THE CITY OF FREDERICK, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011

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Randy McClement
Mayor

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

October 24, 2011

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, 2011. The form and contents of this report have been prepared by the City's Department of Finance in conformance with the standards set forth by the Charter of The City of Frederick, reporting principles promulgated by the Governmental Accounting Standards Board, and the Government Finance Officers Association of the United States and Canada.

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

The City of Frederick's financial statements have been audited by McGladrey & Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

Profile of the City

Founded in 1745, The City of Frederick is one of the most historic and economically vibrant cities in the state of Maryland. Incorporated in 1817, Frederick is the cultural, business and financial center of Frederick County. Its proximity to Washington, D.C. and Baltimore, located near Interstates 70 and 270, make it a logical location for growth and progress. The City currently occupies a land area of approximately 21.12 square miles and serves an estimated population of 65,519. 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 four-year terms.

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

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the Mayor. The mayor uses these requests as the starting point for developing a proposed budget. The mayor presents the proposed budget prior to May 30th. Public hearings are held on the proposed budget and the final budget must be adopted prior to June 29th. The budget is prepared by fund, function and department. The Mayor may make transfers or appropriations within a department. Transfers between departments require the special approval of the board. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 27 and 28 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 67.

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 65,519, coupled with an additional 50,000 residents who live in surrounding neighborhoods, represents approximately fifty percent of Frederick County's total population. Closely equal in gender, more than 62% of Frederick's population falls between the ages of 20 and 64, with the estimated median age of Frederick residents coming in at 34.6. 52% of Frederick's total number of jobs is in professional and managerial levels. The average household income holds at $72,842. Some of the larger employers in the City are Fort Detrick Campus, Frederick Memorial Hospital, Wells Fargo Home Mortgage and Frederick Community College.

Abundant, diverse housing is a primary attraction among new residents moving to Frederick. The City includes 25,352 households, a third of all those located in Frederick County. In 2011, the median home value in Frederick City was $242,736, boasting housing costs that are lower than other Washington, D.C. suburban counties.

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

International airports. Its close proximity to urban areas along with the available transportation systems make the City a logical location for growth and progress.

Long-term financial planning

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

One of the major projects in the Capital Improvement Plan is the Monocacy Boulevard project, a four lane highway connecting Route 70 to Route 26 that will open the way for new mixed use industrial, commercial and residential development. The total cost of over $46,200,000 will be financed by a combination of tax increment financing, special assessments and general obligation bonds. The center section of Monocacy Boulevard is now fully permitted and slated for completion in 2012.

The East Street Extension project will provide direct access to Frederick's downtown business district from Interstate 70 via Carroll Creek Park. The immediate access provided by this highway will result in its becoming the City's major southern portal and dramatically increase Carroll Creek Park's commercial appeal. The first phase of the East Street Extension, spanning East Patrick Street to East South Street through Carroll Creek Park is completed. Construction of the final connection to I-70 has also been completed. This project in combination with the center section will provide an eastern bypass and congestion relief for the City of Frederick.

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

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

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

Relevant Financial Policies

The City of Frederick has established a "Rainy Day" reserve of unassigned general fund balance that is equal to 12% of total general fund expenditures (including transfers out) to provide for adequate working capital and to provide funds to meet unforeseen emergencies. In fiscal year 2011, the City was able to maintain its Rainy Day reserve in compliance with adopted policies.

Major Initiatives

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

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

The City is also working with SAIC, Inc. and the National Cancer Institute to open the Advanced Research Facility in the Riverside Corporate Park in the northeast quadrant of the City. The NCI/ARF will be a state-of-the-art

scientific campus that will bring together bio-technology, higher education and business development into a powerful force for tech sector job creation.

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The City of Frederick for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the twenty eighth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,

Gerald D. Kolbfleisch
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The City of Frederick Maryland

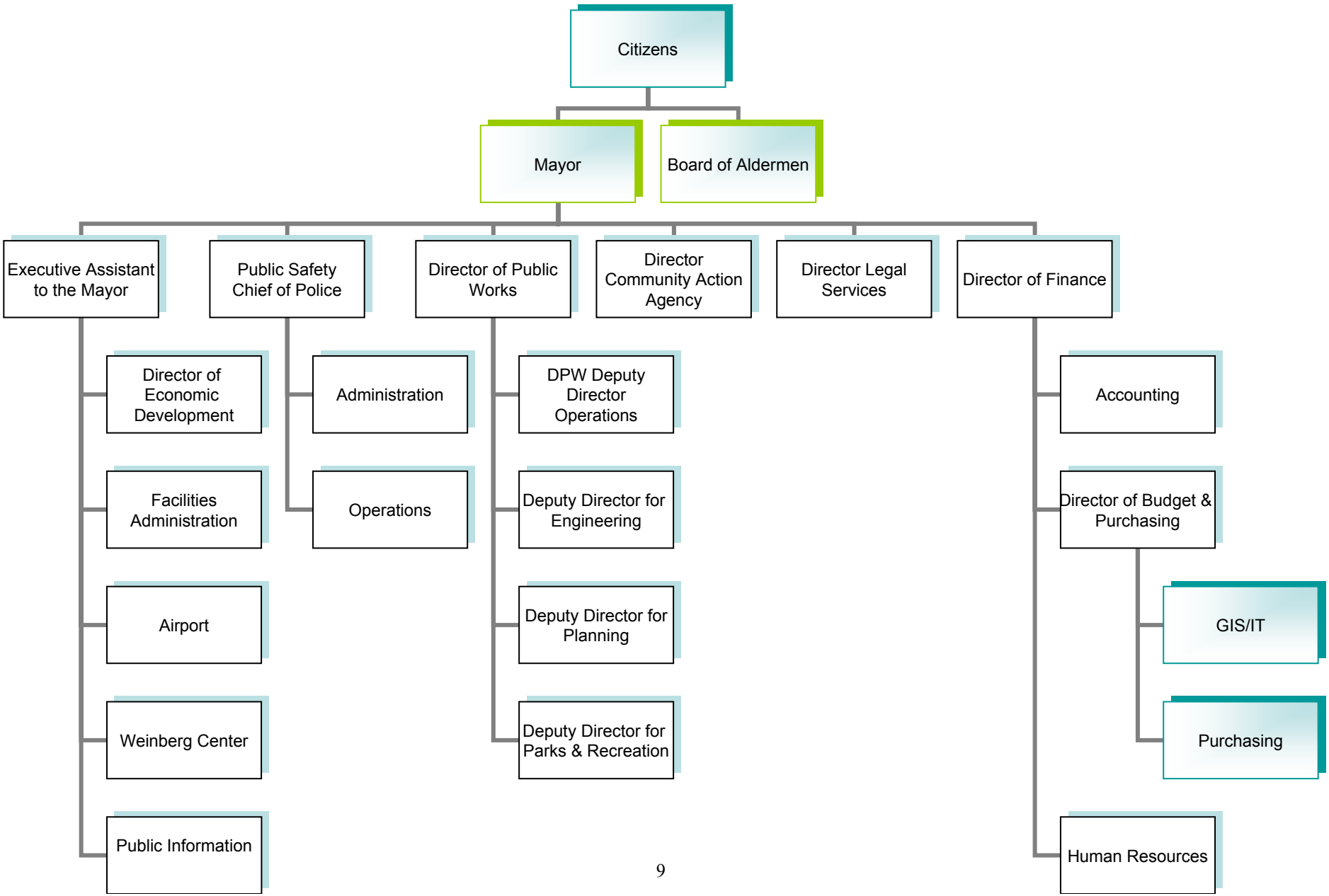
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

President

Executive Director

The City of Frederick
Organizational Chart



THE CITY OF FREDERICK, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS
June 30, 2011

MAYOR

Randy McClement

BOARD OF ALDERMEN

Karen Lewis Young
President Pro Tem

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

APPOINTED OFFICIALS

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

FINANCIAL SECTION

McGladrey

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of The City of Frederick, Maryland, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The "Management's Discussion and Analysis" on pages 12 through 21, the "Schedule of Funding Progress – Pension Plans" on page 62, the "Schedule of Employer Contributions – Pension Plans" on page 63, the "Schedule of Funding Progress – Other Post Employment Benefit Plans" and the "Schedule of Employer Contributions – Other Post Employment Benefit Plans" on page 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

McGladrey & Pullen, LLP

Frederick, Maryland
October 24, 2011

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of The City of Frederick, Maryland, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of The City of Frederick for the fiscal year ended June 30, 2011. The Management's Discussion and Analysis (MD&A) is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its' ability to address the next and subsequent years challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 4 –7 of this report, and the City's financial statements.

Financial Highlights

The assets of The City of Frederick exceeded its liabilities at the close of the most recent fiscal year by $268,500,092 (net assets). Of this amount, $43,716,063 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by $7,790,123, or 3.06%. The governmental net assets increased by $359,684 and the business-type net assets increased by $7,610,449.

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 $38,355,745, an increase of $2,298,410 in comparison to the prior year. An increase of $106,618 in the fund balance was attributable to non-major governmental funds, a decrease of $2,762,885 was attributable to the capital improvement program and the remaining change in fund balance was due to an increase of $4,954,677 in the general fund.

At June 30, 2011, the total general fund unassigned fund balance was $17,048,404, or 27.20% of total general fund expenditures.

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 assets and the statement of activities. These statements are designed to provide readers with a broad overview of The City of Frederick's finances, in a manner similar to a private-sector business.

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

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

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

The government-wide financial statements can be found on pages 22 and 23 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 four 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 two 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 24 - 28 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 29 – 32 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 33 - 34 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 35 - 61 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 62 - 64 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 65 - 72 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $268,500,092 at the close of the most recent fiscal year.

The City of Frederick's Net Assets

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 46,799,327	$ 49,328,002	$ 55,240,215	$ 65,361,100	$ 102,039,542	$ 114,689,102
Capital assets	127,391,057	129,572,257	301,658,529	288,460,215	429,049,586	418,032,472
Total assets	174,190,384	178,900,259	356,898,744	353,821,315	531,089,128	532,721,574
Long-term liabilities outstanding	85,233,058	90,182,885	160,854,552	166,837,153	246,087,610	257,020,038
Other liabilities	6,580,683	6,598,026	9,920,743	8,471,162	16,501,426	15,069,188
Total liabilities	91,813,741	96,780,911	170,775,295	175,308,315	262,589,036	272,089,226
Net assets:						
Invested in capital assets, net of related debt	58,911,146	59,765,449	162,204,773	155,252,838	221,115,919	215,018,287
Restricted	1,818,497	1,547,698	1,849,613	498,487	3,668,110	2,046,185
Unrestricted	21,647,000	20,806,201	22,069,063	22,761,675	43,716,063	43,567,876
Total net assets	$ 82,376,643	$ 82,119,348	$186,123,449	$178,513,000	$268,500,092	$260,632,348

By far the largest portion of the City's net assets (82 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of net assets ($3,668,110) represents resources that are restricted on how they may be used. The remaining balance of net assets ($43,716,063) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. The golf course business-type activity had negative unrestricted net assets in the amount of $4,889,281.

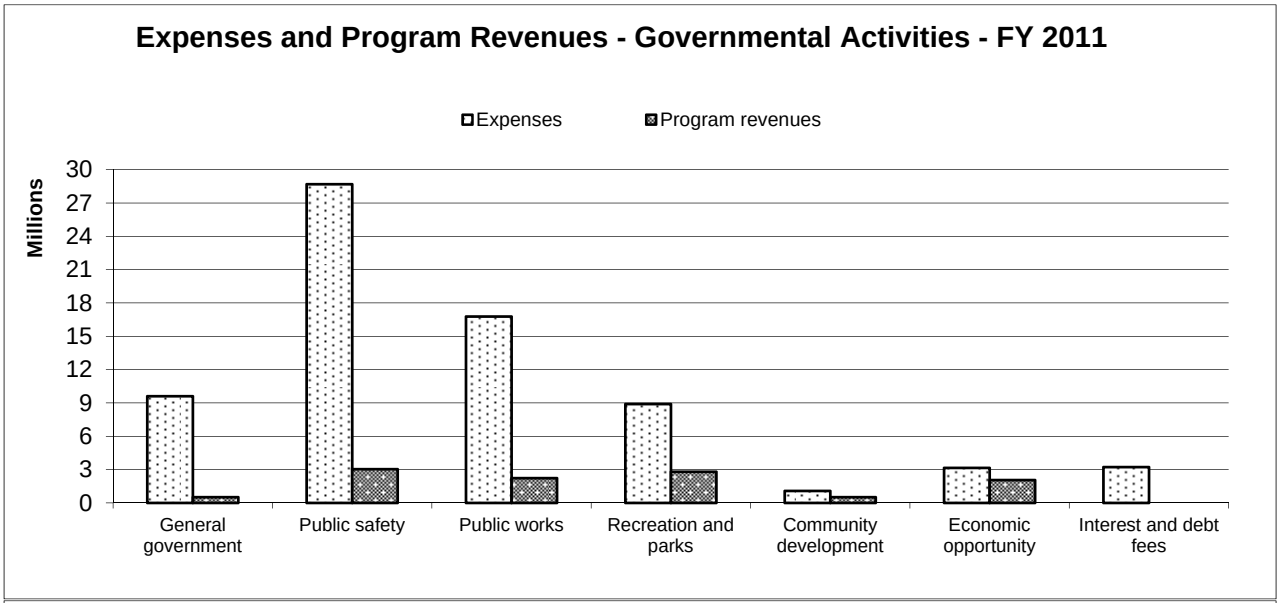
The City's net assets increased by $7,867,744 during the current fiscal year.

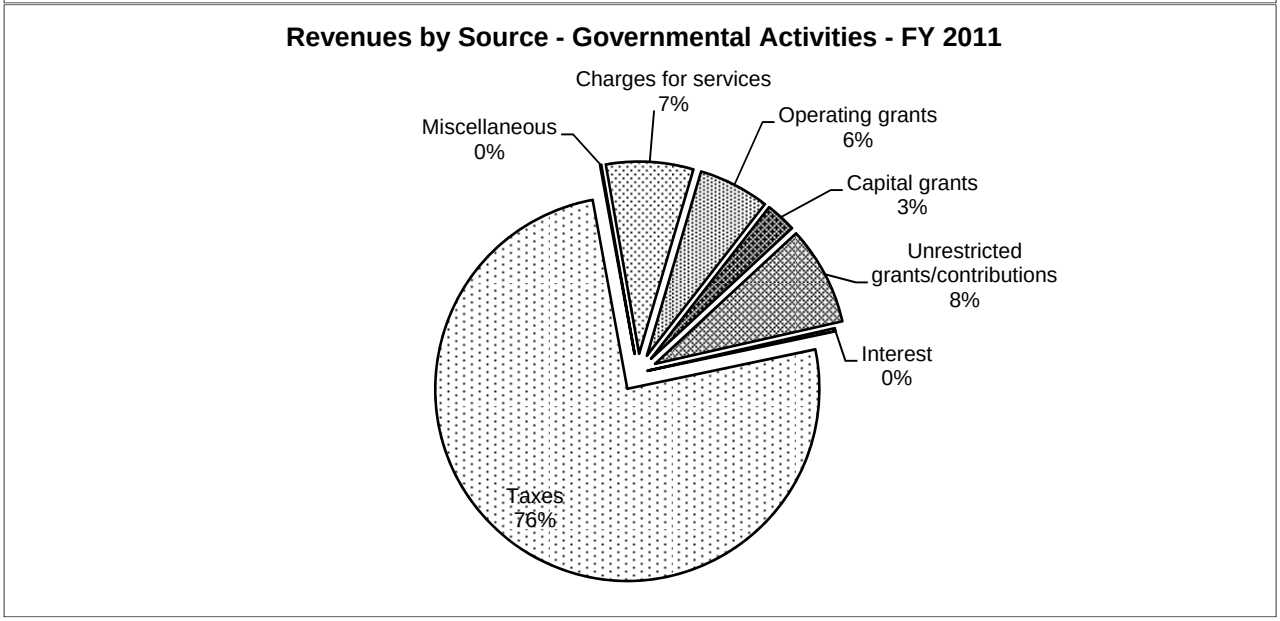
Governmental activities. Governmental activities increased the City's net assets by $257,295 in the current fiscal year with total revenues from governmental activities increasing by $1,797,321 and total governmental activities expenses decreasing by $3,473,417.

Taxes increased by $3,552,495 with the primary increase in property taxes resulting from assessment growth within the City. Licenses and permits decreased by $687,886. Intergovernmental revenues decreased by $977,181. Operating grants and contributions decreased by approximately $1,391,000 while grants and contributions to assist with capital project outlays decreased by approximately $755,000. County tax differential revenue increased by $621,765 and state shared highway user revenue decreased by $85,337. Developer donated capital assets increased by $447,223. Fines and forfeitures decreased by $45,067 and were a result of decreased red light camera and false alarm violations revenue.

Total expenses decreased by $3,473,417 in fiscal year 2011. The significant decreases were in salaries with a $1,764,379 (6.5%) decrease, personnel benefits with a decrease of $543,482 (2.3%), other services and charges with a $782,618 decrease (9.1%) and supplies and minor capital expense with a $472,230 decrease (8.4%). The decrease in salaries was primarily due to the additional accrual of payroll costs through June 30, 2010 in the prior year ($871,901), a reduction in work force and hiring freeze estimated at $933,852 and a 2.0% cost of living adjustment plus an annual performance increase for sworn police officers. The personnel benefits decrease was due primarily to decreased salary costs as mentioned previously. Additionally, other services and charges decreased by $782,618, with $443,869 of the decrease attributable to donations to other organizations. The remaining decrease in other services and charges, as well as spending reductions in supplies and minor capital outlays, was spread throughout the various departments in response to the Mayor's directive to be as frugal as possible given the economic climate.

The net transfer from business-type activities to the governmental activities totaled $1,448,229. Transfer to the business-type activities, in the amount of $870.541, was for rental operations equipment in the amount of $74,826 and $795,715 for airport debt service and operations assistance. $459,945 of the transfer from the business-type activities was a contribution toward capital improvements and $1,847,500 was to reimburse the governmental funds for administrative services they provide to the business-type funds that benefit the City. $11,326 of the transfer is for capital assets moved between the governmental and business type activities.





The City of Frederick's Changes in Net Assets

	Governmental activities		Business-type activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$5,155,825	$ 5,393,839	$ 27,868,799	$ 24,049,531	$ 33,024,624	$29,443,370
Operating grants/contributions	4,195,169	5,587,027	141,820	136,640	4,336,989	5,723,667
Capital grants/contributions	1,813,587	2,569,066	10,429,437	4,213,433	12,243,024	6,782,499
General revenues:						
Taxes	52,976,548	49,424,053	-	-	52,976,548	49,424,053
Non-restricted grants/contributions	5,848,174	5,146,165	-	-	5,848,174	5,146,165
Other	268,095	339,927	196,979	366,255	465,074	706,182
Total revenues	70,257,398	68,460,077	38,637,035	28,765,859	108,894,433	97,225,936
Expenses:						
General government	9,605,846	11,112,807	-	-	9,605,846	11,112,807
Public safety	28,689,755	29,380,419	-	-	28,689,755	29,380,419
Public works	16,782,556	17,920,281	-	-	16,782,556	17,920,281
Recreation and parks	8,904,412	8,593,681	-	-	8,904,412	8,593,681
Community development	1,074,238	1,233,762	-	-	1,074,238	1,233,762
Economic opportunity	3,160,817	3,550,150	-	-	3,160,817	3,550,150
Interest and long-term debt	3,230,708	3,130,649	-	-	3,230,708	3,130,649
Rental operations	-	-	57,746	51,008	57,746	51,008
Water and sewer	-	-	18,387,834	19,495,148	18,387,834	19,495,148
Golf course	-	-	1,829,914	1,964,708	1,829,914	1,964,708
Airport	-	-	2,028,957	2,317,740	2,028,957	2,317,740
Parking	-	-	4,760,912	4,025,218	4,760,912	4,025,218
Storm water	-	-	2,512,994	2,344,948	2,512,994	2,344,948
Total expenses	71,448,332	74,921,749	29,578,357	30,198,770	101,026,689	105,120,519
Increase/(decrease) in net assets before transfers	(1,190,934)	(6,461,672)	9,058,678	(1,432,911)	7,867,744	(7,894,583)
Transfers	1,448,229	1,910,148	(1,448,229)	(1,910,148)	-	-
Decrease in net assets	257,295	(4,551,524)	7,610,449	(3,343,059)	7,867,744	(7,894,583)
Net assets July 1	82,016,959	86,568,483	178,513,000	181,856,059	260,529,959	268,424,542
Adjustment to beginning net assets	102,389	-	-	-	102,389	-
Net assets, June 30	$ 82,376,643	$ 82,016,959	$ 186,123,449	$ 178,513,000	$ 268,500,092	$ 260,529,959

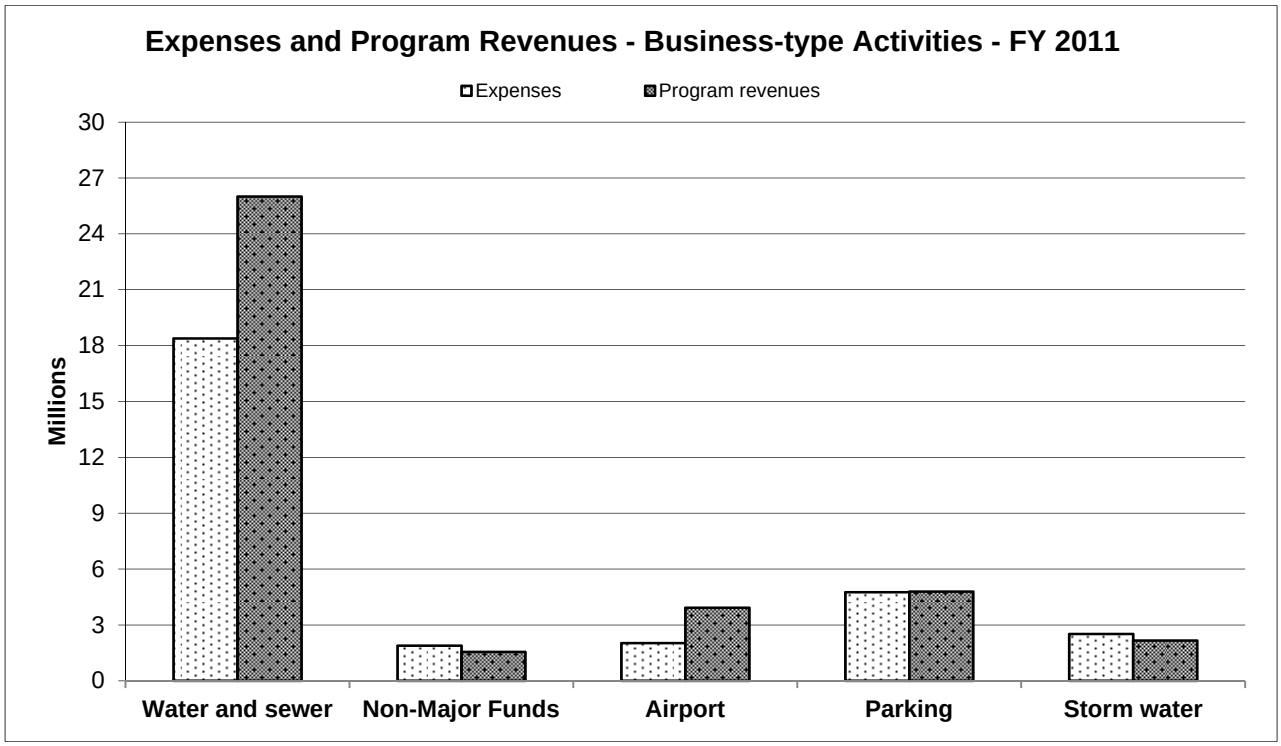
Business-type activities. Business-type activities increased the City's net assets by $7,610,449 in the current fiscal year. Total revenues increased by $9,871,176 while expenses decreased by $620,413.

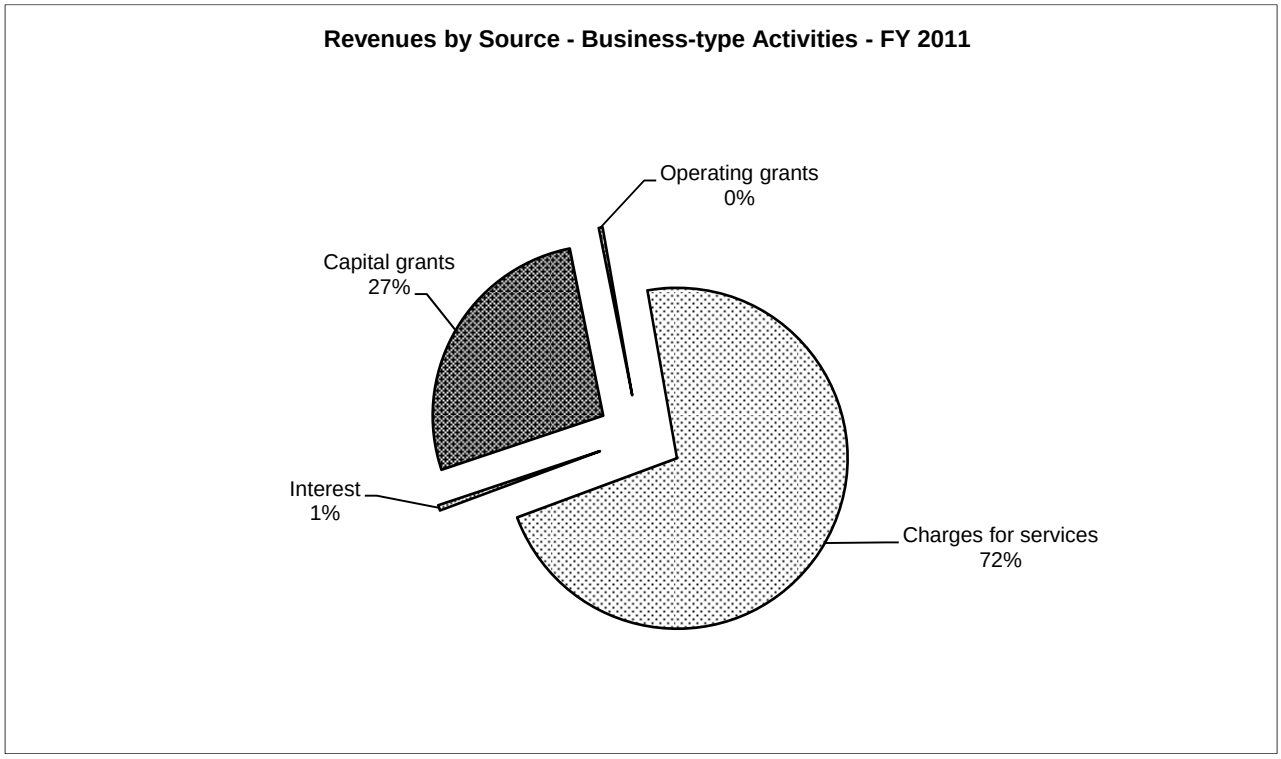
Charges for services increased by $2,839,473, which included a twenty percent (20%) increase in water and sewer and storm-water management rates.

There was a $6,216,004 increase in capital grants and contributions. Impact fees from developers increased by $1,613,687. The value of donated assets increased in fiscal year 2011 by approximately $404,000. Additionally, the City received a $2,500,000 contribution from Fort Detrick to assist in capital improvements since the base receives its water through the City's system. The City recognized $ 2,423,077 as revenue from the Federal Aviation Administration as part of the construction of the airport traffic control tower at Frederick Municipal Airport.

Total expenses decreased by $620,413 in fiscal year 2011. Salary expense decreased by approximately $342,000. $131,135 of this reduction is due to a reduction of overtime and part-time hours. Additionally, FY 2010 expenses included a one-time additional payroll accrual of $193,322. Other services and charges increased by $662,436 and were due to the implementation of ready to serve charges in the City's water and sewer fund of $125,000 per month in January 2011 for water availability from Frederick County. Non-capitalized items associated with improvements were approximately $762,000 less in fiscal year 2011 while depreciation expense increased by $520,000. Interest expense was approximately $250,000 less in FY 2011. As in the governmental activities, department heads within the business-type activities were asked to be as frugal as possible in managing their departments. This resulted in additional savings spread throughout all categories and services.

Business-type activities transferred $2,318,770 into governmental activities in FY 2011 and received transfers of $870,541 from governmental activities for a net amount of $1,448,229. The transfer to governmental activities represents reimbursement to the governmental funds for administrative services they provide to the business-type activities. The transfers received from the general fund are amounts that the general fund contributed for airport assistance and equipment purchased for use in the rental operations fund.





Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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, 2011, the City's governmental funds reported combined ending fund balances of $38,355,745, an increase of $2,196,021 over the prior fiscal year.

Revenues increased by approximately $1,236,000 in the current year. Taxes increased by $3,552,495 with the primary increase in property taxes resulting from continued assessment growth within the City. Licenses and permits decreased by $687,886. Intergovernmental revenues decreased by $1,342,509. Intergovernmental contributions to capital improvement projects decreased by $1,066,736 in fiscal year 2011. Intergovernmental operating grants decreased by approximately $275,000. County tax differential revenue increased by $621,765, state shared highway user revenue decreased by $ 85,337; and community development block grant funds decreased by $446,823. For the year, the City received revenue from the stimulus package in the amount of $636,550 to assist in weatherization assistance and the community services block grant. Developer contributions to capital improvement projects decreased by approximately $554,000 and interest earnings decreased by approximately $80,000 due to lower investment yields.

Expenditures decreased by $4,845,489, or 6.60% over the preceding year. Spending for capital projects decreased by $3,525,659 in the current fiscal year, while other operating costs decreased by $1,319,830. Expenditures for capital improvement projects were deferred until sufficient funding sources are identified and in place. Salaries decreased by $1,537,591 and benefits increased by $1,586,877. The decrease in salaries was primarily due to the additional accrual of payroll costs in the prior fiscal year, a workforce reduction and hiring freeze estimated to save approximately $930,000 and a 2.0% cost of living adjustment plus annual performance increase for sworn officers. The personnel benefits increase was due primarily to increased costs for the City's pension benefits, approximately $1,200,000. Healthcare benefits increased approximately $480,000. Other services and charges decreased by $456,365 and were due primarily to a reduction in donations to other organizations. Expenditures for capital items also declined by approximately $780,000 as items were deferred due to the economic climate.

Of the ending fund balance, $21,307,341 is classified as either nonspendable (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 $17,048,404, while total fund balance was $25,836,924. $5,284,535 of the fund balance is nonspendable, $197,938 has external restrictions as to usage, $524,324 has restrictions placed upon it by the Mayor and Board of Aldermen and $2,781,723 is classified as assigned. In fiscal year 2009, the City adopted a policy of maintaining an unassigned general fund balance equal to 12% of total general fund expenditures, including transfers out, as a "rainy day" reserve to provide for adequate working capital and to provide funds to meet unforeseen emergencies. The rainy day fund as of June 30, 2011 is $7,685,136 and is included in the unassigned fund balance classification.

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. Unassigned fund balance represents 27.20 percent of total general fund expenditures, while total fund balance represents 41.22 percent of that same amount.

The fund balance of the City's general fund increased by $4,835,529 during the current fiscal year. Revenues increased by 5.04 percent and expenditures decreased by 2.08 percent.

The general capital improvements project fund has a total fund balance of $9,515,442, all of which will be used for general capital improvements within the City.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of $122,532 and is summarized as follows:

Increase in general government activities	$ 22,960
Increase in public safety	148,072
Decrease in recreation	(4,500)
Increase in economic development	70,000
Decrease in economic opportunity	(114,000)
Total change in budget	$ 122,532

Of this increase, $105,032 was increased intergovernmental revenues. Additional revenue in the amount of $5,500 was also discovered through donor contributions and the police department used additional fund balance of $12,000 to acquire two police canines.

During the year actual revenues exceeded the amended budget by $1,617,165. Taxes were $2,030,001 greater than estimated with property taxes being $888,297 higher than expected and income taxes being $1,090,857 more than budgeted. Intergovernmental revenues were $210,662 less than budgeted. Fines and forfeitures were $478,352 less than anticipated, due to a delay in the start of the speed camera program.

Expenditures were less than the final budgetary estimates by $4,964,588 or 7.3%. Of this amount, $1,215,647 was encumbered at year end. Approximately $1,593,000 of this variance is due to salary and benefit savings resulting from a combination of delays in filling positions and/or not filling some open positions. Departments were aware of the economic trials facing the City during the fiscal year and were strongly encouraged to avoid 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, 2011, amounts to $429,049,586 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 2.64 percent. Capital assets for governmental activities decreased by 1.68 percent and increased by 4.58 percent for business type activities.

Major capital asset events during the current fiscal year include:

1) Developer provided improvements of streets, curbs, sidewalks, streetlights, water lines, sewer lines and storm drains totaled approximately $2,442,855.
2) Expenditures for parking facilities totaled $209,839 in FY 2011.
3) Expenditures for the water and sewer projects for FY 2011 totaled $16,707,421.
4) Airport improvement expenditures totaled $2,623,557.
5) Storm water facilities, $719,500.
6) Vehicle and equipment acquisitions, $500,496.

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

	Governmental Activities	Business-type Activities	Total
Land	$ 49,044,196	$ 38,759,781	$ 87,803,977
Buildings	11,749,539	53,781,907	65,531,446
Other improvements	21,002,719	114,612,022	135,614,741
Infrastructure	34,164,668	-	34,164,668
Machinery and equipment	4,973,858	3,304,175	8,278,033
Construction in progress	6,456,077	91,200,644	97,656,721
Total	$ 127,391,057	$ 301,658,529	$ 429,049,586

Additional information on the City's capital assets can be found in note 4 on pages 44 - 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $226,507,820. Of this amount, $224,747,389 carried the full faith, credit and taxing power of the City. The remaining $1,760,431 is tax increment financing debt. Any debt service that cannot be covered by the incremental tax revenues generated by the properties will be assessed as an additional fee to cover any shortfall.

The City of Frederick's Outstanding Long-term Obligations

	Governmental Activities	Business-type Activities	Total
General obligation debt	$ 69,508,417	$ 155,238,972	$ 224,747,389
Tax increment financing debt	1,760,431	-	1,760,431
Net OPEB obligation	11,097,848	2,761,265	13,859,113
Compensated absences	2,308,532	403,994	2,712,526
Total	$ 84,675,228	$ 158,404,231	$ 243,079,459

The City maintains a "Aa2" rating from Moody's, a "AA" rating from Standard & Poor's and a "AA+" rating from Fitch.

The City Charter limits the amount of debt to eight percent of the total assessed value of all taxable property in the City. Debt issued for water and sewer purposes are exempt from this limitation. The current debt limit for the City is $553,611,624 and the legal debt margin of the City is $438,428,776.

Additional information on the City's long-term debt can be found in notes 5 and 6 on pages 47 - 49 of this report.

Economic Factors and Next Year's Budgets and Rates

When preparing the City's budget for the 2012 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 2011 was 6.8 percent, which is a 0.2 percent decrease from June 2010. The estimated rate for June 2011 for the county was 6.5 percent, the state was 7.4 percent and the nation was 9.3 percent.

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 2012. Based on figures supplied by the state, it is estimated that the City will receive approximately $3,500,000 less in real estate taxes in fiscal year 2012 compared to fiscal year 2011.

The fiscal year 2012 budget calls for maintaining the same level of key services. The City was able to maintain the real estate tax rate of $.65 per $100 of assessed value. Water and sewer rates were increased by 10 percent.

The general fund unassigned fund balance at June 30, 2011 was $17,048,404.

The City has estimated that $10,024,305 would be available for the FY 2012 budget, with $7,929,235 of that amount being used for a budgeted fund balance.

Requests for information

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

BASIC FINANCIAL STATEMENTS

The City of Frederick, Maryland
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 41,584	$ 43,860	$ 85,444
Investments	585,557	5,101	590,658
Equity in pooled cash/investments	30,443,834	34,451,765	64,895,599
Receivables (net of allowance of uncollectibles)	3,623,018	4,055,617	7,678,635
Inventories	488,615	446,315	934,930
Prepaids	88,168	98,711	186,879
Deferred charges	529,888	910,619	1,440,507
Internal balances	4,620,352	(4,620,352)	-
Temporarily restricted assets:			
Cash and cash equivalents	4,283,229	19,361,876	23,645,105
Net pension asset	2,095,082	486,703	2,581,785
Capital assets (net of accumulated depreciation):			
Land	49,044,196	38,759,781	87,803,977
Buildings and systems	11,749,539	53,781,907	65,531,446
Improvements other than buildings	21,002,719	114,612,022	135,614,741
Infrastructure	34,164,668	-	34,164,668
Machinery and equipment	4,973,858	3,304,175	8,278,033
Construction in progress	6,456,077	91,200,644	97,656,721
Total assets	174,190,384	356,898,744	531,089,128
LIABILITIES			
Accounts payable and other current liabilities	1,199,053	3,981,808	5,180,861
Accrued liabilities	2,616,607	2,756,420	5,373,027
Deposits	1,364,696	78,949	1,443,645
Unearned revenue	1,400,327	3,103,566	4,503,893
Noncurrent liabilities:			
Due within one year	6,151,472	5,968,557	12,120,029
Due in more than one year	79,081,586	154,885,995	233,967,581
Total liabilities	91,813,741	170,775,295	262,589,036
NET ASSETS			
Invested in capital assets, net of related debt	58,911,146	162,204,773	221,115,919
Restricted for:			
Water/sewer improvements	-	1,687,812	1,687,812
Airport improvements	-	161,801	161,801
Parks improvements	1,235,448	-	1,235,448
Weinberg Center	393,766	-	393,766
Debt service	189,283	-	189,283
Unrestricted	21,647,000	22,069,063	43,716,063
Total net assets	$ 82,376,643	$ 186,123,449	$ 268,500,092

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, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	$ 9,605,846	$ 493,145	$ 19,960	$ -	$ (9,092,741)	$ -	$ (9,092,741)
Public safety	28,689,755	1,818,954	1,223,084	-	(25,647,717)	-	(25,647,717)
Public works	16,782,556	292,585	342,626	1,592,387	(14,554,958)	-	(14,554,958)
Recreation and parks	8,904,412	2,543,464	47,415	221,200	(6,092,333)	-	(6,092,333)
Community development	1,074,238	7,664	507,549	-	(559,025)	-	(559,025)
Economic opportunity	3,160,817	13	2,054,535	-	(1,106,269)	-	(1,106,269)
Interest and long-term debt	3,230,708	-	-	-	(3,230,708)	-	(3,230,708)
Total governmental activities	71,448,332	5,155,825	4,195,169	1,813,587	(60,283,751)	-	(60,283,751)
Business-type activities:							
Rental operations	57,746	8,488	22,031	-	-	(27,227)	(27,227)
Water and sewer	18,387,834	19,343,380	-	6,662,533	-	7,618,079	7,618,079
Golf course	1,829,914	1,520,422	-	-	-	(309,492)	(309,492)
Airport	2,028,957	864,021	-	3,062,530	-	1,897,594	1,897,594
Parking	4,760,912	4,400,010	119,789	270,560	-	29,447	29,447
Storm water	2,512,994	1,732,478	-	433,814	-	(346,702)	(346,702)
Total business-type activities	29,578,357	27,868,799	141,820	10,429,437	-	8,861,699	8,861,699
Total primary government	$ 101,026,689	$ 33,024,624	$ 4,336,989	$ 12,243,024	(60,283,751)	8,861,699	(51,422,052)
General revenues:							
Property taxes					46,567,875	-	46,567,875
Income taxes					6,090,857	-	6,090,857
Other taxes					317,816	-	317,816
Grants/contributions not restricted to specific programs					5,848,174	-	5,848,174
Interest earnings					191,738	196,979	388,717
Gain on sale of capital assets					39,538	-	39,538
Miscellaneous revenues					36,819	-	36,819
Transfers					1,448,229	(1,448,229)	-
Total general revenues and transfers					60,541,046	(1,251,250)	59,289,796
Change in net assets					257,295	7,610,449	7,867,744
Net assets - beginning as restated (Note 7)					82,119,348	178,513,000	260,632,348
Net assets - ending					$ 82,376,643	$ 186,123,449	$ 268,500,092

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, 2011

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,680	$ -	$ 39,904	$ 41,584
Investments	4,536	-	581,021	585,557
Equity in pooled cash/investments	24,486,590	5,896,166	61,078	30,443,834
Receivables (net of allowance for uncollectibles)	604,167	-	2,208,159	2,812,326
Inventories	488,615	-	-	488,615
Prepaid items	86,918	-	1,250	88,168
Advances to other funds	4,620,352	-	-	4,620,352
Cash - restricted	267,499	4,015,730	-	4,283,229
Intergovernmental receivable	635,709	42,815	132,168	810,692
Total assets	$ 31,196,066	$ 9,954,711	$ 3,023,580	$ 44,174,357
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 782,725	$ 408,218	$ 8,110	$ 1,199,053
Accrued liabilities	1,732,562	830	12,091	1,745,483
Deposits	1,364,475	221	-	1,364,696
Earned but not available revenue	79,053	30,000	-	109,053
Deferred revenue	1,400,327	-	-	1,400,327
Total liabilities	5,359,142	439,269	20,201	5,818,612
Fund balances:				
Nonspendable	5,284,535	-	2,206,633	7,491,168
Restricted	197,938	3,713,555	393,766	4,305,259
Committed	524,324	2,884,043	1,527	3,409,894
Assigned	2,781,723	2,917,844	401,453	6,101,020
Unassigned	17,048,404	-	-	17,048,404
Total fund balances	25,836,924	9,515,442	3,003,379	38,355,745
Total liabilities and fund balances	$ 31,196,066	$ 9,954,711	$ 3,023,580	

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	127,391,057
Deferred bond issuance costs are not available to pay current period expenditures and therefore, are not reported in the funds.	529,888
Earned but unavailable revenue is not recorded in the funds.	109,053
Accrued interest payable is not recorded in the funds.	(871,124)
Net pension asset is not included in the governmental funds.	2,095,082
Long-term liabilities, including bonds payable and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.	(85,233,058)
Net assets of governmental activities	$ 82,376,643

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, 2011

	General	General CIP	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 46,426,569	$ -	$ -	$ 46,426,569
Payment in lieu of taxes	1,325	-	-	1,325
Income taxes	6,090,857	-	-	6,090,857
Business taxes	317,816	-	-	317,816
Discount allowance	(298,050)	-	-	(298,050)
Penalties/interest on delinquent taxes	438,031	-	-	438,031
Licenses and permits	1,687,457	-	-	1,687,457
Intergovernmental	8,515,640	305,046	484,965	9,305,651
Charges for services	1,534,060	-	1,001,988	2,536,048
Fines and forfeitures	532,398	-	-	532,398
Miscellaneous	1,222,454	221,122	369,940	1,813,516
Total revenues	66,468,557	526,168	1,856,893	68,851,618
EXPENDITURES				
Current:				
General government	8,724,561	-	-	8,724,561
Public safety	26,765,448	-	-	26,765,448
Public works	11,976,035	-	-	11,976,035
Recreation and parks	4,530,819	-	1,438,702	5,969,521
Community development	624,171	-	386,520	1,010,691
Economic opportunity	2,995,984	-	-	2,995,984
Debt service:				
Principal	4,009,270	-	-	4,009,270
Interest	3,045,211	-	-	3,045,211
Other fees	9,054	-	-	9,054
Capital projects	-	3,628,998	-	3,628,998
Total expenditures	62,680,553	3,628,998	1,825,222	68,134,773
Excess (deficiency) of revenues over (under) expenditures	3,788,004	(3,102,830)	31,671	716,845
OTHER FINANCING SOURCES (USES)				
Transfers in	2,367,500	859,945	91,706	3,319,151
Transfers out	(1,362,247)	(520,000)	-	(1,882,247)
Insurance reimbursements	14,982	-	-	14,982
Capital asset disposition	27,290	-	-	27,290
Total other financing sources (uses)	1,047,525	339,945	91,706	1,479,176
Net change in fund balances	4,835,529	(2,762,885)	123,377	2,196,021
Fund balances - beginning as restated (Note 7)	21,001,395	12,278,327	2,880,002	36,159,724
Fund balances - ending	$ 25,836,924	$ 9,515,442	$ 3,003,379	$ 38,355,745

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, 2011

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

Net change in fund balances - total governmental funds	$ 2,196,021
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.	(3,712,804)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-in, and donations) is to increase net assets.	1,531,604
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,964,107
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.	(3,489,584)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(232,049)
Change in net assets of governmental activities	$ 257,295

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes:				
Property	$ 45,538,272	$ 45,538,272	$ 46,426,569	$ 888,297
Payment in lieu of taxes	1,275	1,275	1,325	50
Income taxes	5,000,000	5,000,000	6,090,857	1,090,857
Business taxes	335,000	335,000	317,816	(17,184)
Discount allowance	(278,000)	(278,000)	(298,050)	(20,050)
Penalties/interest on delinquent taxes	350,000	350,000	438,031	88,031
Licenses and permits	1,659,850	1,659,850	1,687,457	27,607
Intergovernmental	8,614,270	8,726,302	8,515,640	(210,662)
Charges for services	1,454,276	1,447,276	1,534,060	86,784
Fines and forfeitures	1,010,750	1,010,750	532,398	(478,352)
Miscellaneous	1,055,167	1,060,667	1,222,454	161,787
Total revenues	64,740,860	64,851,392	66,468,557	1,617,165
EXPENDITURES				
Current:				
General government:				
Executive and legislative	1,117,172	1,117,172	1,063,742	53,430
Legal services	649,653	745,905	685,436	60,469
Registration and election	3,862	3,862	522	3,340
Finance and accounting	1,172,855	1,172,855	1,059,169	113,686
Purchasing	614,215	614,215	597,631	16,584
Information technology	864,308	864,308	646,755	217,553
Geographic information system	459,666	459,666	343,329	116,337
Human resources	569,803	569,803	492,018	77,785
Safety	199,213	199,213	191,570	7,643
Planning and zoning	1,108,802	1,131,762	1,054,307	77,455
Code enforcement	640,199	640,199	574,042	66,157
Facilities maintenance	845,335	838,769	816,035	22,734
Asset management	580,568	580,568	474,518	106,050
Municipal Annex	427,315	427,315	375,837	51,478
Community promotion	75,761	75,761	71,408	4,353
Special events	281,435	281,435	267,326	14,109
Total general government	9,610,162	9,722,808	8,713,645	1,009,163
Public safety:				
Police department	26,252,035	26,368,107	24,726,115	1,641,992
CDS program	93,935	105,935	44,089	61,846
Fire and rescue services	337,934	338,934	338,772	162
Building inspection	978,081	978,081	950,982	27,099
Electrical inspection	271,399	287,929	283,179	4,750
Construction inspection	536,581	536,581	423,549	113,032
Total public safety	28,469,965	28,615,567	26,766,686	1,848,881
Public works:				
General administration	1,244,336	1,244,336	1,191,780	52,556
Machinery & equipment maintenance	1,008,628	1,001,092	969,913	31,179
Engineering	1,468,186	1,432,651	1,274,612	158,039
Waste collection and disposal	3,831,389	3,831,389	3,480,324	351,065
Streets, roadways and alleys	2,102,737	2,075,824	1,896,305	179,519
Snow removal	398,398	507,798	460,639	47,159
Street lighting	2,479,018	2,173,097	2,058,443	114,654
Traffic lines	630,959	645,254	586,073	59,181
Bus service	46,932	46,932	46,701	231
Total public works	13,210,583	12,958,373	11,964,790	993,583

(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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Recreation and parks:				
Municipal parks	3,185,421	3,160,938	2,836,351	324,587
Harry Grove stadium	134,573	134,573	135,746	(1,173)
Recreation centers	1,319,084	1,319,084	1,177,735	141,349
Recreation commission	114,568	114,568	97,203	17,365
Swimming pools	285,197	285,197	276,360	8,837
Total recreation and parks	5,038,843	5,014,360	4,523,395	490,965
Community development:				
Community development	75,295	75,295	76,009	(714)
Economic development	477,691	552,691	546,949	5,742
Total community development	552,986	627,986	622,958	5,028
Economic opportunity:				
Community Action Agency	3,469,379	3,469,379	2,992,831	476,548
Total economic opportunity	3,469,379	3,469,379	2,992,831	476,548
Miscellaneous	250,000	128,252	-	128,252
Debt service:				
Principal	4,009,271	4,009,271	4,009,270	1
Interest	3,045,215	3,045,215	3,045,211	4
Other fees	21,217	21,217	9,054	12,163
Total debt service	7,075,703	7,075,703	7,063,535	12,168
Total expenditures	67,677,621	67,612,428	62,647,840	4,964,588
Excess (deficiency) of revenues over (under) expenditures	(2,936,761)	(2,761,036)	3,820,717	6,581,753
OTHER FINANCING SOURCES (USES)				
Transfers in	2,367,500	2,367,500	2,367,500	-
Transfers out	(891,883)	(1,348,228)	(1,362,247)	(14,019)
Insurance reimbursements	5,000	5,000	14,982	9,982
Capital asset disposition	5,000	5,000	27,290	22,290
Total other financing sources (uses)	1,485,617	1,029,272	1,047,525	18,253
Net change in fund balances	(1,451,144)	(1,731,764)	4,868,242	6,600,006
Fund balance - beginning as restated (Note 7)	10,489,424	10,501,424	21,861,980	11,360,556
Fund balance - ending	$ 9,038,280	$ 8,769,660	26,730,222	$ 17,960,562
Adjustment to conform with generally accepted accounting principles			(893,298)	
GAAP Fund Balance			$ 25,836,924	

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

The City of Frederick, Maryland
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ -	$ 42,860	$ -	$ 1,000	$ 43,860
Investments	-	-	-	-	5,101	5,101
Equity in pooled cash/investments	26,578,724	2,362,404	3,436,525	2,013,391	60,721	34,451,765
Receivables (net of allowance of uncollectibles)	3,588,582	169,685	20,025	276,504	821	4,055,617
Inventories	341,599	-	-	-	104,716	446,315
Prepaids	94,699	1,012	-	-	3,000	98,711
Deferred charges	37,273	31,242	14,453	559	448	83,975
Total current assets	30,640,877	2,564,343	3,513,863	2,290,454	175,807	39,185,344
Noncurrent assets:						
Temporarily restricted assets:						
Cash and cash equivalents	13,985,674	4,762,906	509,245	85,840	18,211	19,361,876
Deferred charges	626,243	14,693	169,593	8,943	7,172	826,644
Net pension asset	398,094	2,120	45,683	8,659	32,147	486,703
Capital assets:						
Land	3,503,338	31,771,804	3,443,239	10,750	30,650	38,759,781
Buildings and systems	30,294,923	8,511,087	43,288,043	-	180,795	82,274,848
Improvements other than buildings	89,115,005	6,707,786	242,107	59,713,495	5,565,390	161,343,783
Machinery and equipment	6,309,967	560,008	1,980,568	910,252	787,205	10,548,000
Construction in progress	84,045,144	5,583,632	839,913	731,955	-	91,200,644
Less accumulated depreciation	(47,030,645)	(6,487,735)	(12,683,320)	(13,563,581)	(2,703,246)	(82,468,527)
Total noncurrent assets	181,247,743	51,426,301	37,835,071	47,906,313	3,918,324	322,333,752
Total assets	211,888,620	53,990,644	41,348,934	50,196,767	4,094,131	361,519,096
LIABILITIES						
Current liabilities:						
Accounts payable	3,275,855	602,465	38,282	3,310	61,896	3,981,808
Accrued liabilities	1,973,594	231,953	478,622	29,256	42,995	2,756,420
Deposits	1,023	77,517	-	-	409	78,949
Unearned revenue	62,215	2,921,152	80,443	-	39,756	3,103,566
Advances from other funds	-	-	-	-	4,620,352	4,620,352
Compensated absences	246,805	10,957	20,690	11,742	15,887	306,081
Bonds, notes, and loans payable	4,073,477	214,798	1,291,574	46,420	36,207	5,662,476
Total current liabilities	9,632,969	4,058,842	1,909,611	90,728	4,817,502	20,509,652
Noncurrent liabilities:						
OPEB liabilities	2,189,775	65,249	144,697	181,815	179,729	2,761,265
Compensated absences	35,187	-	4,783	-	57,943	97,913
Bonds, notes, and loans payable	109,327,629	16,733,344	23,868,812	1,162,719	934,313	152,026,817
Total noncurrent liabilities	111,552,591	16,798,593	24,018,292	1,344,534	1,171,985	154,885,995
Total liabilities	121,185,560	20,857,435	25,927,903	1,435,262	5,989,487	175,395,647
NET ASSETS						
Invested in capital assets, net of related debt	68,898,434	30,887,828	12,785,795	46,703,711	2,929,005	162,204,773
Restricted for:						
Other improvements	1,687,812	161,801	-	-	-	1,849,613
Unrestricted	20,116,814	2,083,580	2,635,236	2,057,794	(4,824,361)	22,069,063
Total net assets	$ 90,703,060	$ 33,133,209	$ 15,421,031	$ 48,761,505	$(1,895,356)	$ 186,123,449

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

The City of Frederick, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Operating revenues:						
Charges for services:						
Water and sewer charges	$ 18,721,571	$ -	$ -	$ -	$ -	$ 18,721,571
Golf course fees	-	-	-	-	1,498,862	1,498,862
Airport fees	-	817,464	-	-	-	817,464
Parking fees	-	-	3,206,059	-	-	3,206,059
Stormwater management fees	-	-	-	1,729,605	-	1,729,605
Licenses and permits	181,517	-	113,746	-	-	295,263
Fines and forfeitures	20,634	-	691,047		-	711,681
Miscellaneous	61,876	14,792	365,584	1,453	15,737	459,442
Total operating revenues	18,985,598	832,256	4,376,436	1,731,058	1,514,599	27,439,947
Operating expenses:						
Finance	276,252	-	-	-	-	276,252
Plumbing inpsection	273,450	-	-	-	-	273,450
Water service	2,415,292	-	-	-	-	2,415,292
Water chemicals	365,210	-	-	-	-	365,210
Water treatment	4,387,917	-	-	-	-	4,387,917
Sewage collection/disposal	3,313,062	-	-	-	-	3,313,062
Sewage maintenance/house connections	686,677	-	-	-	-	686,677
Inflow and infiltration	357,542	-	-	-	-	357,542
Plant maintenance	1,062,886	-	-	-	-	1,062,886
Public housing	-	-	-	-	42,536	42,536
Golf course maintenance	-	-	-	-	599,923	599,923
Golf course clubhouse	-	-	-	-	689,305	689,305
Golf course restaurant	-	-	-	-	284,681	284,681
Airport	-	596,479	-	-	-	596,479
Parking facilities	-	-	1,783,039	-	-	1,783,039
Stormwater management activities	-	-	-	869,910	-	869,910
Depreciation	3,098,856	621,437	1,619,930	1,589,797	213,373	7,143,393
Total operating expenses	16,237,144	1,217,916	3,402,969	2,459,707	1,829,818	25,147,554
Operating income/(loss)	2,748,454	(385,660)	973,467	(728,649)	(315,219)	2,292,393
Nonoperating revenues/(expenses)						
Intergovernmental	-	-	390,349	-	22,031	412,380
Interest income	159,798	15,979	13,098	7,762	342	196,979
Gain on disposal of capital assets	13,020	-	-	-	-	13,020
Other nonoperating revenues	344,762	31,765	23,574	1,420	14,311	415,832
Interest expense	(2,071,017)	(777,270)	(1,338,361)	(52,719)	(45,123)	(4,284,490)
Other nonoperating expenses	(79,673)	(33,771)	(19,582)	(568)	(12,719)	(146,313)
Total nonoperating revenue/(expenses)	(1,633,110)	(763,297)	(930,922)	(44,105)	(21,158)	(3,392,592)
Income/(loss) before contributions and transfers	1,115,344	(1,148,957)	42,545	(772,754)	(336,377)	(1,100,199)
Capital contributions	6,662,533	3,071,063	-	433,814	-	10,167,410
Transfers in	-	795,715	-	-	74,826	870,541
Transfers out	(2,109,945)	-	(150,000)	(67,358)	-	(2,327,303)
Change in net assets	5,667,932	2,717,821	(107,455)	(406,298)	(261,551)	7,610,449
Total net assets - beginning	85,035,128	30,415,388	15,528,486	49,167,803	(1,633,805)	178,513,000
Total net assets - ending	$ 90,703,060	$ 33,133,209	$ 15,421,031	$ 48,761,505	$(1,895,356)	$ 186,123,449

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, 2011

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Cash flows from operating activities:						
Receipts from customers and users	$ 18,747,140	$ 843,777	$ 4,428,760	$ 1,729,675	$ 1,518,784	$ 27,268,136
Receipts from other sources	207,656	30,968	390,349	-	13,104	642,077
Payments to vendors	(9,313,876)	(406,735)	(1,291,823)	(510,586)	(941,340)	(12,464,360)
Payments to employees	(3,793,505)	(199,710)	(540,005)	(308,341)	(595,814)	(5,437,375)
Net cash provided (used) by operating activities	5,847,415	268,300	2,987,281	910,748	(5,266)	10,008,478
Cash flows from noncapital financing activities:						
Transfers out	(2,109,945)	-	(150,000)	(47,500)	-	(2,307,445)
Transfers in	-	739,370	-	-	-	739,370
Operating subsidy	-	-	-	-	22,031	22,031
Due to other funds	-	-	-	-	475,192	475,192
Net cash provided (used) by noncapital financing activities	(2,109,945)	739,370	(150,000)	(47,500)	497,223	(1,070,852)
Cash flows from capital and related financing activities:						
Capital contributions	4,162,532	-	-	433,814	-	4,596,346
Intergovernmental payments	2,500,000	5,971,915	-		-	8,471,915
Capital asset acquisitions	(18,158,065)	(2,182,503)	(257,639)	(920,027)	(92,715)	(21,610,949)
Transfer in for capital asset acquisition	-	56,345	-	-	74,826	131,171
Capital lease payments	(53,152)	-	-	-	-	(53,152)
Principal payments	(3,799,025)	(210,000)	(1,294,000)	(45,000)	(436,984)	(5,785,009)
Interest payments	(2,132,357)	(778,291)	(1,356,843)	(53,169)	(48,326)	(4,368,986)
Proceeds from sale of capital assets	13,020	-	-	-	-	13,020
Other debt related costs	(17,905)	(1,530)	(1,023)	(10)	(758)	(21,226)
Net cash provided (used) by capital and related financing activities	(17,484,952)	2,855,936	(2,909,505)	(584,392)	(503,957)	(18,626,870)
Cash flows from investings activities:						
Interest earned	163,337	15,753	13,178	7,830	343	200,441
Net cash provided by investing activities	163,337	15,753	13,178	7,830	343	200,441
Net increase (decrease) in cash equivalents	(13,584,145)	3,879,359	(59,046)	286,686	(11,657)	(9,488,803)
Cash equivalents - beginning	54,148,543	3,245,951	4,047,676	1,812,544	96,689	63,351,403
Cash equivalents - ending	$ 40,564,398	$ 7,125,310	$ 3,988,630	$ 2,099,230	$ 85,032	$ 53,862,600

(continued)

The City of Frederick, Maryland
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds					
	Water and Sewer	Airport	Parking Facilities	Storm Water Management	Nonmajor Proprietary	Total
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income/(loss)	$ 2,748,454	$ (385,660)	$ 973,467	$ (728,649)	$ (315,219)	$ 2,292,393
Other Cash Receipts that do not result from Transactions defined as Capital and Relatec Financing, Noncapital Financing or Investing Activities.	207,656	30,968	390,349	-	13,104	642,077
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	3,098,856	621,437	1,619,930	1,589,796	213,373	7,143,392
(Increase)/decrease in accounts receivable	(231,359)	16,692	41,858	(1,382)	(184)	(174,375)
(Increase)/decrease in inventory	75,979	-	-	-	13,665	89,644
(Increase)/decrease in prepaids	128	(1,012)	-	-	-	(884)
Decrease in net pension asset	2,064	11	284	164	216	2,739
(Decrease)/increase in accounts payable	41,219	5,553	(52,204)	193	20,883	15,644
(Decrease)/increase in deferred revenue	3,000	165	10,466	-	4,368	17,999
(Decrease)/increase in deposits	(10,099)	(5,335)	-	-	-	(15,434)
(Decrease)/increase in OPEB liability	(82,882)	(6,495)	3,326	50,031	49,055	13,035
(Decrease)/increase in wages payable	12,380	(2,360)	1,767	1,817	(3,008)	10,596
(Decrease)/increase in compensated absences	(17,981)	(5,664)	(1,962)	(1,222)	(1,519)	(28,348)
Total adjustments	2,891,305	622,992	1,623,465	1,639,397	296,849	7,074,008
Net cash provided (used) by operating activities	$ 5,847,415	$ 268,300	$ 2,987,281	$ 910,748	$ (5,266)	$ 10,008,478

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

The City of Frederick, Maryland
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Fund	OPEB Trust Fund
ASSETS:		
Cash and short-term investments	$ 4,390,690	$ 836,325
Receivables		
Accounts receivable - employee	122,064	-
Total receivables	122,064	-
Investments, at fair value:		
Equities	36,482,723	5,057,599
Fixed income	41,657,084	2,601,524
Total investments	78,139,807	7,659,123
Total assets	82,652,561	8,495,448
LIABILITIES:		
Benefits payable	20,562	247,634
Total liabilities	20,562	247,634
NET ASSETS		
Held in trust for pension benefits	$ 82,631,999	$ 8,247,814

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

The City of Frederick, Maryland
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

	Pension Trust Fund	OPEB Trust Fund
ADDITIONS:		
Contributions - employer	$ 10,325,669	$ 8,509,344
Contributions - employees	1,589,276	7,320
Interest	1,725,909	10,898
Net appreciation/(depreciation)	11,761,154	177,101
Total Additions	25,402,008	8,704,663
DEDUCTIONS:		
Pension benefits	7,140,377	408,872
Service charges	543,624	47,977
Total Deductions	7,684,001	456,849
Change in net assets	17,718,007	8,247,814
Net assets - beginning	64,913,992	-
Net assets - ending	$ 82,631,999	$ 8,247,814

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

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

Based upon the above criteria, the following is a brief overview of 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 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.

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

The *parking 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.

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

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

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

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

D. Assets, liabilities, and net assets or equity

Cash and Investments

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

Receivables and payables

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Inventories and prepaid items

Inventories are valued at cost, determined by the moving average method, in the governmental fund and at the lower of cost or market in the proprietary funds. Inventory consists of expendable supplies held for consumption or items for resale. Inventory in the general fund is recorded under the consumption method, as an expenditure when used, and is equally offset within the nonspendable classification of fund balance in the fund financial statements which indicates that inventory does not constitute "available spendable resources" even though it is a component of net current assets.

Payments made to vendors for services that benefit periods beyond June 30, 2011, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are also offset within the nonspendable classification of fund balance in the fund financial statements.

Earned but not available revenue

Governmental funds report *earned but not available revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The City considers receivables not collected within sixty days after year-end as earned but not available revenue. $109,053 of unavailable revenue was recognized in the Statement of Activities at year end.

Deferred 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 $1,400,327 in deferred revenue.

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 balance sheet. Additionally, the City's 1999 Tax Increment Financing agreement requires that certain funds be deposited with the trustee throughout the life of the bond issue. These funds are also recorded as restricted assets on the balance sheet.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items); are defined by the City as assets with an initial, individual cost of $5,000 or greater and an estimated useful life in excess of three years. Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. Summary of Significant Accounting Policies (continued)

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

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

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

Compensated absences

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

Long-term obligations

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

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

Fund balance

In the fund financial statements, governmental funds report fund balances 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.

Restricted fund balance are 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 are to be reported as ***committed*** fund balance.

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.

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

Net assets

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

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

2. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, not reported in the fund." The details of this $127,391,057 difference are as follows:

Capital assets	$ 202,963,039
Less: Accumulated depreciation	(75,571,982)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 127,391,057

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 $85,233,058 difference are as follows:

Bonds payable	$ 71,268,848
Add: Issuance premium (to be amortized over life of debt)	557,830
Add: Other post-employment benefits	11,097,848
Add: Compensated absences	2,308,532
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 85,233,058

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $3,712,804 difference are as follows:

Capital outlay	$ 2,920,112
Depreciation expense	(6,632,916)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (3,712,804)

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets." The details of this $ 1,531,604 difference are as follows:

In the statement of activities, only the *gain/loss* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the remaining book value of the capital assets sold.	$ (43,039)
Donation and/or transfer of capital assets increase net assets in the statement of activities, But do not appear in the governmental funds because they are not capitalized.	1,574,643
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 1,531,604

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

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $ 3,964,107 difference are as follows:

Principal repayments	$ 4,009,270
Amortization of bond premiums	34,974
Amortization of issuance costs	(80,137)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 3,964,107

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 $ 3,489,584 difference are as follows:

Compensated absences	$ (179,202)
Pension expense resulting in a net pension asset reduction	12,226
Other post-employment benefits	3,560,253
Accrued interest	96,307
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 3,489,584

3. Stewardship, compliance and accountability

Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 15th, the Mayor requests all departments to submit their proposed operating budgets for the fiscal year commencing the following July 1.

2. All budget requests are compiled by the Finance Department and presented to the Mayor and Board of Aldermen for review together with comparative and supporting data.

3. Public hearings are properly advertised and conducted at City Hall for taxpayer comments.

4. Prior to May 30th, the Mayor formally presents the balanced budget and budget message to the Board of Aldermen at a public meeting. The budget message includes a statement of pending capital project programs for the next five fiscal years. Additional taxpayer comments are requested.

5. Prior to June 29th, the budget is legally enacted through the passage of an ordinance.

6. Budgetary control is maintained at the departmental sub-function level. The Mayor may approve the transfer of funds within a department; however, any transfers required between departments must be approved by the Board of Aldermen. Any change in the total budget amount requires the approval of the Board of Aldermen. The final budget amounts are reported based on the original budget adjusted for authorized transfers and amendments.

7. Over-expenditures at the departmental level are prohibited by Charter.

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

3. Stewardship, compliance and accountability (continued)

Budgetary control is achieved through a capital improvements program for all capital projects funds.

Any excess of total expenditures and encumbrances over total budgeted appropriations by individual departments is in violation of certain legal provisions. During fiscal year 2011, Harry Grove Stadium exceeded its budget by $1,173. This over-expenditure was covered with rental fees that exceeded the budgeted amount by approximately $13,000. The community development department within the general fund exceeds its budget by approximately $715. This overage was covered with savings in other departments. Transfers out within the general fund shows an over-expenditure of $14,019. This was created by the community action agency purchasing capital assets that were transferred to the rental operations fund. The items were budgeted in the agency's budget, but a budget amendment was not made to reflect the transfer to rental operations, a propriety fund.

The Weinberg Center exceeded their budget allotment. The primary reason for the over-expenditure was donated in-kind services that were recorded at year-end. The over-expenditure in the Weinberg Center Fund was fully funded by the revenue recognized by the in-kind service donations.

Budget amendments were made during fiscal year 2011 which resulted in a net increase in the amount of $122,532 in the General Fund to account for unanticipated revenue receipts.

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

4. Detailed notes on all funds

Deposits and investments

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

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

As of June 30, 2011, the City had the following investments:

Investment Type	Fair Value
Repurchase agreements	$ 2,237,830
U. S. Treasuries	258,844
Maryland Local Government Investment Pool	38,069,430
	$ 40,566,104
OPEB Fund investments	7,659,124
Pension Fund investments	82,530,498
Total fair value of investments	$ 130,755,726

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

4. Detailed notes on all funds (continued)

Credit risk. The City of Frederick's investment does not specifically address credit risk. As of June 30, 2011, the Maryland Local Government Investment Pool was rated AAAm by Standard & Poor's. Regulatory oversight for the local government investment pool rests with the Maryland State Treasurer's Office and the fair value of the pool is the same as the value of the pool shares.

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

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 $50,213,719, and the bank balance was $50,910,025. As of June 30, 2011, all of the City's deposits were either covered by federal depository insurance or were covered by collateral held by the City's agent in the City's name.

	Pension Fund investments	OPEB Trust investments
Equities		
Growth equities	$ 21,375,147	$ 2,391,929
Small cap equities	7,867,589	476,458
Mid cap equities	-	870,098
International equities	7,239,987	1,319,114
Total equities	$ 36,482,723	$ 5,057,599
Core Fixed income	$ 13,409,205	$ -
Fixed income	3,169,477	2,601,524
Research Advantage Collective Trust	25,078,403	-
Total fixed income	$ 41,657,085	$ 2,601,524
Cash and short-term investments		
Cash management fund	$ 2,559,323	$ 836,325
Disbursement payment account	1,831,367	-
Total cash and short-term investments	$ 4,390,690	$ 836,325
Total	$ 82,530,498	$ 8,495,448

The average quality of the core fixed income investments in the pension fund is AA3, with yield to maturity of 3.53% and an effective duration of 4.42 years. 60.9% of the portfolio is rated AAA, 4.1% AA, 10.8% A, 23.9% BBB and 0.3% less than BBB.

Petty cash amounts at June 30, 2011 totaled $46,440.

Receivables

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

	General	CIP	Water & Sewer	Airport	Parking	Storm Water Management	Non-major Funds	Total
Taxes	$ 312,327	$ -	$ -	$ -	$ -	$ -	$ -	$ 312,327
Loans/notes	88,650	-	-	-	-	-	2,205,383	2,294,033
Intergovernmental	635,709	42,815	24,934	140,657	19,991	-	132,168	996,274
Interest	241	-	1,200	423	34	7	1,172	3,077
Other	287,422	-	3,602,565	31,379	-	276,497	9,685	4,207,548
Gross receivables	1,324,349	42,815	3,628,699	172,459	20,025	276,504	2,348,408	7,813,259
Less: allowance for un-collectibles	(84,473)	-	(40,117)	(2,774)	-	-	(7,260)	(134,624)
Net receivables	$ 1,239,876	$ 42,815	$3,588,582	$ 169,685	$ 20,025	$ 276,504	$2,341,148	$ 7,678,635

4. Detailed notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 48,832,511	$ 251,285	$ 39,600	$ -	$ 49,044,196
Construction in progress	11,082,769	2,229,390	-	(6,856,082)	6,456,077
Total capital assets, not being depreciated	59,915,280	2,480,675	39,600	(6,856,082)	55,500,273
Capital assets, being depreciated:					
Buildings	28,793,903	5,972	-	250,432	29,050,307
Other improvements	30,970,245	45,855	15,391	354,085	31,354,794
Infrastructure	57,170,762	1,818,070	-	6,229,434	65,218,266
Machinery and equipment	22,035,622	132,856	340,339	11,260	21,839,399
Total capital assets, being depreciated	138,970,532	2,002,753	355,730	6,845,211	147,462,766
Less accumulated depreciation for:					
Buildings	16,342,764	958,003	-	-	17,300,767
Other improvements	8,851,256	1,515,506	14,686	-	10,352,076
Infrastructure	28,418,071	2,635,527	-	-	31,053,598
Machinery and equipment	15,701,464	1,523,879	337,605	(22,197)	16,865,541
Total accumulated depreciation	69,313,555	6,632,915	352,291	(22,197)	75,571,982
Total capital assets, being depreciated, net	69,656,977	(4,630,162)	3,439	6,867,408	71,890,784
Governmental activities capital assets, net	$ 129,572,257	$ (2,149,487)	$ 43,039	$ 11,326	$ 127,391,057

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 38,699,893	$ 11,918	$ -	$ 47,970	$ 38,759,781
Construction in progress	95,570,415	18,405,201	-	(22,774,972)	91,200,644
Total capital assets, not being depreciated	134,270,308	18,417,119	-	(22,727,002)	129,960,425
Capital assets, being depreciated:					
Buildings	70,006,924	118,558	-	12,149,367	82,274,849
Other improvements	149,154,952	1,611,195	-	10,577,635	161,343,782
Machinery and equipment	10,943,984	206,160	613,015	10,871	10,548,000
Total capital assets, being depreciated	230,105,860	1,935,913	613,015	22,737,873	254,166,631
Less accumulated depreciation for:					
Buildings	26,166,875	2,326,065	-	-	28,492,940
Other improvements	42,749,909	3,981,852	-	-	46,731,761
Machinery and equipment	6,999,169	835,475	613,015	22,197	7,243,826
Total accumulated depreciation	75,915,953	7,143,392	613,015	22,197	82,468,527
Total capital assets, being depreciated, net	154,189,907	(5,207,479)	-	22,715,676	171,698,104
Business-type activities capital assets, net	$ 288,460,215	$ 13,209,640	$ -	$ (11,326)	$ 301,658,529

4. Detailed notes on all funds (continued)

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

Governmental activities:	
General government	$ 293,311
Public safety	389,388
Public works	3,508,735
Recreation and parks	2,367,804
Economic opportunity	73,677
Total depreciation expense – governmental activities	$ 6,632,915
Business-type activities:	
Rental operations	$ 15,210
Water and sewer	3,098,856
Golf course	198,163
Airport	621,437
Parking	1,619,930
Storm water	1,589,796
Total depreciation expense – business-type activities	$ 7,143,392

Construction commitments

The City has active construction projects as of June 30, 2011. At year end the City's commitments with contractors for major projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Monocacy Boulevard Central Section	$ 16,548,123	$ 5,273,644
New Design Water Plant Expansion	51,524,011	225,989
Rocky Springs Road/Bowers Road Water Main	3,456,835	1,033,593
Wastewater Treatment Plant Improvements	8,879,285	1,006,711
Ballenger-McKinney Wastewater Treatment Plant	6,120,568	9,160,478
Airport Traffic Control Tower	2,361,765	1,668,132
Runway 23 Localizer Antenna Replacement	59,791	443,350

The Monocacy Boulevard Central Section, New Design Water Plant Expansion, Rocky Springs Road/Bowers Road Water Main, Wastewater Treatment Plant Improvements and Ballenger-McKinney Wastewater Treatment Plant are primarily debt funded. The Airport Traffic Control Tower and Runway 23 Localizer Antenna Replacement are funded through an agreement with the Federal Aviation Administration with American Recovery and Reinvestment Act monies.

Inter-fund receivables, payables and transfers

The composition of inter-fund balances as of June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Golf Course	$ 4,620,352

The $4,620,352 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:

	Transfers In:					
Transfer out:	General Fund	CIP Fund	Non-major Governmental	Airport Fund	Non-major Proprietary	Total
General fund	$ -	$ 400,000	$ 91,706	$ 795,715	$ 74,826	$ 1,362,247
CIP Fund	520,000	-	-	-	-	520,000
Water and sewer fund	1,650,000	459,945	-	-	-	2,109,945
Parking fund	150,000	-	-	-	-	150,000
Storm water management fund	47,500	-	-	-	-	47,500
Total transfers out	$2,367,500	$ 859,945	$ 91,706	$ 795,715	$ 74,826	$ 4,189,692

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

4. Detailed notes on all funds (continued)

The $520,000 transfer from the CIP Fund to the general fund represents balances left in CIP projects that were returned to the general fund. 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 $91,706 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.

Of the $795,715 transferred from the general fund to the airport fund, $56,345 was to be used for capital improvements and $739,370 was used to assist in debt service and operations.

The general fund also transferred capital assets valued at $74,826 into the rental operations fund. Capital asset valued at $19,858 was transferred from the storm-water fund into general capital assets and $8,533 of general capital assets were transferred into the airport fund.

5. Fund balances:

The classification of governmental funds balances as of June 30, 2011 is as follows.

	General	General CIP	Nonmajor Governmental	Total
Nonspendable:				
Inventory	$ 488,615	$ -	$ -	$ 488,615
Prepaid items	86,918	-	1,250	88,168
Loans	88,650	-	2,205,383	2,294,033
Advances to other funds	4,620,352	-	-	4,620,352
Restricted for:				
Streets/roadways	-	378,030	-	378,030
Parks/recreation	-	1,373,560	-	1,373,560
Harry Grove Stadium	-	372,122	-	372,122
Parks impact fees	-	1,235,448	-	1,235,448
Weinberg Center	-	354,395	393,766	748,161
Debt service reserve	189,283	-	-	189,283
Other purposes	8,655	-	-	8,655
Committed to:				
General government	171,115	-	-	171,115
Public safety	69,453	-	-	69,453
Waste collection	227,171	-	-	227,171
Streets/roadways	42,890	2,692,691	-	2,735,581
Street lights/signals/sidewalks	-	158,945	-	158,945
Pathways	-	29,607	-	29,607
Parks/recreation	-	2,800	-	2,800
Weinberg Center	-	-	1,527	1,527
Community action	13,696	-	-	13,696
Assigned:				
General government	100,123	-	-	100,123
Municipal facilities	-	260,669	-	260,669
Public safety	313,638	-	-	313,638
Public works	174,832	-	-	174,832
Streets/roadways	-	430,642	-	430,642
Street lights/signals/sidewalks	-	532,231	-	532,231
Parks/recreations	104,821	812,524	-	917,345
Harry Grove Stadium	-	87,223	-	87,223
Weinberg Center	-	-	238,131	238,131
Community development	-	-	163,322	163,322
Economic development	1,942	-	-	1,942
Community action	55,312	-	-	55,312
Subsequent years budget	2,031,054	-	-	2,031,054
Other purposes	-	794,555	-	794,555
Unassigned:	17,048,404	-	-	17,048,404
Total fund balances	$ 25,836,924	$ 9,515,442	$ 3,003,379	$ 38,355,745

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 7/1/2010	Transfers/ Additions FY '11	Reductions FY '11	Outstanding 6/30/2011	Due Within One Year
Governmental Activities:								
Bonds and Notes Payable:								
General Purpose	08/07/01	12/01/21	3.25-4.75%	$ 11,732,000	$ -	$ (2,220,000)	$ 9,512,000	$ 1,957,000
General Purpose	09/19/02	09/01/22	2.50-5.0%	18,052,000	-	(1,056,000)	16,996,000	1,097,000
Refunding Bonds	11/18/08	08/01/11	3.29%	400,000	-	(250,000)	150,000	150,000
General Purpose	03/26/09	03/01/29	3.0 - 5.0%	42,815,000	-	(125,000)	42,690,000	1,000,000
MILA Loan - Trading Lane	06/95	06/22	5.93%	116,015	-	(6,852)	109,163	7,267
CELP Loan	12/21/05	06/01/14	2.0%	67,670	-	(16,416)	51,254	16,746
Tax Increment Financing	12/99	06/24	5.95%	1,848,711	-	(88,280)	1,760,431	93,532
Capital Lease	12/20/05	07/20/10	3.0 - 5.0%	246,723	-	(246,723)	-	-
Subtotal				75,278,119	-	(4,009,271)	71,268,848	4,321,545
Add remaining premium				592,804	-	(34,974)	557,830	34,975
Total bonds and notes payable				75,870,923	-	(4,044,245)	71,826,678	4,356,520
Other Obligations:								
Compensated Absences				2,487,734	1,841,257	(2,020,459)	2,308,532	1,794,953
OPEB Liabilities				11,824,228	7,816,178	(8,542,558)	11,097,848	-
Total Governmental Activity Long-term Obligations				$ 90,182,885	$ 9,657,435	$ (14,607,262)	$ 85,233,058	$ 6,151,473
Business-type activities:								
General Obligation Bonds:								
Water and Sewer	08/07/01	12/01/21	3.25-4.75%	$ 4,933,000	$ -	$ (798,000)	$ 4,135,000	$ 715,000
Water and Sewer	09/19/02	09/01/22	2.50-5.0%	1,358,000	-	(79,000)	1,279,000	83,000
Water and Sewer	08/15/05	08/01/25	4.0 - 5.0%	46,845,000	-	(2,218,000)	44,627,000	2,288,000
Water and Sewer	11/18/08	08/01/11	3.29%	227,000	-	(140,000)	87,000	87,000
Water and Sewer	11/18/08	08/01/28	4.39%	8,422,300	-	(290,100)	8,132,200	303,100
Water and Sewer	03/26/09	03/01/34	3.0 - 5.0%	49,875,000	-	(20,000)	49,855,000	225,000
Total General Obligation Bonds				111,660,300	-	(3,545,100)	108,115,200	3,701,100
State Loan Fund - BNR	08/23/01	02/01/22	2.30%	3,463,697	-	(253,925)	3,209,772	259,765
Capital Lease	12/20/05	07/20/10	3.0 - 5.0%	53,152	-	(53,152)	-	-
Total Water & Sewer Debt				115,177,149	-	(3,852,177)	111,324,972	3,960,865
Golf Course Facilities Bonds	07/26/04	10/01/10	2.84%	401,984	-	(401,984)	-	-
Golf Course Facilities Bonds	03/26/09	03/01/29	3.0 - 5.0%	985,000	-	(35,000)	950,000	35,000
Total Golf Course Obligations				1,386,984	-	(436,984)	950,000	35,000
Airport Improvement Bonds	08/07/01	12/01/21	3.25-4.75	2,860,000	-	(185,000)	2,675,000	190,000
Airport Improvement Bonds	03/26/09	03/01/29	3.0 - 5.0%	640,000	-	(25,000)	615,000	25,000
Airport Impvt. BANs - Taxable	03/26/09	03/01/13	4.52%	13,655,000	-	-	13,655,000	-
Total Airport Debt				17,155,000	-	(210,000)	16,945,000	215,000
Parking Facilities	08/07/01	12/01/21	3.25-4.75	2,430,000	-	(232,000)	2,198,000	223,000
Parking Facilities	08/15/05	08/01/25	4.0 - 5.0%	11,930,000	-	(587,000)	11,343,000	602,000
Parking Facilities	11/18/08	08/01/11	3.29%	173,000	-	(110,000)	63,000	63,000
Parking Facilities - Taxable	03/26/09	03/01/29	3.264-6.933%	11,595,000	-	(365,000)	11,230,000	380,000
Total Parking Facilities				26,128,000	-	(1,294,000)	24,834,000	1,268,000
Stormwater Facilities	03/26/09	03/01/29	3.0 - 5.0%	1,230,000	-	(45,000)	1,185,000	45,000
Total Stormwater Facilities				1,230,000	-	(45,000)	1,185,000	45,000
Total business-type activities debt				161,077,133	-	(5,838,161)	155,238,972	5,523,865
Other Obligations:								
Add remaining premium				2,649,326	-	(164,104)	2,485,222	164,104
Less remaining discounts				(11,407)	-	999	(10,408)	(999)
Less deferred refunding				(58,470)	-	33,977	(24,493)	(24,493)
Compensated Absences				432,342	348,735	(377,083)	403,994	306,082
OPEB liabilities				2,748,229	2,142,748	(2,129,712)	2,761,265	-
Total business-type activities obligations				$ 166,837,153	$ 2,491,483	$ (8,474,084)	$ 160,854,552	$ 5,968,559

Ninety-eight percent of the compensated absences and ninety-nine percent of the OPEB liabilites in the governmental activities will be paid out of the general fund. The remaining two percent and one percent respectively will be paid out of nonmajor governmental funds.

6. Long term obligations (continued)

The annual requirements to amortize all general long term debt, as of June 30, 2011, are as follows:

Fiscal	Governmental Activities		Business-type Activities		Total		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	$ 4,228,013	$ 2,863,523	$ 5,523,865	$ 7,102,215	$ 9,751,878	$ 9,965,738	$ 19,717,616
2013	4,225,790	2,715,304	19,301,440	6,861,037	23,527,230	9,576,341	33,103,571
2014	4,412,601	2,550,093	5,890,852	5,984,935	10,303,453	8,535,028	18,838,481
2015	4,587,671	2,390,482	6,149,904	5,722,034	10,737,575	8,112,516	18,850,091
2016	3,877,196	2,224,523	6,382,801	5,440,958	10,259,997	7,665,481	17,925,478
2017 - 2021	21,101,054	8,774,974	36,522,819	22,647,824	57,623,873	31,422,798	89,046,671
2022 - 2026	17,466,092	4,409,652	43,285,091	13,870,491	60,751,183	18,280,143	79,031,326
2027 - 2031	9,610,000	943,543	23,072,200	5,078,335	32,682,200	6,021,878	38,704,078
2032 - 2035	-	-	9,110,000	925,750	9,110,000	925,750	10,035,750
Totals	$ 69,508,417	$ 26,872,094	$ 155,238,972	$ 73,633,579	$224,747,389	$100,505,673	$ 325,253,062

The annual requirements to amortize all tax incremental financing debt outstanding as of June 30, 2011 is as follows:

Fiscal	Tax Incremental Financing Bonds		
Year	Principal	Interest	Total
2012	$ 93,532	$ 40,261	$ 133,793
2013	99,098	38,122	137,220
2014	104,994	35,856	140,850
2015	111,241	33,454	144,695
2016	117,860	30,910	148,770
2017 - 2021	703,216	110,765	813,981
2022 - 2024	530,490	24,732	555,222
Totals	$1,760,431	$ 314,100	$2,074,531

Computation of Legal Debt Margin:

Assessed value		$6,920,145,304
Debt limit (8% of assessed value per City Charter)		$ 553,611,624
Amount of debt applicable to debt limit:		
Total bonded debt	$223,137,631	
Other debt	3,370,189	
	$226,507,820	
Less: Water and sewer debt	111,324,972	
Total amount of debt applicable to debt limit		115,182,848
Legal debt margin		$ 438,428,776

Schedule of Intended Source of Funds for Debt Retirement:

	Debt Amount
General revenue	$ 69,508,417
Water and sewer charges	111,324,972
Airport charges	16,945,000
Parking charges and fines	24,834,000
Storm water charges	1,185,000
Cash flow from golf course operations	950,000
Incremental tax revenue	1,760,431
	$ 226,507,820

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

6. Long term obligations (continued)

Computation of Direct and Overlapping Debt:

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City	Amount Applicable to City
The City of Frederick	$ 226,507,820	100.00%	$ 226,507,820
Frederick County	703,825,554	25.41%	178,842,073
Total	$ 930,333,374		$ 405,349,893

7. Fund balance and net assets restatements

The following restatements were made to beginning fund balance and net asset accounts:

	Governmental Activities			
	General Fund	General CIP	Nonmajor Governmental	Total Governmental
Fund balance June 30, 2010 as previously reported	$ 20,882,247	$ 12,278,327	$ 2,896,761	$ 36,057,335
Cumulative effect of change in accounting policy	119,148	-	(119,148)	-
Cumulative effect of prior period adjustment	-	-	102,839	102,389
Fund balance June 30, 2010 as restated	$ 21,001,395	$ 12,278,327	$ 2,880,002	$ 36,159,724
Net assets as of June 30, 2010				$ 82,016,959
Cumulative effect of prior period adjustment				102,389
Net assets as of June 30, 2010 as restated				$ 82,119,348

The CDS Program fund was previously reported as a special revenue fund. As a result of the adoption of GASB 54, this fund was combined with the general fund resulting in an increase in the general fund beginning fund balance of $119,148 and a decrease in the beginning fund balance for nonmajor governmental funds for the same amount.

Additionally, it was determined that $102,389 of previously reported expenditures in the community development fund should have been recorded as loan receivables. This resulted in an increase in the beginning fund balance as well as the receivable asset account in the community development fund. The adjustment also resulted in an increase in beginning net assets in the government wide statements as well.

8. Pension Plans

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

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

Separate, audited GAAP-basis pension plan reports are not available for the defined benefit pension plans.

Investments of the pension plans are reported at fair value.

The City of Frederick Pension System (Thirty-Year Plan)

Plan description and provisions:

Full-time employees of The City of Frederick are eligible to participate in this single-employer, defined benefit pension plan. Current membership in the plan is comprised of the following:

Retired and disabled participants, beneficiary annuitants, and spouses as of July 1, 2011	74
Vested terminated employees	92
Active employees - vested 100%	118
Active employees – non-vested	72

8. Pension plans (continued)

Eligibility – Prior to March 17, 2011, work at least twenty hours a week, attain the age of 18 with one year of service, and agree to make required contributions. Subsequent to March 17, 2011, attain the age of 18 and agree to make required contributions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mortality – RP2000 Combined Mortality Tables for males and females.

Interest rates – 8.0% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

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

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

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

8. Pension plans (continued)

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

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

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

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

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

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

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

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

Annual required contribution	$ 1,518,438
Interest on net pension assets	(19,198)
Adjustment to annual required contribution	20,580
Annual pension cost	1,519,820
Contributions made	(1,518,438)
Decrease in net pension assets	1,382
Net pension assets beginning of year	(239,971)
Net pension assets end of year	$ (238,589)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2009	886,380	99.98%	(240,154)
2010	1,342,852	99.98%	(239,971)
2011	1,519,820	99.91%	(238,589)

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, 2011	169
Vested terminated employees	64
Active employees - vested 100%	133
Active employees – non-vested	93

Eligibility - Prior to March 17, 2011, work at least twenty hours a week, attain the age of 18 with one year of service, and agree to make required contributions. Subsequent to March 17, 2011, attain the age of 18 and agree to make required contributions.

8. Pension plans (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Mortality – RP2000 Combined Mortality Tables for males and females.

Interest rates - 8.0% per annum, compounded annually.

Expenses – None assumed paid from plan assets.

Retirement - Assumed retirement at the earlier of 25 years of service,

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

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

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

8. Pension plans (continued)

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

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

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

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

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

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

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

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

Annual required contribution	$ 3,854,773
Interest on net pension assets	(122,343)
Adjustment to annual required contribution	131,157
Annual pension cost	3,863,587
Contributions made	(3,854,773)
Decrease in net pension assets	8,814
Net pension assets beginning of year	(1,529,284)
Net pension assets end of year	$(1,520,470)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2009	2,775,957	99.96%	(1,530,452)
2010	3,480,851	99.97%	(1,529,284)
2011	3,863,587	99.77%	(1,520,470)

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, 2011	59
Vested terminated employees	16
Active employees - vested 100%	103
Active employees – non-vested	27

8. Pension plans (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mortality –RP2000 Blue Collar Mortality Tables for Males and Females.

Interest rates - 8.0% per annum, compounded annually.

Expenses – none assumed to be paid from plan assets.

Retirement - Assumed retirement at the earlier of 22 years of service,

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

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

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

8. Pension plans (continued)

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

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

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

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

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

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

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

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

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

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

Annual required contribution	$ 4,952,458
Interest on net pension assets	(66,200)
Adjustment to annual required contribution	70,969
Annual pension cost	4,957,227
Contributions made	(4,952,458)
Decrease in net pension assets	4,769
Net pension assets beginning of year	(827,497)
Net pension assets end of year	$ (822,728)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2009	4,067,076	99.98%	(828,129)
2010	4,130,887	99.98%	(827,497)
2011	4,957,227	99.90%	(822,728)

8. Pension plans (continued)

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

	30-Year Plan	25-Year Plan	22-Year Plan
Valuation date	7/1/11	7/1/11	7/1/11
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 yrs. from valuation date - open	30 yrs. from valuation date - open	30 yrs. from valuation date – open
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases:			
Under age 50	6.0%	6.0%	7.0%
Age 50 and older	4.5%	4.5%	7.0%
Actuarial value of assets -	10,586,674	33,418,469	42,249,987
Actuarial accrued liability -	22,177,914	73,899,682	82,059,278
Total unfunded actuarial accrued liability -	11,591,240	40,481,213	39,809,291
Actuarial value of assets as a percentage of actuarial accrued liability (funded ratio) -	47.74%	45.22%	51.49%
Annual covered payroll -	8,854,752	10,615,123	9,598,238
Ratio of the unfunded actuarial liability to annual covered payroll -	130.90%	381.35%	414.76%

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

Statement of Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2011 Total
ASSETS:				
Cash and short-term investments	$ 541,315	$ 1,662,661	$ 2,186,714	$ 4,390,690
Receivables				
Accounts receivable – employee	-	58,025	64,039	122,064
Total receivables	-	58,025	64,039	122,064
Investments, at fair value:				
Equities	4,497,842	13,815,232	18,169,649	36,482,723
Fixed income	5,135,774	15,774,651	20,746,659	41,657,084
Total investments	9,633,616	29,589,883	38,916,308	78,139,807
Total assets	10,174,932	31,310,569	41,167,061	82,652,561
LIABILITIES:				
Benefits payable	-	11,747	8,815	20,562
NETS ASSETS:				
Held in trust for pension benefits	$ 10,174,931	$ 31,298,822	$ 41,158,246	$ 82,631,999

8. Pension plans (continued)

Statement of Changes in Fiduciary Net Assets

	Pension Trust Fund			
	Pension - 30 Year	Pension - 25 Year	Pension - 22 Year	2011 Total
ADDITIONS:				
Contributions – employer	$ 1,518,438	$ 3,854,773	$ 4,952,458	$ 10,325,669
Contributions – employee	1,180	739,246	848,850	1,589,276
Interest	212,782	653,565	859,562	1,725,909
Net appreciation/(depreciation)	1,449,997	4,453,699	5,857,458	11,761,154
Total additions	3,182,397	9,701,283	12,518,328	25,402,008
DEDUCTIONS:				
Pension benefits	690,308	3,952,337	2,497,732	7,140,377
Service charges	67,022	205,859	270,743	543,624
Total deductions	757,330	4,158,196	2,768,475	7,684,001
Change in net assets	2,425,067	5,543,087	9,749,853	17,718,007
Net assets – beginning	7,749,864	25,755,735	31,408,393	64,913,992
Net assets – ending	$ 10,174,931	$ 31,298,822	$ 41,158,246	$ 82,631,999

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. Approximately 715 retirees and dependents could be eligible for health benefits and 252 retirees are also eligible for life insurance coverage. Four hundred and thirty-three (433) retirees and dependents are currently enrolled in the City's Group Health Insurance and the Medicare Advantage Plans. The City provides open access Group Health Insurance coverage for pre-Medicare retirees and their dependents. Retirees that are Medicare eligible are enrolled in a plan that coordinates benefits with Medicare. The cost of retiree health care and life insurance benefits are recognized as expenditures when claims are accrued. For fiscal year 2011, those costs totaled approximately $ 2,639,774.

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)

For eligible employees hired before July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for retiree health insurance. Health insurance premiums for these employees and their dependents shall be paid in full by the City.

For eligible employees hired on or after July 1, 2003 – These employees must meet eligibility requirements under the retirement plan and have 10 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these employees and their dependents will be the same cost share rate as those paid by active employees.

For eligible employees hired on or after July 1, 2005 – These employees must meet eligibility requirements under the retirement plan and have 15 vesting years of service with the City to be eligible for health insurance. Health insurance premiums for these retirees and their dependents will be the same cost share rate as those paid by active employees.

Pre-Medicare retirees may choose from two medical plans: an Open Access Plus In-Network (OAPIN) Plan and an Open Access Plus (OAP) Plan (which provides both in- and out-of network benefits)

9. Post-Employment Health Care Benefits (continued)

Group Term Life Insurance:

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

Group Dental Insurance is available to retirees as a voluntary benefit based upon the eligibility requirements above, and the retiree is responsible for 100 percent of the premium costs based upon the coverage level selected.

Medicare-Entitled Retiree Coverage**:**

Once the participant is Medicare-eligible, s/he may enroll in a Medicare Advantage PPO Plan. Currently, the retiree (participant) cost share for the Medicare Advantage Plan is $30 per month per participant.

Funding Policy:

The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The current ARC rate is 38.26% of annual covered payroll. The ARC consisted of the normal cost of $4,942,868 and the amortization of unfunded accrued liability of $5,548,279. The City contributed $11,598,116 for the year ended June 30, 2011 for current health care and life insurance premiums. This includes an estimated $925,000 of implicit retiree costs.

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

Annual OPEB Cost and Net OPEB Obligation:

The City had an actuarial valuation performed as of July 1, 2010 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, 2012. The annual OPEB costs and net OPEB obligation for the current year were as follows:

Annual required contribution	$ 11,120,616
Interest on net OPEB obligation	868,128
Adjustment to annual required contribution	(964,587)
Annual OPEB cost	11,024,157
Contributions made	(11,598,116)
Decrease in net OPEB obligation	(573,959)
Net OPEB obligation beginning of year	14,433,073
Net OPEB obligation end of year	$ 13,859,114

Three-Year Trend Information

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 7,474,000	$ 2,229,200	29.83%	$ 5,244,800
2010	12,488,000	3,299,727	26.42%	14,433,073
2011	11,024,157	11,598,116	105.21%	13,859,114

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

Actuarial valuation date -	July 1, 2010
Actuarial value of assets -	$ -
Actuarial accrued liability -	127,998,804
Total unfunded actuarial liability -	127,998,804
Actuarial value of assets as a percentage of actuarial accrued liability -	0.00%
Annual covered payroll -	$ 29,103,577
Ratio of the unfunded actuarial liability to annual covered payroll -	439.80%

9. Post-Employment Health Care Benefits (continued)

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 with linear pro-ration to assumed benefit commencement was used in this valuation.

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

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

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

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

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

Healthcare cost trend assumptions –

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

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

Disability assumptions –

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

9. Post-Employment Health Care Benefits (continued)

Turnover assumptions –

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

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

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

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

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

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

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

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

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, 2011, 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.

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, 2011 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, police and public official liability coverage, workers compensation, inland marine and automobile insurance. The City is liable for deductibles ranging up to $50,000 and for settlements exceeding its limits of coverage, which range from $1 million to $5 million.

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

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

13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2011 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 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the City in fiscal year 2013. The purpose of this Statement is to improve financial reporting by addressing issues related to service concession arrangements which are a type of public-private or public-public partnership.

GASB Statement Number 61, *the Financial Reporting Entity: Omnibus*, will be effective for the City beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the City beginning with its year ending June 30, 2013. This Statement incorporates into GASB's authoritative literature accounting and financial reporting guidance included in certain pronouncements issued on or before November 30, 1989.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the City beginning with its year ending June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement Number 64, *Derivative Instruments – Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*, will be effective for the City beginning with its year ending June 30, 2012. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider and whether hedge accounting should continue to be applied.

14. Subsequent Events

The City evaluated subsequent events for potential required disclosures through October 21, 2011, which represents the dates the financial statements were available to be issued.

On October 6, 2011, an ordinance was introduced that authorized the City to issue up to $24,500,000 in refunding debt to refinance $12,950,000 of the 2001 general purpose/refunding bonds, $2,485,000 of the airport improvement bonds and $7,829,100 of the 2008 general obligation debt previously issued by the City.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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

The City of Frederick Thirty-Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/02	$ 7,210,661	$ 8,828,780	$ 1,618,119	81.67%	$ 6,537,445	24.75%
07/01/03	7,315,294	10,553,554	3,238,260	69.32%	7,562,016	42.82%
07/01/04	7,715,840	11,531,014	3,815,174	66.91%	7,554,517	50.50%
07/01/05	8,337,386	11,880,776	3,543,390	70.18%	7,508,089	47.19%
07/01/06	9,364,339	12,144,760	2,780,421	77.11%	7,121,925	39.04%
07/01/07	10,835,413	13,547,104	2,711,691	79.98%	7,888,669	34.37%
07/01/08	8,929,471	16,749,251	7,819,780	53.31%	7,160,069	109.21%
07/01/09	9,138,572	19,306,994	10,168,422	47.33%	7,780,038	130.70%
07/01/10	9,622,888	21,305,517	11,682,629	45.17%	8,685,338	134.51%
07/01/11	10,586,674	22,177,914	11,591,240	47.74%	8,854,752	130.90%

City of Frederick Twenty-Five Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/02	$ 35,635,894	$ 44,901,337	$ 9,265,443	79.36%	$ 7,124,689	130.05%
07/01/03	33,541,406	48,272,476	14,731,070	69.48%	7,865,877	187.28%
07/01/04	32,450,166	51,327,131	18,876,965	63.22%	7,998,673	236.00%
07/01/05	31,477,624	54,053,336	22,575,712	58.23%	8,738,749	258.34%
07/01/06	32,728,652	55,779,275	23,050,623	58.68%	8,728,421	264.09%
07/01/07	36,308,180	59,312,422	23,004,242	61.22%	8,913,644	258.08%
07/01/08	33,881,990	63,336,029	29,454,039	53.50%	8,238,801	357.50%
07/01/09	33,138,867	68,831,455	35,692,588	48.14%	9,582,428	372.48%
07/01/10	32,669,669	72,299,571	39,629,902	45.19%	10,747,148	368.75%
07/01/11	33,418,469	73,899,682	40,481,213	45.22%	10,615,123	381.35%

The City of Frederick Twenty-Two Year Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/02	$ 15,351,371	$ 28,453,297	$ 13,101,926	53.95%	$ 6,458,916	202.85%
07/01/03	16,186,136	32,019,641	15,833,505	50.55%	6,451,813	245.41%
07/01/04	17,371,771	36,676,680	19,304,909	47.36%	7,275,892	265.33%
07/01/05	19,343,006	41,731,458	22,388,452	46.35%	7,718,223	290.07%
07/01/06	22,661,227	49,943,963	27,282,736	45.37%	8,384,676	325.39%
07/01/07	27,609,635	53,545,904	25,936,269	51.56%	8,357,560	310.33%
07/01/08	32,852,717	58,162,448	25,309,731	56.48%	9,118,974	277.55%
07/01/09	35,850,764	68,509,327	32,658,563	52.33%	9,849,864	331.56%
07/01/10	38,108,396	74,698,614	36,590,218	51.02%	9,671,091	378.35%
07/01/11	42,249,987	82,059,278	39,809,291	51.49%	9,598,238	414.76%

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

The City of Frederick Thirty-Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2002	$ 397,583	$ 428,926	107.88%	$ (213,153)
2003	582,657	614,003	105.38%	(244,501)
2004	658,558	656,744	99.72%	(242,687)
2005	883,651	881,850	99.80%	(240,886)
2006	923,956	923,773	99.98%	(240,703)
2007	835,131	834,948	99.98%	(240,520)
2008	846,358	846,175	99.98%	(240,337)
2009	886,380	886,197	99.98%	(240,154)
2010	1,342,852	1,342,669	99.99%	(239,971)
2011	1,519,820	1,518,438	99.91%	(238,589)

The City of Frederick Twenty-Five Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2002	$ 659,896	$ 700,782	106.20%	$ (1,497,730)
2003	1,273,543	1,333,968	104.74%	(1,558,155)
2004	1,547,050	1,535,489	99.25%	(1,546,594)
2005	2,028,742	2,017,267	99.43%	(1,535,119)
2006	2,421,113	2,419,945	99.95%	(1,533,951)
2007	2,722,939	2,721,772	99.96%	(1,532,784)
2008	2,765,898	2,764,732	99.96%	(1,531,617)
2009	2,775,957	2,774,792	99.96%	(1,530,452)
2010	3,480,851	3,479,683	99.97%	(1,529,284)
2011	3,863,587	3,854,773	99.77%	(1,520,470)

The City of Frederick Twenty-Two Year Pension System

Fiscal Year	Annual Pension Cost (APC)	Employer Contribution	Percentage Contributed	Net Pension Obligation
2002	$ 945,009	$ 1,014,765	107.38%	$ (757,316)
2003	1,618,944	1,704,747	105.30%	(843,119)
2004	2,046,995	2,040,739	99.69%	(836,863)
2005	2,244,906	2,238,697	99.72%	(830,654)
2006	2,747,263	2,746,631	99.98%	(830,022)
2007	3,287,913	3,287,281	99.98%	(829,390)
2008	4,126,859	4,126,228	99.98%	(828,759)
2009	4,067,077	4,066,446	99.98%	(828,129)
2010	4,130,887	4,130,255	99.98%	(827,497)
2011	4,957,227	4,952,458	99.90%	(822,728)

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%

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

Fiscal Year	Annual OPEB Cost (APC)	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2009	$ 7,474,000	$ 2,229,200	29.83%	$ 5,244,800
2010	12,488,000	3,299,727	26.42%	14,433,073
2011	11,024,157	11,598,116	105.21%	13,859,114

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.

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

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

The City of Frederick, Maryland
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds		
	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ 39,904	$ -	$ 39,904
Equity in pooled cash/investments	27,133	33,945	61,078
Investments	581,021		581,021
Receiveables (net of allowance for uncollectibles)	2,776	2,337,551	2,340,327
Prepaid items	1,250	-	1,250
Total assets	$ 652,084	$ 2,371,496	$ 3,023,580
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 7,974	$ 136	$ 8,110
Accrued liabilities	9,436	2,655	12,091
Total liabilities	17,410	2,791	20,201
Fund balances:			
Nonspendable	1,250	2,205,383	2,206,633
Restricted	393,766	-	393,766
Committed	1,527	-	1,527
Assigned	238,131	163,322	401,453
Total fund balances	634,674	2,368,705	3,003,379
Total liabilities and fund balances	$ 652,084	$ 2,371,496	$ 3,023,580

The City of Frederick, Maryland
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds		
	Weinberg Center	Community Development	Total Nonmajor Governmental Funds
REVENUES:			
Intergovernmental	$ 47,416	$ 437,549	$ 484,965
Charges for services	1,001,988	-	1,001,988
Miscellaneous	369,257	683	369,940
Total revenues	1,418,661	438,232	1,856,893
EXPENDITURES:			
Current:			
Recreation and parks	1,438,702	-	1,438,702
Community development	-	386,520	386,520
Total expenditures	1,438,702	386,520	1,825,222
Excess (Deficiency) of Revenues over Expenditures	(20,041)	51,712	31,671
OTHER FINANCING SOURCES (USES):			
Transfers in	91,706	-	91,706
Total Other Financing Sources (Uses)	91,706	-	91,706
Net Change in Fund Balances	71,665	51,712	123,377
Budgetary Fund Balance - beginning as restated (Note 7)	563,009	2,316,993	2,880,002
Fund Balance - ending	$ 634,674	$ 2,368,705	$ 3,003,379

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 51,000	$ 51,000	$ 47,416	$ (3,584)
Charges for services	888,450	888,450	1,001,988	113,538
Miscellaneous	202,800	202,800	369,257	166,457
Total Revenues	1,142,250	1,142,250	1,418,661	276,411
EXPENDITURES:				
Weinberg Center	1,300,066	1,300,066	1,436,422	(136,356)
Total Expenditures	1,300,066	1,300,066	1,436,422	(136,356)
Excess (Deficiency) of Revenues over Expenditures	(157,816)	(157,816)	(17,761)	140,055
OTHER FINANCING SOURCES (USES):				
Transfer in	152,513	152,513	91,706	(60,807)
Total Other Financing Sources (Uses)	152,513	152,513	91,706	(60,807)
Excess (Deficiency) of Revenues/Other Financing Sources over Expenditures	(5,303)	(5,303)	73,945	79,248
Budgetary Fund Balance - beginning	5,303	5,303	570,165	564,862
Budgetary Fund Balance - ending	$ -	$ -	644,110	$ 644,110
Adjustment to conform with generally accepted accounting principles			(9,436)	
GAAP Fund Balance			$ 634,674	

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 677,638	$ 819,922	$ 437,549	$ (382,373)
Miscellaneous	-	-	683	683
Total Revenues	677,638	819,922	438,232	(381,690)
EXPENDITURES:				
Community development	677,730	820,014	387,151	432,863
Total Expenditures	677,730	820,014	387,151	432,863
Excess (Deficiency) of Revenues over Expenditures	(92)	(92)	51,081	51,173
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(92)	(92)	51,081	51,173
Budgetary Fund Balance - beginning as restated (Note 7)	92	92	2,320,279	2,320,187
Budgetary Fund Balance - ending	$ -	$ -	$ 2,371,360	$ 2,371,360
Adjustment to conform with generally accepted accounting principles			(2,655)	
GAAP Fund Balance			$ 2,368,705	

Nonmajor Proprietary Funds

Proprietary Funds

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

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

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

The City of Frederick, Maryland
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,000	$ -	$ 1,000
Investments	-	5,101	5,101
Equity in pooled cash/investments	-	60,721	60,721
Receivables (net of allowance of uncollectibles)	551	270	821
Inventories	104,716	-	104,716
Prepaids	3,000	-	3,000
Deferred charges	448	-	448
Total current assets	109,715	66,092	175,807
Noncurrent assets:			
Temporarily rstricted assets:			
Cash and cash equivalents	18,211	-	18,211
Deferred charges	7,172	-	7,172
Net pension asset	32,147	-	32,147
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	696,339	90,866	787,205
Less accumulated depreciation	(2,525,100)	(178,146)	(2,703,246)
Total noncurrent assets	3,794,159	124,165	3,918,324
Total assets	3,903,874	190,257	4,094,131
LIABILITES			
Current liabilities:			
Accounts payable	61,823	73	61,896
Accrued liabilities	42,305	690	42,995
Deposits	-	409	409
Unearned revenue	39,756	-	39,756
Advances from other funds	4,620,352	-	4,620,352
Compensated absences	15,887	-	15,887
Bonds, notes, and loans payable	36,207	-	36,207
Total current liabilities	4,816,330	1,172	4,817,502
Noncurrent liabilities:			
OPEB Liabilities	179,729	-	179,729
Compensated absences	57,943	-	57,943
Bonds, notes, and loans payable	934,313	-	934,313
Total noncurrent liabilities	1,171,985	-	1,171,985
Total liabilities	5,988,315	1,172	5,989,487
NET ASSETS			
Invested in capital assets, net of related debt	2,804,840	124,165	2,929,005
Unrestricted	(4,889,281)	64,920	(4,824,361)
Total net assets	$ (2,084,441)	$ 189,085	$ (1,895,356)

The City of Frederick, Maryland
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Operating revenues:			
Charges for services:			
Golf course fees	$ 1,498,862	$ -	$ 1,498,862
Miscellaneous	7,249	8,488	15,737
Total operating revenues	1,506,111	8,488	1,514,599
Operating expenses:			
Public housing	-	42,536	42,536
Golf course maintenance	599,923	-	599,923
Golf course clubhouse	689,305	-	689,305
Golf course restaurant	284,681	-	284,681
Depreciation	198,163	15,210	213,373
Total operating expenses	1,772,072	57,746	1,829,818
Operating income/(loss)	(265,961)	(49,258)	(315,219)
Nonoperating revenues/(expenses)			
Intergovernmental	-	22,031	22,031
Interest income	32	310	342
Other nonoperating revenues	14,311	-	14,311
Interest expense	(45,123)	-	(45,123)
Other nonoperating expenses	(12,719)	-	(12,719)
Total nonoperating revenue/(expenses)	(43,499)	22,341	(21,158)
Income/(loss) before transfers	(309,460)	(26,917)	(336,377)
Transfers In	-	74,826	74,826
Change in net assets	(309,460)	47,909	(261,551)
Total net assets - beginning	(1,774,981)	141,176	(1,633,805)
Total net assets - ending	$ (2,084,441)	$ 189,085	$ (1,895,356)

The City of Frederick, Maryland
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 1,509,931	$ 8,853	$ 1,518,784
Receipts from other sources	13,104	-	13,104
Payments to vendors	(918,602)	(22,738)	(941,340)
Payments to employees	(575,706)	(20,108)	(595,814)
Net cash provided (used) by operating activities	28,727	(33,993)	(5,266)
Cash flows from noncapital financing activities:			
Operating subsidy	-	22,031	22,031
Due to other funds	475,192	-	475,192
Net cash provided (used) by noncapital financing activities	475,192	22,031	497,223
Cash flows from capital and related financing activities:			
Capital asset acquisitions	(17,889)	(74,826)	(92,715)
Transfer in for capital asset acquisition	-	74,826	74,826
Principal payments	(436,984)	-	(436,984)
Interest payments	(48,326)	-	(48,326)
Other debt related costs	(758)	-	(758)
Net cash provided (used) by capital and related financing activities	(503,957)	-	(503,957)
Cash flows from investings activities:			
Interest earned	33	310	343
Net cash provided (used) by investing activities	33	310	343
Net increase (decrease) in cash equivalents	(5)	(11,652)	(11,657)
Cash equivalents - beginning	19,215	77,474	96,689
Cash equivalents - ending	$ 19,210	$ 65,822	$ 85,032

(continued)

The City of Frederick, Maryland
Combining Statement of Cash Flows (continued)
Nonmajor Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Golf Course	Rental Operations	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	$ (265,961)	$ (49,258)	$ (315,219)
Other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities	13,104	-	13,104
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	198,163	15,210	213,373
(Increase)/decrease in accounts receivable	(549)	365	(184)
(Increase)/decrease in inventory	13,665	-	13,665
Decrease in net pension asset	216	-	216
(Decrease)/increase in accounts payable	21,288	(405)	20,883
(Decrease)/increase in deferred revenue	4,368	-	4,368
(Decrease)/increase in OPEB liability	49,055	-	49,055
(Decrease)/increase in wages payable	(3,103)	95	(3,008)
(Decrease)/increase in compensated absences	(1,519)	-	(1,519)
Total adjustments	281,584	15,265	296,849
Net cash provided (used) by operating activities	$ 28,727	$ (33,993)	$ (5,266)

STATISTICAL SECTION

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt	$ 64,563,229	$ 104,435,028	$ 54,856,404	$ 55,805,720	$ 55,591,683	$ 57,992,552	$ 59,517,153	$ 59,765,449	$ 58,911,146
Restricted	145,572	113,014	820,341	795,991	1,190,033	1,873,394	2,649,212	1,547,698	1,818,497
Unrestricted	11,696,089	8,910,173	7,839,494	20,230,961	24,074,161	27,035,600	24,402,118	20,703,812	21,647,000
Total governmental activities net assets	$ 76,404,890	$ 113,458,215	$ 63,516,239	$ 76,832,672	$ 80,855,877	$ 86,901,546	$ 86,568,483	$ 82,016,959	$ 82,376,643
Business-type activities									
Invested in capital assets, net of related debt	$ 68,202,650	$ 86,625,237	$ 143,574,323	$ 144,403,887	$ 158,629,713	$ 162,281,588	$ 152,780,782	$ 155,252,838	$ 162,204,773
Restricted	446,635	3,252,369	6,490,579	12,695,679	9,463,659	6,343,147	4,801,857	498,487	1,849,613
Unrestricted	23,304,139	23,727,578	19,500,985	18,833,302	18,780,578	20,668,350	24,273,420	22,761,675	22,069,063
Total business-type activities net assets	$ 91,953,424	$ 113,605,184	$ 169,565,887	$ 175,932,868	$ 186,873,950	$ 189,293,085	$ 181,856,059	$ 178,513,000	$ 186,123,449
Primary government									
Invested in capital assets, net of related debt	$ 132,765,879	$ 191,060,265	$ 198,430,727	$ 200,209,607	$ 214,221,396	$ 220,274,140	$ 212,297,935	$ 215,018,287	$ 221,115,919
Restricted	592,207	3,365,383	7,310,920	13,491,670	10,653,692	8,216,541	7,451,069	2,046,185	3,668,110
Unrestricted	35,000,228	32,637,751	27,340,479	39,064,263	42,854,739	47,703,950	48,675,538	43,465,487	43,716,063
Total primary government net assets	$ 168,358,314	$ 227,063,399	$ 233,082,126	$ 252,765,540	$ 267,729,827	$ 276,194,631	$ 268,424,542	$ 260,529,959	$ 268,500,092

Note - Information for fiscal year 2002 is not readily avialable.

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
General government	$ 7,719,643	$ 7,857,792	$ 7,811,588	$ 7,381,790	$ 8,442,242	$ 9,921,865	$ 13,843,701	$ 11,112,807	$ 9,605,846
Public safety	16,114,175	17,670,546	18,969,032	20,289,857	22,335,882	24,930,778	27,774,500	29,380,419	28,689,755
Public works	10,405,465	12,977,426	12,666,210	13,955,935	14,025,384	14,258,037	16,085,179	17,920,281	16,782,556
Recreation and parks	5,317,760	5,585,375	5,513,056	5,334,442	6,473,547	7,218,619	8,537,986	8,593,681	8,904,412
Community development	667,175	787,758	1,102,406	711,756	1,035,084	1,030,103	1,042,266	1,233,762	1,074,238
Economic opportunity	2,055,864	1,964,282	2,194,580	2,323,843	2,413,856	2,665,212	2,762,777	3,550,150	3,160,817
Interest on long-term debt	2,087,187	2,186,093	2,097,849	1,999,391	1,924,408	1,757,506	2,096,126	3,130,649	3,230,708
Miscellaneous	62,839	59,002	61,126	15,216	-	-	-	-	-
Total governmental activities expenses	44,430,108	49,088,274	50,415,847	52,012,230	56,650,403	61,782,120	72,142,535	74,921,749	71,448,332
Business-type activities:									
Rental operations	27,017	33,412	63,547	22,433	36,695	47,628	46,580	51,008	57,746
Water and sewer	9,461,124	10,991,499	14,262,777	14,709,615	16,114,447	15,719,737	21,183,272	19,495,148	18,387,834
Golf course	1,731,567	1,629,269	1,660,229	1,612,515	1,758,967	1,848,767	1,781,729	1,964,708	1,829,914
Airport	1,069,779	1,711,743	1,685,136	1,764,846	1,332,623	1,501,508	1,783,928	2,317,740	2,028,957
Parking	1,382,570	1,588,800	1,899,409	3,724,869	3,792,464	3,447,433	3,611,042	4,025,218	4,760,912
Storm water	-	-	1,942,658	1,984,030	1,989,406	2,087,634	2,357,663	2,344,948	2,512,994
Total business-type activities expenses	13,672,057	15,954,723	21,513,756	23,818,308	25,024,602	24,652,707	30,764,214	30,198,770	29,578,357
Total primary government expenses	$ 58,102,165	$ 65,042,997	$ 71,929,603	$ 75,830,538	$ 81,675,005	$ 86,434,827	$ 102,906,749	$ 105,120,519	$ 101,026,689
Program Revenues									
Government activities:									
Charges for services:									
Public safety	$ 633,197	$ 1,121,937	$ 1,966,838	$ 2,731,753	$ 2,914,865	$ 1,966,484	$ 1,749,465	$ 2,523,502	$ 1,818,954
Recreation and parks	1,383,679	1,336,374	1,265,644	1,347,786	1,989,950	1,974,985	2,426,172	2,223,533	2,543,464
Other activities	1,416,155	1,310,454	1,985,858	1,616,970	899,633	1,021,607	909,424	646,804	793,407
Operating grants and contributions	5,307,237	4,794,391	6,409,566	6,413,053	6,796,260	6,226,986	6,093,560	5,587,027	4,195,169
Capital grants and contributions	5,591,748	1,852,181	2,678,857	3,074,822	2,633,527	2,850,668	4,706,273	2,569,066	1,813,587
Total governmental activities program revenues	14,332,016	10,415,337	14,306,763	15,184,384	15,234,235	14,040,730	15,884,894	13,549,932	11,164,581
Business-type activities:									
Charges for services:									
Water and sewer	9,606,540	10,097,461	10,937,738	12,827,261	14,829,193	14,510,771	14,524,384	16,433,555	19,343,380
Golf course	1,414,023	1,593,098	1,615,152	1,739,201	1,761,511	1,758,726	1,531,269	1,529,491	1,520,422
Airport	820,820	995,699	1,138,627	1,045,308	1,116,295	1,164,930	1,135,860	943,969	864,021
Parking	2,034,922	2,163,631	2,987,254	3,148,483	3,349,077	3,808,048	3,894,883	3,632,117	4,400,010
Other activities	10,391	14,086	817,109	818,503	955,642	1,100,508	1,340,575	1,510,399	1,740,966
Operating grants and contributions	136,919	99,610	109,830	103,762	177,585	166,747	131,486	136,640	141,820
Capital grants and contributions	3,487,957	11,907,542	7,346,014	14,414,700	8,667,779	4,699,256	2,102,232	4,213,433	10,429,437
Total business-type activities program revenues	17,511,572	26,871,127	24,951,724	34,097,218	30,857,082	27,208,986	24,660,689	28,399,604	38,440,056
Total primary government revenues	$ 31,843,588	$ 37,286,464	$ 39,258,487	$ 49,281,602	$ 46,091,317	$ 41,249,716	$ 40,545,583	$ 41,949,536	$ 49,604,637
Net (expense)/revenue									
Governmental activities	$ (30,098,092)	$ (38,672,937)	$ (36,109,084)	$ (36,827,846)	$ (41,416,168)	$ (47,741,390)	$ (56,257,641)	$ (61,371,817)	$ (60,283,751)
Business-type activities	3,839,515	10,916,404	3,437,968	10,278,910	5,832,480	2,556,279	(6,103,525)	(1,799,166)	8,861,699
Total primary government net expense	$ (26,258,577)	$ (27,756,533)	$ (32,671,116)	$ (26,548,936)	$ (35,583,688)	$ (45,185,111)	$ (62,361,166)	$ (63,170,983)	$ (51,422,052)

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Property taxes	$ 24,256,535	$ 24,873,386	$ 27,784,135	$ 31,426,436	$ 35,077,508	$ 37,948,719	$ 40,656,389	$ 43,570,134	$ 46,567,875
Income taxes	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166	5,806,339	5,548,046	6,090,857
Other taxes	491,614	575,344	387,408	389,999	402,365	431,408	346,904	305,873	317,816
Unrestricted grants and contributions	2,706,746	3,092,151	3,341,584	3,728,364	4,695,551	5,259,594	5,769,443	5,146,165	5,848,174
Interest earnings	574,113	352,445	506,950	886,927	1,201,986	1,129,019	526,778	274,691	191,738
Gain/(loss) on sale of capital assets	403,980	264,778	1,036,837	1,221,775	5,857	232,107	361,697	23,614	39,538
Miscellaneous	141,320	74,783	58,991	56,199	49,751	52,893	41,093	41,622	36,819
Transfers	907,800	1,870,044	1,518,921	7,267,939	(1,621,248)	2,738,153	2,415,935	1,910,148	1,448,229
Transfer of capital assets	-	-	(53,375,524)	-	-	-	-	-	-
Total governmental activities	34,256,879	35,664,346	(13,832,892)	50,144,279	45,439,373	53,787,059	55,924,578	56,820,293	60,541,046
Business-type activities:									
Interest earnings	700,093	467,727	666,132	3,356,010	3,487,354	2,601,009	1,082,434	366,255	196,979
Transfers	(907,800)	(1,870,044)	(1,518,921)	(7,267,939)	1,621,248	(2,738,153)	(2,415,935)	(1,910,148)	(1,448,229)
Transfer of capital assets	-	-	53,375,524	-	-	-	-	-	-
Total business-type activities	(207,707)	(1,402,317)	52,522,735	(3,911,929)	5,108,602	(137,144)	(1,333,501)	(1,543,893)	(1,251,250)
Total primary government	$ 34,049,172	$ 34,262,029	$ 38,689,843	$ 46,232,350	$ 50,547,975	$ 53,649,915	$ 54,591,077	$ 55,276,400	$ 59,289,796
Change in Net Assets									
Governental activities	$ 4,158,787	$ (3,008,591)	$ (49,941,976)	$ 13,316,433	$ 4,023,205	$ 6,045,669	$ (333,063)	$ (4,551,524)	$ 257,295
Business-type activities	3,631,808	9,514,087	55,960,703	6,366,981	10,941,082	2,419,135	(7,437,026)	(3,343,059)	7,610,449
Total primary government	$ 7,790,595	$ 6,505,496	$ 6,018,727	$ 19,683,414	$ 14,964,287	$ 8,464,804	$ (7,770,089)	$ (7,894,583)	$ 7,867,744

Note - Information for fiscal year 2002 is not readily available.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Reserved	$ 4,957,004	$ 5,108,192	$ 5,290,273	$ 4,956,617	$ 5,288,664	$ 5,793,698	$ 10,213,220	$ 5,906,069	$ 5,802,406	$ -
Unreserved:										
Designated	2,624,649	2,376,475	1,630,579	1,910,579	3,047,463	2,042,750	4,946,108	2,752,110	926,039	-
Undesignated	6,285,539	3,906,757	821,580	2,860,897	7,270,067	11,623,563	5,709,009	11,430,350	14,153,802	-
Nonspendable	-	-	-	-	-	-	-	-	-	5,284,535
Restricted	-	-	-	-	-	-	-	-	-	197,938
Committed	-	-	-	-	-	-	-	-	-	524,324
Assigned	-	-	-	-	-	-	-	-	-	2,781,723
Unassigned	-	-	-	-	-	-	-	-	-	17,048,404
Total general fund	$ 13,867,192	$ 11,391,424	$ 7,742,432	$ 9,728,093	$ 15,606,194	$ 19,460,011	$ 20,868,337	$ 20,088,529	$ 20,882,247	$ 25,836,924
All other governmental funds										
Reserved	$ 8,863,766	$ 4,552,956	$ 9,631,509	$ 11,388,067	$ 7,225,118	$ 3,923,804	$ 11,956,981	$ 9,198,552	$ 8,738,827	$ -
Unreserved, reported in:										
Special revenue funds	2,261,087	188,943	(55,409)	30,209	140,431	161,639	326,626	542,145	891,196	-
Capital projects funds	(2,699,382)	17,707,505	10,265,668	4,864,579	4,427,961	2,588,627	(4,313,083)	9,352,102	5,545,065	-
Nonspendable	-	-	-	-	-	-	-	-	-	2,206,633
Restricted	-	-	-	-	-	-	-	-	-	4,107,321
Committed	-	-	-	-	-	-	-	-	-	2,885,570
Assigned	-	-	-	-	-	-	-	-	-	3,319,297
Total all other governmental funds	$ 8,425,471	$ 22,449,404	$ 19,841,768	$ 16,282,855	$ 11,793,510	$ 6,674,070	$ 7,970,524	$ 19,092,799	$ 15,175,088	$ 12,518,821

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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes:										
Property taxes	$ 21,897,619	$ 24,256,535	$ 24,984,483	$ 27,784,135	$ 31,426,435	$ 35,077,508	$ 37,948,719	$ 40,656,389	$ 43,570,135	$ 46,567,875
Income taxes	4,437,718	4,774,771	4,561,415	4,907,806	5,166,640	5,627,603	5,995,166	5,806,340	5,548,045	6,090,857
Other taxes	3,108,501	491,614	464,247	387,408	389,999	402,365	431,408	346,904	305,873	317,816
Licenses and permits	830,568	811,367	1,160,087	1,965,138	2,693,743	2,711,634	1,911,285	1,468,000	2,375,343	1,687,457
Intergovernmental	11,127,878	8,271,637	9,226,953	10,627,614	11,162,584	11,168,733	11,195,720	12,074,875	10,648,160	9,305,651
Charges for services	1,241,508	1,233,540	1,490,066	1,774,069	1,745,271	1,924,643	2,155,354	2,321,749	2,332,081	2,536,048
Fines and forfeitures	73,437	122,942	71,864	116,690	444,404	577,893	485,832	624,082	577,466	532,398
Miscellaneous	1,322,387	1,631,836	2,471,717	2,236,450	2,363,280	2,690,232	2,491,345	4,337,261	2,257,919	1,813,516
Total revenues	44,039,616	41,594,242	44,430,832	49,799,310	55,392,356	60,180,611	62,614,829	67,635,600	67,615,022	68,851,618
Expenditures										
General government	6,506,390	7,201,732	7,291,826	7,544,954	7,081,328	7,567,824	8,807,373	12,976,950	9,692,762	8,724,561
Public safety	13,910,720	15,590,211	17,350,095	18,469,066	20,019,582	22,096,860	24,566,690	27,172,993	26,441,580	26,765,448
Public works	8,358,712	9,439,703	9,678,425	9,146,013	10,251,810	11,170,943	10,978,191	11,712,321	12,411,139	11,976,035
Recreation and parks	4,019,936	4,456,581	4,569,933	4,671,167	4,585,333	4,760,130	5,579,399	6,715,101	5,979,589	5,969,521
Urban development and housing	455,294	803,601	793,812	1,437,530	776,877	1,321,871	793,394	1,005,062	1,170,722	1,010,691
Economic opportunity	1,878,996	2,085,198	1,982,785	2,152,705	2,231,192	2,324,480	2,765,476	2,638,573	3,260,161	2,995,984
Miscellaneous	65,294	62,839	59,002	61,126	3,931	77,889	59,477	-	-	-
Capital projects	18,648,319	3,952,098	7,056,923	8,071,281	13,219,554	4,755,216	3,932,281	35,731,632	7,154,657	3,628,998
Debt service:										
Principal	2,312,770	2,222,479	3,328,662	4,042,885	4,024,631	3,964,680	4,735,368	4,638,528	3,785,104	4,009,270
Interest	1,204,392	1,712,226	2,096,685	2,016,215	1,908,433	1,849,520	1,713,343	1,545,865	3,075,786	3,045,211
Other charges	160,846	107,891	40,159	25,268	19,166	22,837	18,567	407,157	8,762	9,054
Total expenditures	57,521,669	47,634,559	54,248,307	57,638,210	64,121,837	59,912,250	63,949,559	104,544,182	72,980,262	68,134,773
Excess (deficiency) of revenues over expenditures	(13,482,053)	(6,040,317)	(9,817,475)	(7,838,900)	(8,729,481)	268,361	(1,334,730)	(36,908,582)	(5,365,240)	716,845
Other financing sources (uses)										
Capital asset disposition	22,990	923,416	420,803	3,347,897	1,588,366	5,857	1,102,369	682,309	282,909	27,290
Insurance reimbursements	-	-	-	-	67,774	81,407	99,734	110,633	48,190	14,982
Debt proceeds	34,808,309	24,689,331	1,270,000	1,398,945	1,194,043	-	99,255	44,043,053	-	-
Transfers in	3,183,363	3,516,462	3,586,580	3,610,205	10,115,807	3,733,281	5,695,808	6,327,327	2,470,432	3,319,151
Transfers out	(2,574,422)	(2,608,662)	(1,716,536)	(2,091,284)	(2,847,868)	(5,354,529)	(2,957,656)	(3,912,273)	(560,284)	(1,882,247)
Payment to refunded bond escrow	(19,759,093)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	15,681,147	26,520,547	3,560,847	6,265,763	10,118,122	(1,533,984)	4,039,510	47,251,049	2,241,247	1,479,176
Net change in fund balances	$ 2,199,094	$ 20,480,230	$ (6,256,628)	$ (1,573,137)	$ 1,388,641	$ (1,265,623)	$ 2,704,780	$ 10,342,467	$ (3,123,993)	$ 2,196,021
Debt service as a percentage of noncapital expenditures	9.4%	9.0%	11.5%	12.2%	11.6%	10.7%	10.8%	9.6%	10.4%	10.8%

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

	REAL PROPERTY			PERSONAL PROPERTY			TOTAL		Ratio of Total Assessed to
Fiscal Year	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Direct Tax Rate	Estimated Actual Value	Assessed Value	Total Estimated Actual Value
2002	$3,118,925,484	$3,118,925,484	$ 0.62	$ 431,091,957	$ 161,659,484	$ 1.55	$3,550,017,441	$3,280,584,968	92.41%
2003	3,356,541,848	3,356,541,848	0.64	459,129,176	172,173,441	1.55	3,815,671,024	3,528,715,289	92.48%
2004	3,500,070,576	3,500,070,576	0.64	437,145,803	163,929,676	1.55	3,937,216,379	3,664,000,252	93.06%
2005	3,644,565,359	3,644,565,359	0.69	441,113,224	165,417,459	1.55	4,085,678,583	3,809,982,818	93.25%
2006	4,138,633,781	4,138,633,781	0.69	432,435,000	162,163,125	1.55	4,571,068,781	4,300,796,906	94.09%
2007	4,675,591,445	4,675,591,445	0.69	430,311,680	161,366,880	1.55	5,105,903,125	4,836,958,325	94.73%
2008	5,299,468,558	5,299,468,558	0.67	416,806,432	156,302,412	1.55	5,716,274,990	5,455,770,970	95.44%
2009	5,877,472,266	5,877,472,266	0.65	417,388,892	156,520,834	1.55	6,294,861,158	6,033,993,100	95.86%
2010	6,324,191,887	6,324,191,887	0.65	411,723,070	154,396,151	1.55	6,735,914,957	6,478,588,038	96.18%
2011	6,762,305,403	6,762,305,403	0.65	420,906,402	157,839,901	1.55	7,183,211,805	6,920,145,304	96.34%

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

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

Fiscal Year	Current Tax Levy	Taxes Collected In Year of Levy Amount	Taxes Collected In Year of Levy Percent	(Note 1) Applicable to Prior Years	(Note 2) Amount	Percent
2002	$ 21,843,060	$ 21,576,340	98.8%	$ 266,720	$ 21,843,060	100.0%
2003	24,137,418	23,994,424	99.4%	141,831	24,136,255	100.0%
2004	24,936,205	24,804,259	99.5%	125,866	24,930,125	100.0%
2005	27,663,408	27,469,863	99.3%	192,676	27,662,539	100.0%
2006	31,023,926	30,834,951	99.4%	187,146	31,022,097	100.0%
2007	34,716,468	34,454,566	99.2%	203,201	34,657,767	99.8%
2008	37,890,393	37,663,481	99.4%	186,515	37,849,996	99.9%
2009	40,600,977	40,412,247	99.5%	123,548	40,535,795	99.8%
2010	43,488,738	43,351,084	99.7%	99,079	43,450,163	99.9%
2011	46,395,466	46,264,937	99.7%	-	46,264,937	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	City			County		State		Total	
	Property Tax Rate								
Year	Real	Personal	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2002	$ 0.62	$ 1.55	$ 21,843,060	$ 1.100	$ 34,308,180	$ 0.084	$ 2,619,897	$ 1.804	$ 58,771,137
2003	0.64	1.55	24,137,418	1.100	36,921,960	0.084	2,819,495	1.824	63,878,873
2004	0.64	1.55	24,936,205	1.135	39,725,801	0.132	4,620,093	1.907	69,282,099
2005	0.69	1.55	27,663,408	1.135	41,365,817	0.132	4,810,826	1.957	73,840,051
2006	0.69	1.55	31,023,926	1.135	46,973,493	0.132	5,462,997	1.957	83,460,416
2007	0.69	1.55	34,716,468	1.064	49,748,293	0.112	5,236,662	1.866	89,701,423
2008	0.67	1.55	37,890,393	1.064	56,386,345	0.112	5,935,405	1.846	100,212,143
2009	0.65	1.55	40,600,977	1.064	62,536,305	0.112	6,582,769	1.826	109,720,051
2010	0.65	1.55	43,488,738	1.064	67,289,402	0.112	7,083,095	1.826	117,861,235
2011	0.65	1.55	46,395,466	1.064	71,950,929	0.112	7,573,782	1.826	125,920,177

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:

	2011			2002		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
MedImmune, Inc.	$ 52,191,900	1	0.77%	12,042,000	10	0.39%
River X, LLC	44,901,000	2	0.66%	-	-	-
State Farm Mutual Auto Insurance	41,615,200	3	0.62%	37,543,266	1	1.20%
Aldi, Inc.	34,199,900	4	0.51%	-	-	-
ASN Sunset LLC	28,157,700	5	0.42%	18,552,500	5	0.59%
FCP Crystal Park, LLC	28,000,000	6	0.41%	18,510,366	4	0.59%
Westfreit Corp.	27,713,466	7	0.41%	26,046,112	3	0.84%
Frederick Shopping Center LLC	25,978,400	8	0.38%	15,705,700	6	0.50%
Waverly Limited Partnership	21,015,532	9	0.31%	13,481,022	8	0.43%
Saul Holdings Limited Partnership	20,847,066	10	0.31%	-	-	-
Fredericktowne Mall Assoc.	-	-	-	28,354,500	2	0.91%
Washington Real Estate Inv. Trust	-	-	-	14,603,732	7	0.47%
Frederick Commons, LLC	-	-	-	12,990,232	9	0.42%
	$ 324,620,164		4.80%	$ 197,829,430		6.34%

Assessed Value provided by the Maryland Department of Assessment and Taxation

Personal Property Tax:

	2011			2002		
Taxpayer	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
BPSolar International, LLC	$ 13,289,880	1	8.42%	$ -	-	-
Randall Family LLC	5,728,270	2	3.63%	-	-	-
Manufacturing and Traders Trust Co.	2,381,490	3	1.51%	-	-	-
MedImmune, Inc.	2,341,630	4	1.48%	6,370,870	1	3.94%
Mid-Atlantic Medical Services, LLC	2,086,700	5	1.32%	-	-	-
Morningstar Foods, LLC	2,052,900	6	1.30%	2,351,090	4	1.45%
Comcast	1,951,770	7	1.24%	-	-	-
State Farm Mutual Automobile Insurance Co.	1,942,010	8	1.23%	4,304,980	3	2.66%
Experient Inc.	1,720,780	9	1.09%	-	-	-
Fairchild Controls Corp.	1,395,030	10	0.88%	1,298,230	8	0.80%
Amoco Enron Solar	-	-	-	4,549,140	2	2.81%
GS Communications, Inc.	-	-	-	1,749,360	5	1.08%
Galaxy Registration, Inc.	-	-	-	1,674,780	6	1.04%
Automata, Inc	-	-	-	1,473,280	7	0.91%
Frederick County Foods, LLC	-	-	-	1,242,820	9	0.77%
Valley Rental Company, Inc.	-	-	-	1,087,910	10	0.67%
	$ 34,890,460		22.10%	$ 26,102,460		16.13%

Assessed Value provided by the Maryland Department of Assessment and Taxation

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

	Governmental Activities				Business-Type Activities					
Fiscal Year	General Obligation Bonds	Tax Increment Financing Bonds	State Loans	Leases	General Obligation Bonds	State Loans	Leases	Total Primary Government	Percentage of Estimated Personal Income (1)	Per Capita (2)
2002	$ 40,921,000	$ 2,397,997	$ 1,656,603	$ -	$ 16,614,000	$ 3,785,000	$ 137,936	$ 65,512,536	3.37%	1,164.01
2003	52,738,000	2,342,399	1,290,333	-	26,907,000	5,365,105	97,250	88,740,087	4.30%	1,532.14
2004	49,553,000	2,283,494	1,205,576	1,270,000	25,157,000	5,140,568	-	84,609,638	3.83%	1,442.62
2005	45,611,646	2,221,084	1,117,651	1,019,450	21,993,067	4,910,560	-	76,873,458	3.30%	1,302.65
2006	43,680,000	2,154,960	1,033,999	1,968,583	89,269,364	4,674,983	225,957	143,007,846	5.64%	2,355.01
2007	40,352,000	2,084,902	955,120	1,480,841	84,881,629	4,191,728	181,238	134,127,458	4.97%	2,180.65
2008	37,018,000	2,010,676	228,103	979,971	80,384,180	3,954,548	154,029	124,729,507	4.49%	2,018.90
2009	76,440,000	1,932,033	206,238	484,952	162,921,695	3,711,913	104,474	245,801,305	8.83%	3,950.71
2010	72,999,000	1,848,711	183,685	246,723	157,560,284	3,469,278	54,919	236,362,600	N/A	3,623.03
2011	69,348,000	1,760,431	160,417	-	152,029,199	3,209,772	-	226,507,819	N/A	3,457.13

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
2002	40,921,000	2,397,997	43,318,997	3,280,584,968	1.32%	56,282	769.68
2003	52,738,000	2,342,399	55,080,399	3,528,715,289	1.56%	57,919	950.99
2004	49,553,000	2,283,494	51,836,494	3,664,000,252	1.41%	58,650	883.83
2005	45,611,646	2,221,084	47,832,730	3,809,982,818	1.26%	59,013	810.55
2006	43,680,000	2,154,960	45,834,960	4,300,796,906	1.07%	60,725	754.80
2007	40,352,000	2,084,902	42,436,902	4,836,958,325	0.88%	61,508	689.94
2008	37,018,000	2,010,676	39,028,676	5,455,770,970	0.72%	61,781	631.73
2009	76,440,000	1,932,033	78,372,033	6,033,993,100	1.30%	62,217	1,259.66
2010	72,999,000	1,848,711	74,847,711	6,478,588,038	1.16%	65,239	1,147.28
2011	69,348,000	1,760,431	71,108,431	6,920,145,304	1.03%	65,519	1,085.31

THE CITY OF FREDERICK, MARYLAND
DIRECT AND OVERLAPPING DEBT
as of June 30, 2011

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Frederick County	$ 703,825,554	25.41%	$ 178,842,073
The City of Frederick direct debt			71,268,848
			$ 250,110,921

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
2002	$ 262,446,797	$ 48,460,600	$ 213,986,197	18.46%
2003	282,297,223	69,725,527	212,571,696	24.70%
2004	293,120,020	65,525,887	227,594,133	22.35%
2005	304,798,625	61,400,017	243,398,608	20.14%
2006	344,063,752	76,733,730	267,330,022	22.30%
2007	386,956,666	71,374,651	315,582,015	18.45%
2008	436,461,678	65,546,959	370,914,719	15.02%
2009	482,719,448	126,415,966	356,303,482	26.19%
2010	518,287,043	120,931,380	397,355,663	23.33%
2011	553,611,624	115,182,848	438,428,776	20.81%

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

THE CITY OF FREDERICK, MARYLAND
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2011

Assessed valuations		$ 6,920,145,304
Debt limit (8% of assessed value per City Charter)		$ 553,611,624
Amount of debt applicable to debt limit:		
Total bonded debt	$ 223,137,631	
Other debt	3,370,189	
	$ 226,507,820	
Less: Water and sewer debt	111,324,972	
Total amount of debt applicable to debt limit		115,182,848
Legal debt margin		$ 438,428,776

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

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

Fiscal Year	Principal	Interest	Total General Fund Debt Service	Total General Fund Revenue	Ratio of Debt Service to General Fund Revenue
2002	$ 2,312,770	$ 1,204,392	$ 3,517,162	$ 36,783,874	9.56%
2003	2,222,485	1,716,265	3,938,750	39,519,168	9.97%
2004	3,328,662	2,096,685	5,425,347	40,719,474	13.32%
2005	4,042,885	2,016,215	6,059,100	46,515,231	13.03%
2006	4,024,631	1,908,433	5,933,064	52,683,932	11.26%
2007	3,964,680	1,849,520	5,814,200	57,622,015	10.09%
2008	4,735,368	1,713,343	6,448,711	60,460,843	10.67%
2009	4,638,528	1,545,865	6,184,393	62,372,998	9.92%
2010	3,785,104	3,075,786	6,860,890	63,281,356	10.84%
2011	4,009,270	3,045,211	7,054,481	66,468,557	10.61%

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

	Real Property Tax Increment Financing Bonds							
	Pledged Revenues			Expenditures				
	Property Tax Increment	Special Tax	Total	Principal	Interest	Other	Total	Coverage
2002	$ 65,325	$ 140,000	$ 205,325	$ 52,475	$ 145,803	$ 14,169	$ 212,447	97.00%
2003	113,772	105,000	218,772	55,597	142,672	6,511	204,780	107.00%
2004	124,781	110,000	234,781	58,905	139,391	6,470	204,766	115.00%
2005	167,679	-	167,679	62,410	135,839	2,356	200,605	84.00%
2006	195,074	-	195,074	66,124	56,668	5,866	128,658	152.00%
2007	240,421	-	240,421	70,058	79,938	9,924	159,920	150.00%
2008	746,100	-	746,100	74,226	77,340	6,069	157,635	473.00%
2009	865,402	-	865,402	78,643	74,586	6,955	160,184	540.00%
2010	942,403	-	942,403	83,322	57,927	7,156	148,405	635.00%
2011	1,022,905	-	1,022,905	88,280	42,280	7,549	138,109	741.00%

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

THE CITY OF FREDERICK, MARYLAND
SELECTED DEMOGRAPHIC STATISTICS
June 30, 2011
For the years ended June 30,

Fiscal Year	(1) Population	(2) Household Mean Income	(3) Per Capita Personal Income	(1 x 3) Estimated Personal Income (000s)	(4) School Enrollment	(5) Estimated Unemployment Rate - June
2002	56,282	$ 77,400	$ 34,577	$ 1,946,063	38,122	5.90%
2003	57,919	78,650	35,647	2,064,639	38,621	6.10%
2004	58,650	81,800	37,695	2,210,812	39,004	5.90%
2005	59,013	84,150	39,465	2,328,948	39,564	3.70%
2006	60,725	87,850	41,792	2,537,819	39,741	3.70%
2007	61,508	91,800	43,894	2,699,832	40,315	3.40%
2008	61,781	94,800	44,951	2,777,118	40,566	4.10%
2009	62,217	95,750	44,742	2,783,713	40,155	7.10%
2010	65,239	N/A	N/A	N/A	40,210	7.00%
2011	65,519	N/A	N/A	N/A	40,255	6.80%

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
2002 - 2006, 2008 - 2009, 2011 - The City of Frederick Planning Department
2010 - U.S. Census Bureau
(2) Maryland Department of Planning Data Services, May 2010, (current dollars)
(3) Regional Economic Information System, Bureau of Economic Analysis, April 2010 (current dollars, not adjusted for inflation)
(4) Frederick County Board of Education
(5) U.S. Department of Labor, Bureau of Labor Statistics, Frederick City

N/A - Not available

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

	2011			2002			
Employer	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment	Business Classification
Fort Detrick	9,200	1	N/A	6,279	1	N/A	Military, bioscience, communications
Frederick County Board of Education	5,540	2	N/A	4,241	2	N/A	Public Education
Frederick County Government	2,355	3	N/A	2,301	4	N/A	County Government
Frederick Memorial Healthcare System	2,295	4	N/A	2,004	5	N/A	Comprehensive Healthcare
SAIC - Frederick	1,965	5	N/A				Medical Research
Wells Fargo Home Mortgage	1,500	6	N/A	-	-	-	Mortgage Loans & Service Center
Frederick Community College	899	7	N/A	1,137	6	N/A	Two-Year College
Frederick City Government	852	8	N/A	709	9	N/A	Municipal Government
United Health Care	832	9	N/A	-	-	-	Medical Insurance
State Farm Insurance Company	793	10	N/A	948	7	N/A	Regional Headquarters - Insurance
Mid Atlantic Medical Services Inc.	-	-	-	2,376	3	N/A	Medical Insurance
F & M Bancorp	-	-	-	811	8	N/A	Banking Headquarters
BP Solar	-	-	-	450	10	N/A	Manufacture, Research & Development of Photovoltaic Cells

Frederick County Economic and Community Development Commission 2002
The City of Frederick, Department of Economic Development, 2011
Total City employment figures are not readily available to make calculation.

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Function:										
General government	80.76	89.51	80.93	80.27	77.30	81.18	81.68	88.18	84.69	77.14
Public safety	181.86	187.00	197.30	197.40	194.24	203.15	203.84	212.70	211.3	207.75
Public works	84.88	85.02	90.52	89.35	84.77	86.59	85.38	93.78	96.33	93.69
Recreation and parks	66.50	68.70	69.34	64.52	60.44	58.73	60.56	58.78	61.46	57.98
Community development	3.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6	5
Economic opportunity	37.57	36.68	37.84	41.56	38.27	41.34	39.17	36.95	46.04	43.81
Rental operations	0.00	0.00	0.00	0.35	0.50	0.50	0.40	0.50	0.5	0.5
Water and sewer	66.21	66.11	68.54	75.58	76.83	76.34	72.60	77.29	75.65	74.81
Golf course	21.94	22.47	22.37	22.08	21.01	20.80	20.69	22.17	19.77	19.85
Airport	2.00	2.00	3.13	3.50	3.50	3.50	3.50	3.50	2.86	2.5
Parking	11.82	11.96	13.05	15.73	15.74	16.60	17.04	13.09	16.26	17.03
Storm water	4.62	4.62	4.82	7.15	7.00	7.40	7.23	7.10	7.07	7.05
Total	561.16	579.07	593.84	603.49	585.60	602.13	598.09	620.04	627.93	607.11

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Function:										
Public safety										
Police:										
Stations	2	2	2	2	2	2	1	1	1	1
Public works:										
Miles of paved streets (road miles)	168	180	180	183	184	250	257	275	278	280
Miles of sidewalks	320	344	344	350	350	500	530	544	552	562
Number of street lights	7,164	7,506	7,790	7,959	8,131	8,213	7,459	9,050	9,135	9,216
Number of traffic signals	74	71	71	72	71	72	71	71	74	74
Recreation and parks:										
Number of parks	58	63	63	63	59	57	57	55	55	61
Parks acreage	300	465	465	443	464	400	435	583	603	603
Number of swimming pools	2	2	2	2	2	2	2	2	2	2
Number of tennis courts	32	32	32	25	26	26	26	23	23	23
Number of municpal stadiums	2	2	2	2	2	2	2	2	2	2
Economic opportunity:										
Number of transitional shelters	1	1	1	1	1	1	1	1	1	1
Number of transitional apartments	3	3	3	3	3	3	3	3	3	3
Rental operations:										
Number of apartment buildings	1	1	1	1	1	1	1	1	1	1
Water and sewer:										
Miles of water main	250	250	250	255	215	220	220	220	220	260
Number of fire hydrants	2,600	2,600	2,600	2,675	2,500	2,520	2,520	2,520	2,750	2,750
Number of storage tanks	6	6	6	6	6	6	6	6	6	6
Number of water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	3	3	3	3
Miles of sanitary sewer	200	157	157	162	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	N/A	N/A	N/A	N/A	9	9	10	11
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	125
Number of corporate hangars	0	1	1	1	1	1	1	1	1	1
Parking:										
Number of parking areas	3	5	5	3	3	3	3	3	3	4
Number of parking area spaces	234	250	250	156	156	156	164	158	143	231
Number of parking garages	3	3	3	3	3	4	4	4	5	5
Number of parking garage spaces	1,469	1,469	1,469	1,469	1,470	2,112	2,116	2,116	2,477	2,477
On street parking spaces	N/A	N/A	N/A	N/A	N/A	N/A	2,500	2,500	2,500	2,500
Numbe of parking meters	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	744
Stormwater:										
Miles of storm drain	N/A	N/A	N/A	N/A	210	211	211	210	210	210
Number of storm water pump stations	N/A	N/A	N/A	N/A	N/A	N/A	4	4	5	5

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

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Function:										
Public safety										
Police:										
Calls for service	59,901	59,586	58,396	64,876	65,227	70,606	74,906	83,164	80,349	74,607
Physical arrests	3,938	3,739	3,442	3,693	2,897	4,161	3,229	4,359	4,116	2,225
Traffic violations	9,819	9,819	9,819	12,684	8,750	10,425	11,682	14,292	10,679	10,189
Water and sewer:										
Number of water service connections	16,520	16,600	16,600	17,100	17,587	17,814	17,939	18,092	18,246	18,342
Avg. daily water consumption (thousands of gallons)	6,798	6,412	6,412	6,500	5,780	5,989	6,300	5,533	5,509	5,437
Number of sewer service connections	15,000	14,300	14,300	14,729	14,713	14,845	14,934	14,987	15,030	15,050
Avg. daily sewage treatment (thousands of gallons)	6,500	6,610	6,610	7,000	6,450	6,690	6,900	6,200	6,890	6,005
Golf course:										
Number of rounds of golf	N/A	32,298	34,816	33,979	35,260	33,758	33,672	29,780	29,258	29,579
Airport:										
Number of Operations	134,436	156,627	159,562	150,441	154,107	160,657	151,088	130,284	132,803	131,500
Parking:										
Number of parking violations	36,390	40,816	40,816	48,094	30,272	38,177	42,354	39,213	25,320	29,996

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

SINGLE AUDIT SECTION

McGladrey

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, of The City of Frederick, Maryland (City), as of and for the year ended June 30, 2011,which collectively comprise the City's basic financial statements and have issued our report thereon dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated October 24, 2011.

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

McGladrey & Pullen, LLP

Frederick, Maryland
October 24, 2011

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

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

Compliance

We have audited The City of Frederick, Maryland's (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 its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-02 thru 2011-06.

Internal Control Over Compliance

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

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described as item 2011-01 in the accompanying *Schedule of Findings and Questioned Costs*. 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.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated October 24, 2011. Our audit was performed for the purpose of forming our opinions on the basic financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

McGladrey & Pullen, LLP

Frederick, Maryland
October 24, 2011

THE CITY OF FREDERICK, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Expenditures July 1, 2010 - June 30, 2011
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Community Development Block Grant - Entitlement Program	B-09-MC-240013	14.218	$ 389,566	$ 203,632
Community Development Block Grant - Entitlement Program	B-10-MC-240013	14.218	421,306	125,606
Community Development Block Plus Program Income				85,164
Total Program				414,402
Supportive Housing Program Grant	MD06B709004	14.235	135,536	135,536
Supportive Housing Program Grant	MD06B709005	14.235	65,895	65,895
Total Program				201,431
Emergency Shelter Grant	2009-ESG-BOS-09	14.231	32,000	32,000
Emergency Shelter Grant	2010-ESG-BOS-10	14.231	27,500	13,750
Total Program				45,750
HUD Housing Counseling Grant		14.169	5,189	5,189
HUD Housing Counseling Grant		14.169	30,000	12,976
HUD Housing Counseling Grant		14.169	30,000	22,596
Total Program				40,761
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				$ 702,344
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Maryland State Department of Human Resources:				
Community Services Block Grant	CAN 2010G994002	93.569	$ 275,916	$ 116,382
Community Services Block Grant	CAN 2011G994002	93.569	275,916	170,058
ARRA - Community Services Block Grant		93.710	419,859	155,051
Total Program				441,491
Passed Through Healthcare for the Homeless, Inc.:				
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	57,604
Healthcare for the Homeless	03-H-002,325-03	93.224	123,134	63,829
Total Program				121,433
Passed Through Maryland State Department of Health and Mental Hygiene:				
McKinney PATH Grant	MH-263-OTH	93.150	77,400	77,400
Total Program				77,400
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				$ 640,324
DEPARTMENT OF ENERGY				
Direct Programs				
ARRA - Energy Efficiency/Conservation Block Grant	DE-SC00002303	81.128	$ 614,700	$ 335,040
Passed Through Maryland Department of Housing and Community Development:				
ARRA - Weatherization Assistance Program		81.042	1,468,005	481,499
				481,499
Passed Through Maryland Clean Energy Center				
Clean Energy Grant - ARRA		81.041	70,000	70,000
TOTAL DEPARTMENT OF ENERGY				$ 886,539

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, 2011

Federal Grantor/Pass Through Grantor/ Program Title	Federal I.D. Number	Federal CFDA Number	Federal Award Amount	Accrual Basis Disbursements July 1, 2010 - June 30, 2011
DEPARTMENT OF JUSTICE				
Direct Programs				
Anti-Gang Strategy Equipment Grant	I37-1248	16.580	$ 82,347	$ 11,820
2007 Justice Assistance Grant	2007-DJ-BX-0347	16.738	75,058	2,211
2009 Justice Assistance Grant	2009-DJ-BX-1428	16.738	79,141	36,413
2010 Justice Assistance Grant	2010-DJ-BX-0696	16.738	78,272	26,621
Teen Collison Avoidance - LETS	BJAG-2006-1138	16.738	8,100	8,100
Organized Crime Drug Enforcement Task Force	281D-BA-110325			37,564
Total Program				110,909
U.S. Marshals Service Equitable Sharing Agreement				12,778
Bulletproof Vest Partnership Program	2006BUBX06135940	16.607	7,192	337
Bulletproof Vest Partnership Program	2007 Regular Grant	16.607	14,625	5,376
Bulletproof Vest Partnership Program	2008 Regular Grant	16.607	8,662	5,718
Total Program				11,431
TOTAL DEPARTMENT OF JUSTICE				$ 146,938
DEPARTMENT OF TRANSPORTATION				
Direct Program:				
Airport Development Aid Program	3-24-0017-032	20.106	$ 378,935	$ 3,132
Airport Development Aid Program	3-24-0017-033	20.106	85,091	39,333
Airport Traffic Control Tower - ARRA	DTFA-WA-10-A-80026	20.999	5,332,462	2,423,077
				2,465,542
TOTAL DEPARTMENT OF TRANSPORTATION				$ 2,465,542
DEPARTMENT OF AGRICULTURE				
Passed Through Maryland State Dept. of Education				
Summer Food Service Program		10.559	(B)	$ 53,326
TOTAL DEPARTMENT OF AGRICULTURE				$ 53,326
DEPARTMENT OF HOMELAND SECURITY				
Passed Through Frederick County				
FFY 2008 Homeland Security Grant	2008-GE-T8-0011	97.067	$ 25,000	$ 5,000
FFY 2008 Homeland Security Grant	2008-GE-T8-0011	97.073	47,000	46,875
				51,875
Passed Through Maryland Emergency Management				
February 2010 Severe Winter Storm	PA-03-MD-1910-PW-00560	97.036	124300	124,300
February 2010 Severe Winter Storm	PA-03-MD-1910-PW-00588	97.036	12726	12,726
				137,026
TOTAL DEPARTMENT OF HOMELAND SECURITY				$ 188,901
CONGRESSIONAL ACTION				
Passed Through Maryland State Department of Housing and Community Development				
Foreclosure Mitigation Grant	PL 110-161:95X1350	99.999	$ 95,400	$ 37,215
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 5,121,129

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

The accompanying notes are an integral part of this statement.

THE CITY OF FREDERICK, MARYLAND
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

1. Single Audit Overview

The Single Audit is the performance of a uniform audit of all the City's federal grants in conjunction with the annual audit of the general-purpose financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the Federal agencies' audit requirements which include financial, compliance, and the adequacy of internal control.

2. Fiscal Period Audited

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2011.

3. Pass-Through Funds

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

4. Summary of Significant Accounting Policies

a. Basis of Presentation

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

b. Revenue Recognized

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

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2011

Section I – Summary Of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ____ Yes X No

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major programs:
- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes ____ No

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

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

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program
14.218	Community Development Block Grant
20.999	ARRA Airport Traffic Control Tower
81.042	ARRA Weatherization Assistance Program
81.128	ARRA Energy Efficiency/Conservation Block Grant
93.710/ 93.569	ARRA and Non-ARRA Community Service Block Grant

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

Auditee qualified as low-risk auditee? ____ Yes X No

The City Of Frederick, Maryland

Schedule Of Findings And Questioned Costs
Year Ended June 30, 2011

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 2011-01: Buy American Act

Federal Programs: Department of Transportation, CFDA 20.999 ARRA Airport Traffic Control Tower; Department of Energy, CFDA 81.042 ARRA Weatherization Assistance Program; Department of Energy, CFDA 81.128 ARRA Energy Efficiency/Conservation Block Grant; Department of Health and Human Services, CFDA 93.710 ARRA Community Services Block Grant

Criteria: Provisions of the Buy American of the American Recovery and Reinvestment Act (ARRA) Section 1605, prohibits the use of ARRA funds for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. Under this act, entities, including pass-through entities must receive certification that goods from construction or repair of a public building are produced in the United States.

Condition: During the year, the City expended ARRA funds for construction activities which are subject to the Buy American Act. The City does not have a formal policy to address compliance with the Buy American Act.

Context: In performing our audit, we noted that Buy American certifications were not always obtained by the City in a timely manner and subjected to a formal review process.

Effect: If expenditures of ARRA funds are not compliant with the Buy American Act, the awarding agency may request a return of funding due to non-compliance with federal laws and regulations.

Cause: The City's written policies and procedures have not been updated to address the provisions of the Buy American Act.

Recommendation: We recommend the City establish a formal policy, to include the process by which the City is to obtain vendor certifications and to monitor controls, to ensure compliance with Buy American Act.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation and the Director of Budget and Purchasing will request the addition of "Buy American" policies to the Purchasing Policies and Procedures Manual.

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

Compliance

Finding 2011-02: Performance Reporting

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

Criteria: The Energy Efficiency/Conservation Block Grant agreement, which was effective September 21, 2009, states the grantee must file quarterly performance reports within 10 days after the end of each reporting period.

Condition: During the year, the City's performance reports were filed greater than 10 days after the end of each reporting period.

Context: In performing our audit, we examine compliance with reporting requirements and noted that the four quarterly performance reports submitted to DOE had submission dates later than 10 days after the end of each reporting period. However, only one performance report, filed 101 days after period end, for the quarter ended March 31, 2011 was identified as delinquent by DOE.

Effect: Delinquent filings can impair the DOE's ability to monitor the grant and could cause a delay in the release of grant funding.

Cause: The City's understanding was that the performance reports were due within 90 days after the end of each reporting period. The filing of the March 31, 2011 report was delayed past this 90 day period due to difficulty the City experienced with DOE's on-line reporting system.

Recommendation: We recommend they City adhere to the reporting deadline as stated in the grant agreement.

Views of Responsible Officials and Planned Corrective Actions: The Director of Finance will strive to complete and file all reports within the timeline outlined in the grant.

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

Compliance (Continued)

Finding 2011-03: Buy American Act

Federal Program: Department of Health and Human Services, CFDA 93.710 ARRA Community Services Block Grant

Criteria: Provisions of the Buy American of the American Recovery and Reinvestment Act (ARRA) Section 1605, prohibits the use of ARRA funds for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. Under this act, entities, including pass-through entities must receive certification that goods from construction or repair of a public building are produced in the United States.

Condition: During the year, the City expended ARRA funds for construction activities (installation of air conditioning and heat pumps in a City owned low income housing project) which are subject to the Buy American Act. We noted a Buy American certification was not obtained by the City in a timely manner.

Context: The City incurred the related expenditure in October 2010 but the vendor certification was not signed until September 2011. The City indicated a verbal representation was provided by the vendor to the City. However, verbal representation is not sufficient for compliance with the Act.

Effect: If subsequent to incurring the expenditure, it was found that the materials were not produced in the United States, the City would have been required to return funds received from the funding agency. Additionally, noncompliance can have a negative impact on the City's ability to receive future funding.

Cause: The City does not have a formal policy to address compliance with the Buy American Act.

Recommendation: We recommend the City establish a formal policy, to include the process by which the City is to obtain vendor certifications and to monitor controls, to ensure compliance with Buy American Act.

Views of Responsible Officials and Planned Corrective Actions: The Director of Budget and Procurement will request a "Buy American" policy to be included in the Purchasing Policies and Procedures Manual.

Finding 2011-04: Cash Management

Federal Program: Department of Transportation, CFDA 20.999 ARRA Airport Traffic Control Tower

Criteria: In accordance with federal cash management requirements, interest earned on advances is required to be remitted to the awarding agency promptly.

Condition: The City entered into an Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA) whereby significant federal funds were advanced to the City. Interest earned on the advanced funding, which amounted to approximately $4,000 as of June 30, 2011, has not been remitted to the funding agency. Interest earnings are expected to continue to accumulate as project expenditures may continue until October 2015.

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

Compliance (Continued)

Context: The City has properly segregated these advance funds in the separate interest bearing account whereby interest earned is easily identifiable.

Effect: The City is holding funds that may need to be remitted to the FAA.

Cause: City personnel indicated they have contacted the FAA to determine if the interest income is required to be remitted to them or to be utilized for the associated project; however, the City has not received a response.

Recommendation: We recommend the City continue efforts to obtain a decision from FAA in writing on this matter. Additionally, we recommend the City continue to separately identify interest income earned.

Views of Responsible Officials and Planned Corrective Actions: The Airport Manager and Director of Finance will continue to seek written guidance from the FAA on the treatment of interest earnings on this advance funding.

Finding 2011-05: Progress Reporting

Federal Program: Department of Transportation, CFDA 20.999 ARRA Airport Traffic Control Tower

Criteria: In accordance with the terms of the City's Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA), the City will provide written progress reports each month to FAA.

Condition: We noted the City has not submitted written progress reports.

Context: In performing our audit, we examined compliance with reporting requirements and through inquiry we were informed that the City has not submitted written progress reports.

Effect: Information communicated through monthly progress reports assists FAA with monitoring compliance with the agreement. In addition, noncompliance with provision of the agreement could result in the termination of the agreement by FAA.

Cause: The City's understanding is that the only reporting requirements were monthly job creation/retention reports. City personnel stated that FAA has not communicated that monthly progress reporting was required.

Recommendation: We recommend the City adhere to the reporting requirements as stated in the OTA agreement unless written guidance to the contrary is provided by FAA.

Views of Responsible Officials and Planned Corrective Actions: The Airport Manager, in conjunction with the Project Manager, will ensure that reporting requirements will be adhered to in a timely fashion.

Compliance (Continued)

Finding 2011-06: Davis Bacon

Federal Program: Department of Transportation, CFDA 20.999 ARRA Airport Traffic Control Tower

Criteria: In accordance with the terms of the City's Other Transaction Agreement (OTA) with the Federal Aviation Administration (FAA), the City must adhere to the provision of the Davis Bacon Act which requires monitoring of construction contractor compliance.

Condition: We noted that at times the City did not properly monitor construction contractors to ensure compliance with applicable wage determinations under the Davis Bacon Act.

Context: In performing our audit, we tested 2 of the 9 contractor certified payrolls noting that both contained some wage rates which fell under the minimum wage determination rates per personnel category.

Effect: Noncompliance with provision of the agreement could result in the termination of the agreement by FAA.

Cause: City personnel obtained certified payrolls from the contractor but did not effectively examine rates paid by contractors to the required minimum wage rates.

Recommendation: We recommend that the City evaluate the process by which Davis Bacon compliance is monitored and implement changes to ensure future compliance. In addition, the City should notify the contractors of the noncompliance and ensure the necessary wage adjustment can be corrected.

Views of Responsible Officials and Planned Corrective Actions: The Airport Manager, in conjunction with the Project Manager, will re-evaluate the process with which the Davis-Bacon requirements are monitored and make any necessary changes to ensure compliance.

The City Of Frederick, Maryland

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2011

Section II – Financial Statement Findings

Internal Control

No matters were reported

Compliance

No matters were reported

Section III – Federal Award Findings and Questioned Costs

Internal Control

Finding 2010-01: Reporting of Federal Expenditures

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

Corrective action taken: Corrective action was taken.

Finding 2010-02: Segregation of Duties

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

Corrective action taken: Corrective action was taken.

Finding 2010-03: Monitoring

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

Corrective action taken: Corrective action was taken.

Finding 2010-04: Ineffective Cost Reconciliations

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

Corrective action taken: Corrective action was taken.

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

Compliance

Finding 2010-05: Cost Principles and Reporting

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

Corrective action taken: Corrective action was taken.

Finding 2010-06: Cash Management

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

Corrective action taken: Corrective action was taken.

Finding 2010-07: Reporting

Audit Finding: The Energy Efficiency/Conservation Block Grant, which was effective September 21, 2009, states the grantee must file a quarterly Form SF-425 within thirty days of the period end. Since the effective date of the grant and through the date of our auditing procedures, the City has not filed any Form SF-425.

Corrective action taken: Corrective action was taken.