved	\$ 7,225,118	\$ 3,923,804	\$ 11,956,981	\$ 9,198,552	\$ 8,738,827	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	140,431	161,639	326,626	542,145	891,196	-	-	-	-	-
Capital projects funds	4,427,961	2,588,627	(4,313,083)	9,352,102	5,545,065	-	-	-	-	-
Nonspendable	-	-	-	-	-	2,206,633	2,169,708	2,125,039	2,047,046	2,303,997
Restricted	-	-	-	-	-	4,107,321	3,668,132	12,541,334	12,418,668	11,032,696
Committed	-	-	-	-	-	2,885,570	2,186,365	214,717	-	-
Assigned	-	-	-	-	-	3,319,297	4,023,980	8,102,720	10,313,527	6,372,457
Total all other governmental funds	<u>\$ 11,793,510</u>	<u>\$ 6,674,070</u>	<u>\$ 7,970,524</u>	<u>\$ 19,092,799</u>	<u>\$ 15,175,088</u>	<u>\$ 12,518,821</u>	<u>\$ 12,048,185</u>	<u>\$ 22,983,810</u>	<u>\$ 24,779,241</u>	<u>\$ 19,709,150</u>

Note - GASB Statement No. 54 altered the classification of governmental fund balances on a prospective basis effective with fiscal year 2011. Retroactive application was encouraged; however, information pertaining to prior years is not readily available. The objective of this statement is to more clearly define categories that reflect the nature and extent of constraints placed on the City's fund balances.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Taxes:										
Property taxes	\$ 31,426,435	\$ 35,077,508	\$ 37,948,719	\$ 40,656,389	\$ 43,570,135	\$ 46,567,875	\$ 43,495,667	\$ 49,005,998	\$ 48,214,181	\$ 51,019,530
Income taxes	5,166,640	5,627,603	5,995,166	5,806,340	5,548,045	6,090,857	6,587,811	6,796,948	7,010,102	7,373,159
Other taxes	389,999	402,365	431,408	346,904	305,873	317,816	401,280	405,339	389,119	309,426
Licenses and permits	2,693,743	2,711,634	1,911,285	1,468,000	2,375,343	1,687,457	2,230,532	2,317,125	2,544,470	2,814,748
Intergovernmental	11,162,584	11,168,733	11,195,720	12,074,875	10,648,160	9,305,651	9,776,411	5,011,287	6,351,347	13,302,954
Charges for services	1,745,271	1,924,643	2,155,354	2,321,749	2,332,081	2,536,048	2,455,452	2,607,519	2,693,156	2,644,262
Fines and forfeitures	444,404	577,893	485,832	624,082	577,466	532,398	1,705,111	1,307,955	1,173,783	1,087,107
Miscellaneous	2,363,280	2,690,232	2,491,345	4,337,261	2,257,919	1,813,516	2,530,774	3,670,682	4,283,869	2,281,164
Total revenues	<u>55,392,356</u>	<u>60,180,611</u>	<u>62,614,829</u>	<u>67,635,600</u>	<u>67,615,022</u>	<u>68,851,618</u>	<u>69,183,038</u>	<u>71,122,853</u>	<u>72,660,027</u>	<u>80,832,350</u>
Expenditures										
General government	7,081,328	7,567,824	8,807,373	12,976,950	9,692,762	8,724,561	8,549,607	9,031,999	10,028,228	9,956,282
Public safety	20,019,582	22,096,860	24,566,690	27,172,993	26,441,580	26,765,448	27,489,456	29,341,398	29,861,227	30,111,684
Public works	10,251,810	11,170,943	10,978,191	11,712,321	12,411,139	11,976,035	12,616,116	13,941,014	14,332,589	13,722,434
Recreation and parks	4,585,333	4,760,130	5,579,399	6,715,101	5,979,589	5,969,521	6,191,212	6,367,495	7,105,235	6,940,378
Urban development and housing	776,877	1,321,871	793,394	1,005,062	1,170,722	1,010,691	1,024,771	759,242	1,001,369	1,213,388
Economic opportunity	2,231,192	2,324,480	2,765,476	2,638,573	3,260,161	2,995,984	2,924,599	3,098,720	3,912,185	4,420,686
Miscellaneous	3,931	77,889	59,477	-	-	-	-	-	-	-
Capital projects	13,219,554	4,755,216	3,932,281	35,731,632	7,154,657	3,628,998	3,816,969	4,131,735	5,371,145	14,182,508
Debt service:										
Principal	4,024,631	3,964,680	4,735,368	4,638,528	3,785,104	4,009,270	4,346,545	4,621,888	5,045,640	5,084,241
Interest	1,908,433	1,849,520	1,713,343	1,545,865	3,075,786	3,045,211	2,821,654	2,374,364	2,718,264	2,694,300
Other charges	19,166	22,837	18,567	407,157	8,762	9,054	159,596	165,019	8,077	8,296
Total expenditures	<u>64,121,837</u>	<u>59,912,250</u>	<u>63,949,559</u>	<u>104,544,182</u>	<u>72,980,262</u>	<u>68,134,773</u>	<u>69,940,525</u>	<u>73,832,874</u>	<u>79,383,959</u>	<u>88,334,197</u>
Excess (deficiency) of revenues over expenditures	<u>(8,729,481)</u>	<u>268,361</u>	<u>(1,334,730)</u>	<u>(36,908,582)</u>	<u>(5,365,240)</u>	<u>716,845</u>	<u>(757,487)</u>	<u>(2,710,021)</u>	<u>(6,723,932)</u>	<u>(7,501,848)</u>
Other financing sources (uses)										
Capital asset disposition	1,588,366	5,857	1,102,369	682,309	282,909	27,290	246,114	20,515	126,996	9,360
Insurance reimbursements	67,774	81,407	99,734	110,633	48,190	14,982	24,527	19,710	40,263	23,662
Debt proceeds	1,194,043	-	99,255	44,043,053	-	-	8,367,000	21,274,997	-	-
Premium on bonds issued	-	-	-	-	-	-	127,312	2,530,309	-	-
Transfers in	10,115,807	3,733,281	5,695,808	6,327,327	2,470,432	3,319,151	3,768,259	6,014,481	6,390,461	4,780,840
Transfers out	(2,847,868)	(5,354,529)	(2,957,656)	(3,912,273)	(560,284)	(1,882,247)	(2,670,016)	(4,289,953)	(2,544,059)	(980,926)
Payment to refunded bond escrow	-	-	-	-	-	-	(7,723,685)	(15,197,506)	-	-
Total other financing sources (uses)	<u>10,118,122</u>	<u>(1,533,984)</u>	<u>4,039,510</u>	<u>47,251,049</u>	<u>2,241,247</u>	<u>1,479,176</u>	<u>2,139,511</u>	<u>10,372,553</u>	<u>4,013,661</u>	<u>3,832,936</u>
Net change in fund balances	<u>\$ 1,388,641</u>	<u>\$ (1,265,623)</u>	<u>\$ 2,704,780</u>	<u>\$ 10,342,467</u>	<u>\$ (3,123,993)</u>	<u>\$ 2,196,021</u>	<u>\$ 1,382,024</u>	<u>\$ 7,662,532</u>	<u>\$ (2,710,271)</u>	<u>\$ (3,668,912)</u>
Debt service as a percentage of noncapital expenditures	11.6%	10.7%	10.8%	9.6%	10.4%	10.8%	10.9%	10.4%	10.8%	10.7%

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

Fiscal Year	REAL PROPERTY			PERSONAL PROPERTY			TOTAL		Ratio of Total Assessed to Total Estimated Actual Value
	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	
2006	\$ 4,138,633,781	\$ 4,138,633,781	\$0.6900	\$ 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	0.6900	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	0.6700	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	0.6500	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	0.6500	411,723,070	154,396,151	1.55	6,735,914,957	6,478,588,038	96.18%
2011	6,762,305,403	6,762,305,403	0.6500	420,906,402	157,839,901	1.55	7,183,211,805	6,920,145,304	96.34%
2012	6,158,768,855	6,158,768,855	0.6500	592,379,348	222,142,255	1.55	6,751,148,203	6,380,911,110	94.52%
2013	6,213,988,112	6,213,988,112	0.7320	593,200,830	222,450,311	1.55	6,807,188,942	6,436,438,423	94.55%
2014	6,366,307,120	6,366,307,120	0.7305	456,875,064	171,328,149	1.55	6,823,182,184	6,537,635,269	95.82%
2015	6,563,603,073	6,563,603,073	0.7305	487,255,405	182,720,777	1.55	7,050,858,478	6,746,323,850	95.68%

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		(Note 1) Applicable to Prior Years	(Note 2) Amount	Percent
		Amount	Percent			
2006	\$ 31,023,926	\$ 30,834,951	99.4%	\$ 188,031	\$ 31,022,982	100.0%
2007	34,716,468	34,454,566	99.2%	251,013	34,705,579	100.0%
2008	37,890,393	37,663,481	99.4%	225,317	37,888,798	100.0%
2009	40,600,977	40,412,247	99.5%	159,114	40,571,361	99.9%
2010	43,488,738	43,351,084	99.7%	112,358	43,463,442	99.9%
2011	46,395,466	46,264,937	99.7%	101,045	46,365,982	99.9%
2012	43,475,202	43,013,544	98.9%	431,205	43,444,749	99.9%
2013	48,934,372	48,752,446	99.6%	124,737	48,877,183	99.9%
2014	49,161,460	48,915,935	99.5%	128,777	49,044,712	99.8%
2015	50,779,292	50,617,526	99.7%	-	50,617,526	99.7%

Note 1 - Includes additions, abatements and collections of original levy
Note 2 - Total amount collected and abated.

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

Fiscal Year	City		County		State		Total		
	Property Tax Rate		Levy	Rate	Levy	Rate	Levy	Rate	Levy
	Real	Personal							
2006	\$0.6900	\$ 1.55	\$ 31,023,926	\$1.1350	\$ 46,973,493	\$ 0.132	\$ 5,462,997	\$ 1.9570	\$ 83,460,416
2007	0.6900	1.55	34,716,468	1.0640	49,748,293	0.112	5,236,662	1.8660	89,701,423
2008	0.6700	1.55	37,890,393	1.0640	56,386,345	0.112	5,935,405	1.8460	100,212,143
2009	0.6500	1.55	40,600,977	1.0640	62,536,305	0.112	6,582,769	1.8260	109,720,051
2010	0.6500	1.55	43,488,738	1.0640	67,289,402	0.112	7,083,095	1.8260	117,861,235
2011	0.6500	1.55	46,395,466	1.0640	71,950,929	0.112	7,573,782	1.8260	125,920,177
2012	0.6500	1.55	43,475,202	1.0640	65,529,301	0.112	6,897,821	1.8260	115,902,324
2013	0.7320	1.55	48,934,372	0.9410	58,473,628	0.112	6,959,667	1.7850	114,367,667
2014	0.7305	1.55	49,161,460	0.9357	59,569,536	0.112	7,130,264	1.7782	115,861,260
2015	0.7305	1.55	50,779,292	0.9357	61,415,634	0.112	7,351,235	1.7782	119,546,161

Note 1 - Tax rate is per \$100 of assessed value
Note 2 - No tax rate limits
Note 3 - Current taxes are due July 1 except for principal residences which are due semiannually on July 1 and December 31
Note 4 - Taxes become delinquent October 1 except for semiannual payments due December 31 which become delinquent January 1
Note 5 - Penalty of 1% per month for delinquent taxes
Note 6 - Discount of 1% if paid in July and 0.5% if paid in August
Note 7 - All properties owing delinquent real property taxes are sold at tax sale

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

Real Property Tax:

Taxpayer	2015			2006		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
RIV 402 LLC	\$ 96,614,967	1	0.0147	-	-	-
MedImmune, Inc.	51,825,900	2	0.0079	-	-	-
River X, LLC	49,260,100	3	0.0075	-	-	-
LSREF2 Tractor REO (Frederick) LLC	38,407,100	4	0.0059	40,982,700	1	0.99%
WIG07 Prospect Hall LLC	34,839,700	5	0.0053	-	-	-
Market Square at Frederick LLC	31,915,100	6	0.0049	-	-	-
I&G Direct Real Estate 23 LP	31,198,300	7	0.0048	-	-	-
Aldi, Inc.	31,194,700	8	0.0048	-	-	-
ASN Sunset LLC	29,928,067	9	0.0046	20,598,633	4	0.50%
Frederick County Commissioners	29,624,200	10	0.0045	-	-	-
First Real Estate Investment Trust	-	-	-	27,217,200	2	0.66%
KBS Legacy Partners Crystal LLC	-	-	-	21,350,800	3	0.52%
Homewood Retirement Centers	-	-	-	16,467,500	5	0.40%
Frederick Shopping Center LLC	-	-	-	16,376,507	6	0.40%
Waverly Limited Partnership	-	-	-	15,200,300	7	0.37%
Costco Wholesale Corp.	-	-	-	14,743,200	8	0.36%
Fredericktowne Mall Assoc.	-	-	-	14,135,700	9	0.34%
Frederick Commons, LLC	-	-	-	13,554,700	10	0.33%
	<u>\$ 424,808,134</u>		<u>6.49%</u>	<u>\$ 200,627,240</u>		<u>4.85%</u>

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

Taxpayer	2015			2006		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	\$ 26,552,250	1	14.53%	\$ 2,928,970	5	1.81%
Saputo Dairy Foods USA, LLC	7,933,840	2	4.34%	-	-	-
Maryland Grocery Store Company	3,764,860	3	2.06%	-	-	-
Nicolock Paving Stones LLC	3,191,630	4	1.75%	-	-	-
Dairy Maid Dairy, LLC	2,873,540	5	1.57%	-	-	-
Randall Family LLC	2,734,150	6	1.50%	1,798,000	9	1.11%
Aircraft Owners and Pilots Association	1,880,850	7	1.03%	-	-	-
State Farm Mutual Automobile Insurance Co.	1,854,330	8	1.01%	2,418,030	6	1.49%
Comcast	1,785,660	9	0.98%	-	-	-
Experient Inc.	1,708,920	10	0.94%	-	-	-
BP Solar International LLC	-	-	-	11,091,210	1	6.84%
Mid Atlantic Medical Services, Inc.	-	-	-	5,781,130	2	3.57%
Intracel Resources, LLC	-	-	-	3,521,990	3	2.17%
GS Cable, LLC	-	-	-	3,211,620	4	1.98%
Von Hoffman Corporation	-	-	-	2,182,700	7	1.35%
Giant Food Stores, Inc.	-	-	-	1,886,750	8	1.16%
Signature Special Event Services, LLC	-	-	-	1,257,050	10	0.78%
	<u>\$ 54,280,030</u>		<u>29.71%</u>	<u>\$ 36,077,450</u>		<u>22.26%</u>

Assessed Value provided by the Maryland Department of Assessment and Taxation

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

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Leases			
2006	\$ 43,776,844	\$ 2,154,960	\$ 1,033,999	\$ 1,968,583	\$ 91,547,599	\$ 4,674,983	\$ 225,957	\$ 145,382,925	5.61%	\$ 2,394.12
2007	41,260,872	2,084,902	955,120	1,480,841	87,085,891	4,191,728	181,238	137,240,592	5.00%	2,231.26
2008	37,102,701	2,010,676	228,103	979,971	82,514,467	3,954,548	154,029	126,944,495	4.47%	2,054.75
2009	77,067,779	1,932,033	206,238	484,952	165,601,822	3,711,913	104,474	249,109,211	8.78%	4,003.88
2010	73,591,804	1,848,711	183,685	246,723	160,139,733	3,469,278	54,919	239,534,853	7.97%	3,671.65
2011	69,905,830	1,760,431	160,417	-	154,479,520	3,209,772	-	229,515,970	7.35%	3,503.04
2012	66,686,164	1,666,899	136,404	-	149,274,136	10,319,038	-	228,082,641	7.10%	3,464.56
2013	70,822,066	1,567,801	111,614	-	135,873,898	14,703,648	-	223,079,027	6.94%	3,373.49
2014	65,698,118	1,462,807	-	-	129,303,999	18,169,134	-	214,634,058	N/A	3,182.83
2015	60,430,201	1,351,566	-	-	122,498,068	21,070,877	-	205,350,712	N/A	3,003.56

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
2006	\$ 135,324,443	\$ 2,154,960	\$ 137,479,403	\$ 4,300,796,906	3.20%	60,725	\$ 2,263.97
2007	128,346,763	2,084,902	130,431,665	4,836,958,325	2.70%	61,508	2,120.56
2008	119,617,168	2,010,676	121,627,844	5,455,770,970	2.23%	61,781	1,968.69
2009	242,669,601	1,932,033	244,601,634	6,033,993,100	4.05%	62,217	3,931.43
2010	233,731,537	1,848,711	235,580,248	6,478,588,038	3.64%	65,239	3,611.03
2011	224,385,350	1,760,431	226,145,781	6,920,145,304	3.27%	65,519	3,451.61
2012	215,960,300	1,666,899	217,627,199	6,380,911,110	3.41%	65,833	3,305.75
2013	206,695,964	1,567,801	208,263,765	6,436,438,423	3.24%	66,127	3,149.45
2014	195,002,117	1,462,807	196,464,924	6,537,635,269	3.01%	67,435	2,913.40
2015	182,928,269	1,351,566	184,279,835	6,746,323,850	2.73%	68,369	2,695.37

THE CITY OF FREDERICK, MARYLAND
 DIRECT AND OVERLAPPING DEBT
 as of June 30, 2015

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Frederick County	\$ 654,413,663	25.28%	\$ 165,435,774
The City of Frederick direct debt			61,781,767
			<u>\$ 227,217,541</u>

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

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

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

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

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

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Ratio of Total Net Debt Applicable to Limit to Debt Limit
2006	\$ 344,063,752	\$ 76,733,730	\$ 267,330,022	22.30%
2007	386,956,666	71,374,651	315,582,015	18.45%
2008	436,461,678	65,546,959	370,914,719	15.02%
2009	482,719,448	126,415,966	356,303,482	26.19%
2010	518,287,043	120,931,380	397,355,663	23.33%
2011	553,611,624	115,182,848	438,428,776	20.81%
2012	510,472,889	109,578,303	400,894,586	21.47%
2013	514,915,074	107,459,846	407,455,228	20.87%
2014	196,129,058	105,833,985	90,295,073	53.96%
2015	202,389,716	96,048,226	106,341,490	47.46%

Note - On October 3, 2013 the City revised the debt limit from 8% to 3% of the total assessed value of all taxable property within the City.

THE CITY OF FREDERICK, MARYLAND
 COMPUTATION OF LEGAL DEBT MARGIN
 June 30, 2015

Assessed valuations		\$ 6,746,323,850
Debt limit (3% of assessed value per City Charter)		\$ 202,389,716
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 184,279,835	
Other debt	21,070,877	
	\$ 205,350,712	
Less: Water and sewer debt	109,302,486	
Total amount of debt applicable to debt limit		96,048,226
Legal debt margin		\$ 106,341,490

The City charter establishes a debt limit of 3% 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
2006	\$ 4,024,631	\$ 1,908,433	\$ 5,933,064	\$ 52,683,932	11.26%
2007	3,964,680	1,849,520	5,814,200	57,622,015	10.09%
2008	4,735,368	1,713,343	6,448,711	60,460,843	10.67%
2009	4,638,528	1,545,865	6,184,393	62,372,998	9.92%
2010	3,785,104	3,075,786	6,860,890	63,281,356	10.84%
2011	4,009,270	3,045,211	7,054,481	66,468,557	10.61%
2012	4,346,545	2,821,654	7,168,199	66,220,095	10.82%
2013	4,621,888	2,374,364	6,996,252	66,717,614	10.49%
2014	5,045,640	2,718,264	7,763,904	67,838,568	11.44%
2015	5,084,241	2,694,300	7,778,541	71,551,778	10.87%

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

	Real Property Tax Increment Financing Bonds							
	Pledged Revenues			Expenditures				Coverage
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total	
2006	\$ 195,074	\$ -	\$ 195,074	\$ 66,124	\$ 56,668	\$ 5,866	\$ 128,658	151.62%
2007	240,421	-	240,421	70,058	79,938	9,924	159,920	150.34%
2008	746,100	-	746,100	74,226	77,340	6,069	157,635	473.31%
2009	865,402	-	865,402	78,643	74,586	6,955	160,184	540.25%
2010	942,403	-	942,403	83,322	57,927	7,156	148,405	635.02%
2011	1,022,905	-	1,022,905	88,280	42,280	7,549	138,109	740.65%
2012	914,466	-	914,466	93,532	40,261	9,860	143,653	636.58%
2013	1,034,874	-	1,034,874	99,098	38,122	8,675	145,895	709.33%
2014	1,016,562	-	1,016,562	104,994	35,856	7,073	147,923	687.22%
2015	1,040,871	-	1,040,871	111,241	29,746	7,344	148,331	701.72%

THE CITY OF FREDERICK, MARYLAND
 SELECTED DEMOGRAPHIC STATISTICS
 June 30, 2015
 For the years ended June 30,

Fiscal Year	(1) Population	(2) Per Capita Personal Income	(1 x 2) Estimated Personal Income (000s)	(3) School Enrollment	(4) Estimated Unemployment Rate - June
2006	60,725	\$ 42,691	\$ 2,592,411	39,741	3.90%
2007	61,508	44,584	2,742,273	40,315	3.40%
2008	61,781	45,987	2,841,123	40,566	3.90%
2009	62,217	45,622	2,838,464	40,155	6.90%
2010	65,239	46,043	3,003,799	40,210	7.40%
2011	65,519	47,645	3,121,653	40,255	7.30%
2012	65,833	48,774	3,210,939	40,360	6.90%
2013	66,127	48,617	3,214,896	40,501	6.70%
2014	67,435	N/A	N/A	40,715	5.80%
2015	68,369	N/A	N/A	40,544	5.20%

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
 2006, 2008 - 2009, 2011 - 2015 - The City of Frederick Planning Department
 2010 - U.S. Census Bureau
 - (2) Regional Economic Information System, Bureau of Economic Analysis, November 2014
 (current dollars, not adjusted for inflation)
 - (3) Frederick County Board of Education
 - (4) U.S. Department of Labor, Bureau of Labor Statistics, Frederick City

N/A - Not available

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

Employer	2015			2006			Business Classification
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment	
Fort Detrick	9,100	1	N/A	7,900	1	N/A	Military, bioscience, communications
Frederick County Board of Education	5,650	2	N/A	5,046	2	N/A	Public Education
Frederick Memorial Healthcare System	2,696	3	N/A	2,350	4	N/A	Comprehensive Healthcare
Frederick County Government	2,072	4	N/A	2,526	3	N/A	County Government
Ledios Biomedical Research	1,836	5	N/A	2,000	5	N/A	Medical Research
Wells Fargo Home Mortgage	1,881	6	N/A	-	-	-	Mortgage Loans & Service Center
Frederick Community College	1,055	7	N/A	1,141	7	N/A	Two-Year College
State Farm Insurance Company	839	8	N/A	950	8	N/A	Regional Headquarters - Insurance
Frederick City Government	842	9	N/A	851	9	N/A	Municipal Government
United Health Care	635	10	N/A	1,565	6	N/A	Medical Insurance
BP Solar	-	-	-	50	10	N/A	Manufacture, Research & Development of Photovoltaic Cells

Frederick County Economic and Community Development Commission, 2006
 Frederick County Office of Economic Development, 2015
 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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Function:										
General government	77.30	81.18	81.68	88.18	84.69	77.14	75.01	77.33	81.42	81.27
Public safety	194.24	203.15	203.84	212.70	211.3	207.75	195.15	199.94	207.53	209.22
Public works	84.77	86.59	85.38	93.78	96.33	93.69	90.15	89.22	90.37	90.77
Recreation and parks	60.44	58.73	60.56	58.78	61.46	57.98	53.83	55.60	56.91	55.82
Community development	6.00	6.00	6.00	6.00	6	5	4.4	4.00	4.50	5.00
Economic opportunity	38.27	41.34	39.17	36.95	46.04	43.81	39.88	42.65	42.92	52.18
Rental operations	0.50	0.50	0.40	0.50	0.5	0.5	0.5	0.50	0.25	0.15
Water and sewer	76.83	76.34	72.60	77.29	75.65	74.81	75.54	75.55	76.00	76.99
Golf course	21.01	20.80	20.69	22.17	19.77	19.85	15.64	15.94	15.98	16.18
Airport	3.50	3.50	3.50	3.50	2.86	2.5	2.5	2.50	2.50	2.50
Parking	15.74	16.60	17.04	13.09	16.26	17.03	16.14	18.07	20.08	20.44
Storm water	7.00	7.40	7.23	7.10	7.07	7.05	7.55	7.55	7.56	7.61
Total	585.60	602.13	598.09	620.04	627.93	607.11	576.29	588.85	606.02	618.12

Source: The City of Frederick Finance Department

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Function:										
Public safety										
Police:										
Stations	2	2	1	1	1	1	1	1	1	1
Public works:										
Miles of paved streets (road miles)	184	250	257	275	278	280	282	284	287	290
Miles of sidewalks	350	500	530	544	552	562	565	569	575	588
Number of street lights	8,131	8,213	7,459	9,050	9,135	9,216	9,256	9,411	9,438	9,483
Number of traffic signals	71	72	71	71	74	74	75	77	77	77
Recreation and parks:										
Number of parks	59	57	57	55	55	61	61	61	67	67
Parks acreage	464	400	435	583	603	603	603	603	624	624
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	26	26	26	23	23	23	23	23	23	23
Number of municipal stadiums	2	2	2	2	2	2	2	2	2	2
Economic opportunity:										
Number of transitional shelters	1	1	1	1	1	1	1	1	1	1
Number of transitional apartments	3	3	3	3	3	3	4	3	3	3
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Number of units	5	5	5	5	5	5	5	5	5	4
Water and sewer:										
Miles of water main	215	220	220	220	220	260	260	262	267	268
Number of fire hydrants	2,500	2,520	2,520	2,520	2,750	2,750	2,750	2,850	2,891	2,901
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Number of water pump stations	N/A	N/A	3	3	3	3	3	3	3	3
Miles of sanitary sewer	161	161	161	161	161	161	161	161	161	161
Number of sewage treatment plants	1	1	1	1	1	1	1	1	1	1
Number of sewage pump stations	N/A	N/A	9	9	10	11	11	10	10	10
Golf course:										
Number of golf courses	1	1	1	1	1	1	1	1	1	1
Airport:										
Number of runways	2	2	2	2	2	2	2	2	2	2
Number of T-hangars	125	125	125	125	125	125	125	125	125	127
Number of corporate hangars	1	1	1	1	1	1	1	2	2	4
Parking:										
Number of parking areas	3	3	3	3	3	4	5	5	5	5
Number of parking area spaces	156	156	164	158	143	231	265	265	265	265
Number of parking garages	3	4	4	4	5	5	5	5	5	5
Number of parking garage spaces	1,470	2,112	2,116	2,116	2,477	2,477	2,474	2,474	2,474	2,474
On street parking spaces	N/A	N/A	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Number of parking meters	N/A	N/A	N/A	N/A	N/A	744	856	856	856	861
Stormwater:										
Miles of storm drain	210	211	211	210	210	210	210	210	210	210
Number of storm water pump stations	N/A	N/A	4	4	5	5	6	6	6	6

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Function:										
Public safety										
Police:										
Calls for service	65,227	70,606	74,906	83,164	80,349	74,607	79,000	81,019	92,286	105,163
Physical arrests	2,897	4,161	3,229	4,359	4,116	2,225	1,908	3,724	3,844	1,685
Traffic violations	8,750	10,425	11,682	14,292	10,679	10,189	9,617	8,223	8,847	31,159
Water and sewer:										
Number of water service connections	17,587	17,814	17,939	18,092	18,246	18,342	18,502	18,620	18,796	18,988
Avg. daily water consumption (thousands of gallons)	5,780	5,989	6,300	5,533	5,509	5,437	5,612	5,371	5,268	5,516
Number of sewer service connections	14,713	14,845	14,934	14,987	15,030	15,050	15,088	15,114	15,168	15,224
Avg. daily sewage treatment (thousands of gallons)	6,450	6,690	6,900	6,200	6,890	6,005	6,228	6,143	6,665	5,990
Golf course:										
Number of rounds of golf	35,260	33,758	33,672	29,780	29,258	29,579	30,382	28,649	27,611	25,321
Airport:										
Number of Operations	154,107	160,657	151,088	130,284	132,803	131,500	131,500	110,000	110,000	77,231
Parking:										
Number of parking violations	30,272	38,177	42,354	39,213	25,320	29,996	28,995	30,714	31,105	29,360

Source: The City of Frederick Departments

SINGLE AUDIT SECTION



RSM US LLP

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2015-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2015-002 to be a significant deficiency.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Compliance and Other Matters

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

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

RSM US LLP

Frederick, Maryland
October 29, 2015



RSM US LLP

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

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

Report on Compliance for Each Major Federal Program

We have audited The City of Frederick, Maryland's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2015-005. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-003 and 2015-004, that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

RSM US LLP

Frederick, Maryland
October 29, 2015

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Expenditures July 1, 2014 - June 30, 2015
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Programs:				
Community Development Block Grant - Entitlement Program	B-12-MC-240013	14.218	\$ 306,500	191,394
Community Development Block Grant - Entitlement Program	B-13-MC-240013	14.218	347,270	347,270
Community Development Block Grant - Entitlement Program	B-14-MC-240013	14.218	354,627	50,925
Community Development Block Plus Program Income		14.218		57,490
Total Program				<u>647,079</u>
Direct Programs:				
Supportive Housing Program Grant	MD06B709004	14.235	135,536	135,536
Supportive Housing Program Grant	MD06B709005	14.235	66,087	66,087
Total Program				<u>201,623</u>
Direct Programs:				
HUD Housing Counseling Grant		14.169	18,167	4,993
HUD Housing Counseling Grant		14.169	17,898	12,518
Total Program				<u>17,511</u>
Passed Through Maryland Department of Housing and Community Development:				
Emergency Solutions Grant	14ESGFC-2013	14.231	31,347	31,347
Emergency Solutions Grant	15ESGFC-2014	14.231	43,137	14,875
				<u>46,222</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
				<u><u>912,435</u></u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed Through Maryland State Department of Housing & Community Development:				
Community Services Block Grant	CAN 2013G994002	93.569	\$ 263,521	40,926
Community Services Block Grant	CAN 2014G994002	93.569	263,521	221,624
Green Job Program		93.569	50,000	12,045
Green Job Program		93.569	50,000	36,631
Total Program				<u>311,226</u>
Passed Through Healthcare for the Homeless, Inc.:				
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	48,694
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	80,947
Total Program				<u>129,641</u>
Passed Through Maryland State Department of Health and Mental Hygiene:				
McKinney PATH Grant	MH-263-OTH	93.150	74,103	74,103
Total Program				<u>74,103</u>
Passed Through Frederick County Health Department Alcohol Compliance, DUI Saturation and Underage Party				
		93.243	(A)	<u>5,911</u>
Passed Through Healthy Howard Inc.:				
Affordable Care Act - Consumer Assistance Program Grants		93.519	26,485	26,485
				<u>26,485</u>
Passed Through Maryland's Department of Human Resources:				
Low Income Home Energy Assistance - Fuel Assistance		93.568	1,650,000	906,374
Low Income Home Energy Assistance - Administration		93.568	298,984	176,791
				<u>1,083,165</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				
				<u><u>1,630,531</u></u>

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, 2015

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2014 - June 30, 2015
DEPARTMENT OF ENERGY				
Passed Through Maryland Department of Housing and Community Development:				
Weatherization Assistance Program		81.042	\$	122,778
Maryland Energy Assistance Program		81.042	150,000	320
TOTAL DEPARTMENT OF ENERGY				<u>123,098</u>
DEPARTMENT OF JUSTICE				
Direct Programs:				
2013 Justice Assistance Grant	2013-DJ-BX-0479	16.738	\$ 49,227	1,028
2014 Justice Assistance Grant	2014-DJ-BX-0652	16.738	49,908	46,438
Total Program				<u>47,466</u>
Passed Through Governor's Office of Crime Control and Prevention				
School Resource Officer Training	BJNT-2012-0011	16.738	2,038	1,624
Direct Programs:				
Bulletproof Vest Partnership Program	2011BUBX11056692	16.607		3,058
Bulletproof Vest Partnership Program	2012BUBX12064527	16.607		5,208
Bulletproof Vest Partnership Program	2013BUBX13068731	16.607		12,641
Total Program				<u>20,907</u>
Direct Programs:				
Police Firing Range Target System (FBI)		16.999	100,000	492
Equitable Sharing Agreement	MD0110300	16.999	N/A	10,799
TOTAL DEPARTMENT OF JUSTICE				<u>81,288</u>
DEPARTMENT OF TRANSPORTATION				
Direct Program:				
Airport Traffic Control Tower - ARRA	DTFA-WA-10-A-80026	20.999	\$ 5,332,462	(605)
Airport Development Aid Program	3-24-0017-038	20.106	3,862,304	14,687
Airport Development Aid Program	3-24-0017-039	20.106	252,090	138,563
Total Program				<u>152,645</u>
Passed Through Maryland Motor Vehicle Administration:				
State and Community Highway Safety		20.600	(A)	13,032
Alcohol Impaired Driving Countermeasures Incentives		20.601	(A)	3,613
Alcohol Open Container Requirements		20.607	(A)	18,837
Total Program				<u>35,482</u>
Passed Through Maryland State Highway Administration:				
Highway Planning and Construction Transportation Enhancement Program	STP-3(272)E	20.205	5,959,380	5,158,888
TOTAL DEPARTMENT OF TRANSPORTATION				<u>5,347,015</u>
DEPARTMENT OF AGRICULTURE				
Passed Through Maryland State Dept. of Education				
Summer Food Service Program		10.559	(B)	68,836
Child/Adult Care Food Program		10.558	(B)	6,423
TOTAL DEPARTMENT OF AGRICULTURE				<u>75,259</u>

(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.

(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
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
 FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2014 - June 30, 2015
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Passed Through Frederick County				
FFY 13 SHSP G2174B	EMW-2013-SS-0002/13-SR-8847-02	97.067 \$	14,770	14,770
FFY 14 SHSP	EMW-2014-SS-00007-S01	97.067 \$	7,000	7,000
TOTAL DEPARTMENT OF HOMELAND SECURITY				<u>21,770</u>
<u>CONGRESSIONAL ACTION</u>				
Passed Through Maryland State Department of Housing and Community Development				
Foreclosure Mitigation Grant	PL 110-161:95X1350	99.999 \$	95,400	11,508
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>8,202,904</u>

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, 2015

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 basic financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. On December 26, 2014, the OMB finalized the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, which consolidated several OMB circulars, and placed it under 2 C.F.R., Subtitle A, Chapter II, Part 200. 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, 2015.

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.

5. Subrecipients

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amounts Provided to Subrecipients</u>
14.218	Community Development Block Grant - Entitlement Program	\$ 375,467
14.231	Emergency Solutions Grant	\$ 73,075
16.738	2014 Justice Assistance Grant	\$ 24,954

The City of Frederick, Maryland

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Solutions Grants
20.205	Highway Planning and Construction
93.224	Healthcare for the Homeless

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

Auditee qualified as low-risk auditee? X Yes No

The City of Frederick, Maryland

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015

Section II. Financial Statement Findings

Internal Control

Finding 2015-001: Actuarial Assumption (*Material Weakness*)

Criteria: The Actuarial Standards Board (ASB) establishes and improves standards of actuarial practice. These Actuarial Standards of Practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment.

Condition: The City had an inappropriate framework for selection of certain assumptions. The original actuarial report for the City's pension plans did not appear to comply with the Section 3.5.3 of ASOP, which states that the actuary should reflect the effect of mortality improvement both before and after the measurement date.

Context: In performing our audit, we noted the omission of an assumption about future mortality improvements with appropriate support.

Effect: The City and the City's external actuary decided to revise the assumptions and include a mortality improvement assumption. The revised assumption included a projection to the year 2020 using scale AA. As a result, the City's total pension liability increased by approximately \$8 million at June 30, 2015.

Cause: The City's control process over the evaluation of actuarial determined assumptions did not function as designed.

Recommendation: We recommend the City evaluate the process by which actuarial assumptions are reviewed by the City for compliance with actuarial standards. In addition, we recommend that the City and the City's external actuary monitor this area as there continues to be new developments. While doing an experience study every few years is generally a good practice for assumption selection, assumptions must be reasonable as of the measurement date.

Views of Responsible Officials and Planned Corrective Actions: The City has entered into an agreement with our actuary to perform an experience study and expect that to be completed within a couple of months. This study will provide improved supporting documentation for the mortality improvement assumption. Additionally, the Director of Finance will inquire of the actuary on an annual basis as to whether the actuary adhered to the Actuary Standards of Practice in its valuation process and will consider the need for an experience study every five years as recommended by the Government Finance Officers Association.

Finding 2015-002: Accounts Payable (*Significant Deficiency*)

Criteria: In accordance with accrual basis of accounting, expenditures are recorded when a liability is incurred. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

Condition: When vendor invoices contain charges for services performed across the City's fiscal year end, the City typically does not allocate the expense between fiscal years if the vendor does not specify the expenditure allocation.

Context: In performing our audit, we noted that two expenditures that were not properly recorded between fiscal years.

The City of Frederick, Maryland

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015**

Section II. Financial Statement Findings (Continued)

Effect: During the audit process, accounts payable was increased by approximately \$1,108,000 and \$266,000 in the Water and Sewer Fund and General CIP Fund, respectively.

Cause: The City's control process did not function as designed.

Recommendation: We recommend the City enhance existing policies and procedures to ensure sufficient information is made available to allow for a reasonable coding of expenditures between fiscal years.

Views of Responsible Officials and Planned Corrective Actions: The City has a review process to determine if payments made subsequent to year-end should be accrued in the prior fiscal year. Generally a determination is made whether an invoice should be charged to the prior or current fiscal year in its entirety based on information included on the invoice. The adjustment in the General CIP Fund resulted from the vendor agreeing that payment would be deferred until the following fiscal year. As a result, the determination was made that the payment should not be accrued but would rather be matched with the next budget year. The adjustment in the Water and Sewer Fund resulted from unclear information on the vendor invoice. The Director of Finance will ensure that applicable staff members are trained in reviewing subsequent period payments to determine if accrual is appropriate.

Compliance

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

Internal Control

Finding 2015-003: Reporting of Federal Expenditures (Significant Deficiency)

Federal Program: Department of Housing and Urban Development, CFDA 14.231 Emergency Solutions Grants

Criteria: The Schedule of Expenditures of Federal Awards should include only expenditures funded by a Federal Agency or a pass through entity in accordance with Circular A-133, Subpart A Section 301b. Additionally, the amount of federal expenditures reported on the Schedule of Expenditures of Federal Awards should represent expenditures on the accrual basis of accounting, in accordance with the City's accounting policy.

Condition: The City's Schedule of Expenditures of Federal Awards, as originally presented for audit, was overstated \$66,678. It improperly included expenditures funded by a non-federal sources and excluded certain expenditures under the accrual basis of accounting.

Questioned Costs: No amount of questioned costs have been identified.

Context: In performing our audit, we noted that \$81,553 of reported expenditures were funded by the State of Maryland. In addition, we noted fiscal year 2015 expenditures totaling \$14,875 were not identified as federal expenditures.

Effect: The City's Schedule of Expenditures of Federal Awards, as originally presented, did not properly state federal expenditures.

The City of Frederick, Maryland

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015

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

Cause: The City's control process did not function as designed.

Recommendation: We recommend the City enhance existing policies and procedures to ensure compliance with A-133 reporting requirements and the City's accounting policy.

Views of Responsible Officials and Planned Corrective Actions: The Director of Finance will work with grant program managers to ensure that the source of grant funds is clearly communicated during the preparation of the schedule of expenditures of federal awards and that expenditures are reported on the accrual basis of accounting.

Internal Control

Finding 2015-004: Reporting of Federal Expenditures (Significant Deficiency)

Federal Program: Department of Housing and Urban Development, CFDA 14.218 Community Development Block Grants/Entitlement Grants

Criteria: The Schedule of Expenditures of Federal Awards should include only expenditures funded by a Federal Agency or a pass through entity in accordance with Circular A-133, Subpart A Section 301b.

Condition: The City's Schedule of Expenditures of Federal Awards, as originally presented for audit, was overstated \$9,132. It improperly included expenditures that had been voided in the City's financial system but not removed from the program reimbursement calculation and expenditures that were not allowable under the program.

Questioned Costs: No amount of questioned costs have been identified.

Context: In performing our audit, we noted that \$8,135 of reported expenditures were voided in the system. In addition, we noted \$997 of reported expenditures that were not allowable under the program.

Effect: The City's Schedule of Expenditures of Federal Awards, as originally presented, did not properly state federal expenditures.

Cause: The City's control process did not function as designed.

Recommendation: We recommend the City enhance existing policies and procedures to ensure compliance with A-133 reporting requirements.

Views of Responsible Officials and Planned Corrective Actions: The Director of Finance will work with grant program managers to ensure that the reporting of grant expenditures are reconciled more closely to the accounting records and that a more thorough review of expenditures to their program is performed to assist in identifying any charges that may have been made in error.

Compliance

Finding 2015-005: Reporting of Federal Expenditures

Federal Program: Department of Housing and Urban Development, CFDA 14.231 Emergency Solutions Grants

Finding 2015-003 is also considered a compliance finding.

The City of Frederick, Maryland

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

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 2014-001: Subaward Reporting under the Transparency Act (Significant Deficiency)

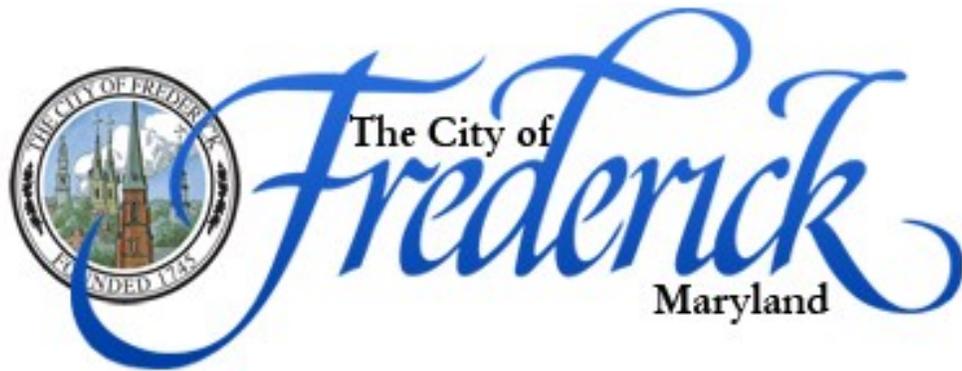
Audit Finding: In accordance with the Federal Funding Accountability and Transparency Act (FFATA), Federal prime awardees must report subawards greater than or equal to \$25,000 through the electronic FFATA Subaward Reporting System (FSRS). The City did not have controls in place to ensure that subawards issued through the CDBG program greater than or equal to \$25,000 were reported through the FSRS.

Status: Corrective action was taken.

Compliance

Finding 2014-002: Subaward Reporting under the Transparency Act

See Finding 2014-001 above.



RANDY A. McCLEMENT, MAYOR

ALDERMEN

KELLY M. RUSSELL, *PRES. PRO TEM*

MICHAEL C. O'CONNOR

PHILIP A. DACEY

JOSHUA L. BOKEE

DONNA S. KUZEMCHAK

WWW.CITYOFFREDERICK.COM