

OFFICIAL STATEMENT DATED MAY 5, 2005

NEW ISSUE-DTC BOOK-ENTRY ONLY

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants described herein, under existing law the interest on the Bonds (including any original issue discount properly allocable to a holder thereof) (a) will be excluded from gross income for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. It is also the opinion of Bond Counsel that, under existing law, the Bonds, the interest payable thereon, their transfer and any income derived therefrom, including any profit made in their sale will be exempt from State of Maryland, county, municipal, or other taxation of every kind and nature whatsoever within the State, provided however that no opinion will be expressed concerning estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the income therefrom. See the information contained herein under the caption "LEGAL MATTERS - Tax Exemptions".

\$107,015,000
FREDERICK COUNTY, MARYLAND
GENERAL OBLIGATION
PUBLIC FACILITIES REFUNDING BONDS OF 2005

Dated: May 1, 2005

Due: August 1, as shown below

Bond Ratings	Fitch: AA+ Standard & Poor's: AA Moody's: Aa2
Redemption	Bonds maturing on or after August 1, 2016 are redeemable in whole or in part, at par, at the option of the County, on or after August 1, 2015 – Page 5
Security Purpose	General obligations of County Commissioners of Frederick County. The proceeds are being used to refund certain callable maturities of the County's Public Facilities Bonds of 1999 and 2000 issues and to redeem the outstanding balance of the County's Variable Rate Demand Bond Anticipation Notes, 1997 Series – Page 4
Interest Payment Dates	February 1 and August 1, beginning August 1, 2005
Closing/Settlement	On or about May 19, 2005
Denominations	\$5,000
Book-Entry Only Form	The Depository Trust Company, New York, NY
Registrar/Paying Agent	Manufacturers and Traders Trust Company, Baltimore, MD
Bond Counsel	Venable LLP, Baltimore, MD
Financial Advisor	Davenport & Company LLC, Towson, MD
Issuer Contact	Frederick County Director of Finance: (301) 694-1115

MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS

<u>Maturing August 1</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP</u>	<u>Maturing August 1</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP</u>
2005.....	\$200,000	3.50%	2.65%	355694E55	2013.....	\$9,630,000	5.00%	3.39%	355694F54
2006.....	170,000	3.50	2.65	355694E63	2014.....	10,115,000	5.00	3.50	355694F62
2007.....	175,000	3.50	2.74	355694E71	2015.....	10,625,000	5.00	3.60	355694F70
2008.....	185,000	3.50	2.83	355694E89	2016.....	11,160,000	5.00	3.68	355694F88
2009.....	190,000	3.50	2.92	355694E97	2017.....	11,730,000	5.00	3.74	355694F96
2010.....	3,980,000	3.00	3.05	355694F21	2018.....	12,340,000	5.00	3.83	355694G20
2011.....	8,760,000	5.00	3.16	355694F39	2019.....	12,960,000	5.00	3.88	355694G38
2012.....	9,190,000	5.00	3.28	355694F47	2020.....	5,605,000	4.00	4.089	355694G46

(Accrued interest from May 1, 2005, to be added)

* The interest rates shown above are the interest rates payable by the County resulting from the sale of the Bonds on May 5, 2005. The prices or yields shown above were furnished by Banc of America Securities LLC. Any other information concerning the terms of the reoffering of the Bonds, if any, should be obtained from the successful bidder and not from the County. (See "SALE AT COMPETITIVE BIDDING" herein.)

The Bonds are offered for delivery when, as and if issued, subject to the approving opinion of Venable LLP, Baltimore, Maryland, Bond Counsel. The date of this Official Statement is May 5, 2005, and the information contained herein speaks only as of that date.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision.

COUNTY COMMISSIONERS OF FREDERICK COUNTY

CERTAIN ELECTED OFFICIALS

John L. Thompson, Jr.
President, Board of County Commissioners

Michael L. Cady
Vice President, Board of County Commissioners

John R. Lovell, Jr.
Commissioner

Bruce L. Reeder
Commissioner

Jan H. Gardner
Commissioner

CERTAIN APPOINTED OFFICIALS

Douglas D. Browning
County Manager

Joseph C. Zimmerman, CPA
Director of Finance

Alan J. Hudak, P.E.
Director of Public Works

Michael G. Marschner
Director of Utilities and Solid Waste Management

John S. Mathias
County Attorney

Marie S. Keegin
Director of Economic Development

Eric E. Soter
Acting Director of Planning

BOND COUNSEL
Venable LLP
Baltimore, Maryland

FINANCIAL ADVISOR
Davenport & Company LLC
Towson, Maryland

COUNTY AUDITOR
Linton Shafer Warfield & Garrett, P.A.
Frederick, Maryland

**PAYING AGENT, BOND REGISTRAR
AND ESCROW AGENT**
Manufacturers and Traders Trust Company
Baltimore, Maryland

VERIFICATION AGENT
The Arbitrage Group, Inc.
Tuscaloosa, Alabama

No dealer, broker, salesman, or other person has been authorized by County Commissioners of Frederick County (the "County"), or the successful bidders to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the County and other sources which are deemed to be reliable but it is not to be construed as a representation by the County as to information from sources other than the County.

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the County since the respective dates as of which information is given or the date hereof.

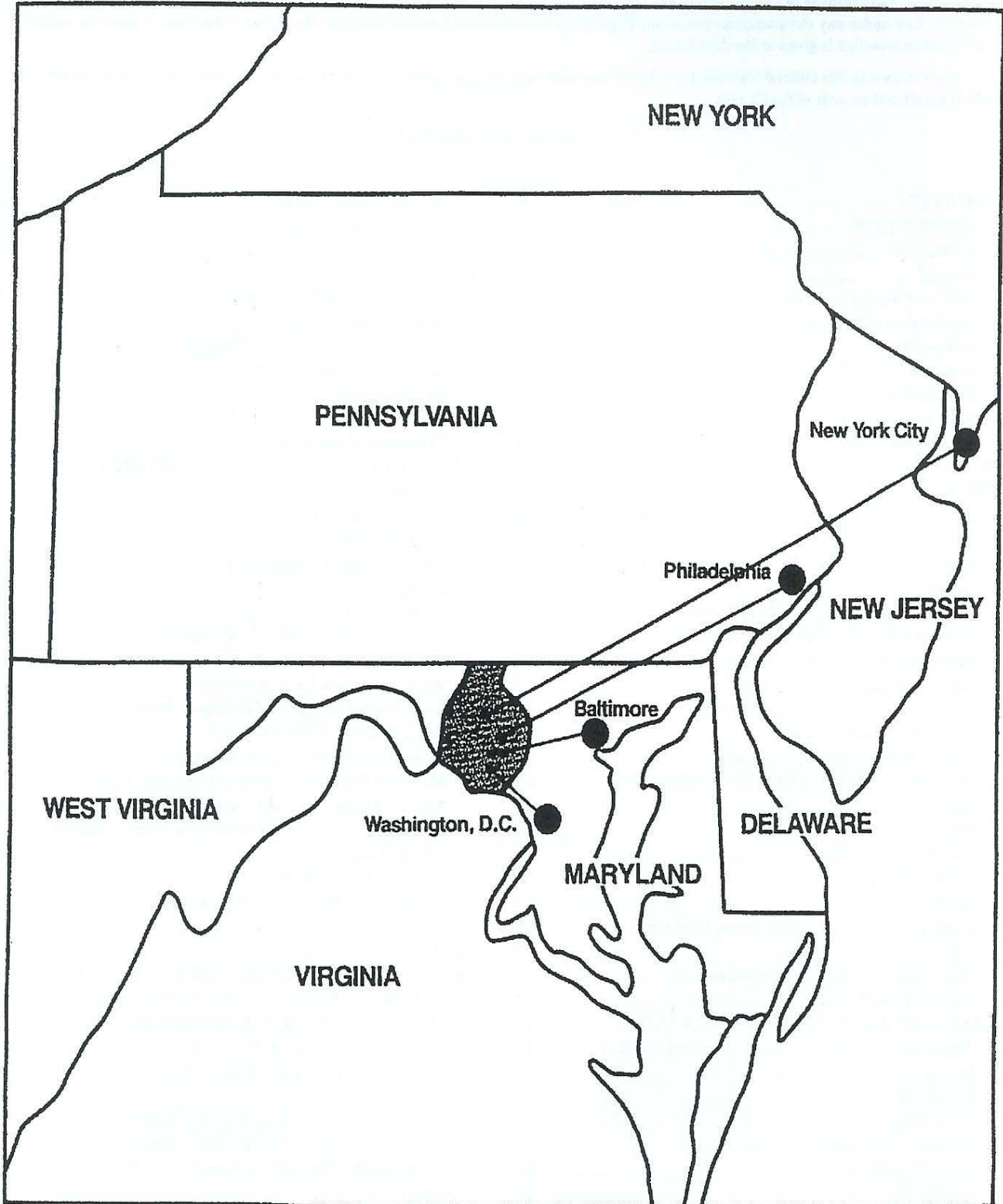
Figures used in this Official Statement relating to tax collections, assessed value of property and the financial position of the County have been taken from official records of the County.

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LOCATION

Frederick County is located in the north central part of the State of Maryland, 245 miles from New York City, 150 miles from Philadelphia, 45 miles from Baltimore, and 45 miles from Washington, D.C.



OFFICIAL STATEMENT
Relating to

\$107,015,000
FREDERICK COUNTY, MARYLAND
GENERAL OBLIGATION
PUBLIC FACILITIES REFUNDING BONDS OF 2005

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to provide information for prospective purchasers and others regarding Frederick County, Maryland (“Frederick County”), County Commissioners of Frederick County (the “County”), and the \$107,015,000 Frederick County, Maryland, General Obligation Public Facilities Refunding Bonds of 2005 (the “Bonds”), to be issued by the County.

Frederick County, founded in 1748, originally included the present Maryland counties of Garrett, Allegany, Washington, Carroll and Montgomery. It is located in the north central part of Maryland and is 664 square miles in area. Frederick County is bordered on the north by Pennsylvania, on the west by Washington County, on the east by Howard and Carroll Counties, and on the south by Montgomery County and Virginia.

There are 12 incorporated towns within Frederick County of which 8 have populations over 1,000. The County seat and largest city is the City of Frederick, which according to the 2000 Census, has a population of 52,767. The City of Frederick is located approximately 45 miles northwest of Washington, D.C. and 45 miles west of Baltimore, Maryland.

Frederick County is governed by an elected five-member Board of County Commissioners (the “Board”) which serves for four years (see “COUNTY GOVERNMENT AND ADMINISTRATION”). The Board may exercise only such powers as are conferred on it by the General Assembly of Maryland, including the power to issue debt to finance its capital projects. See “CERTAIN DEBT INFORMATION”.

The executive offices of the County are located at Winchester Hall, 12 East Church Street, Frederick, Maryland. The County’s central telephone number is (301) 694-1100.

Any questions regarding this Official Statement or the Bonds should be directed to Director of Finance, Frederick County, Maryland, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701, telephone no. (301) 694-1115. The County’s Internet address is www.co.frederick.md.us.

THE BONDS

General

The Bonds will be dated May 1, 2005, will be issued in an aggregate principal amount of \$107,015,000 and will mature each August 1, in annual installments beginning with the year 2005 and ending with the year 2020 in the principal amounts and at the interest rates set forth on the cover page of this Official Statement.

Interest on the Bonds, calculated on the basis of a 30-day month/360-day year factor, will be payable on August 1, 2005 and semiannually thereafter on the first days of February 1 and August 1 until the principal amount is paid. Interest on the Bonds shall be payable to the person in whose name such Bond is registered on the registration books for the Bonds as of the close of business on the 15th calendar day of the month immediately preceding each interest payment date.

The Bonds will be issued in fully-registered form without coupons and will be issued in denominations of \$5,000 and integral multiples thereof. The Bonds initially will be issued in book-entry form without any physical distribution of certificates made to the public. The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds and the Bonds will be registered in the name of DTC’s partnership nominee, Cede & Co. (See “DTC and Book-Entry Only System”).

So long as the Bonds are maintained in book-entry form, payments of principal of, premium and interest on the Bonds will be made as described below under “DTC and Book-Entry Only System.” At any other time, the principal amount of and premium, if any, on the Bonds will be payable at the principal corporate trust office of Manufacturers and Traders Trust Company, Baltimore, Maryland (the “Paying Agent” and “Bond Registrar”). Interest on the Bonds will be payable by check of the Paying Agent mailed to the registered owners thereof. The principal of, premium, if any, and interest on the Bonds will be paid in lawful money of the United States of America in the manner and at the places hereinabove described.

DTC and Book-Entry Only System

Initially, DTC will act as securities depository for the Bonds and one fully-registered Bond will be issued for each maturity of the Bonds and registered in the name of Cede & Co., as DTC’s partnership nominee, and will be deposited with DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York (the “New York Banking Law”), a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of The National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (all of which are subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks and trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”, and collectively with Direct Participants, the “Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the records of the Direct and Indirect Participants. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners purchased the Bonds. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of the Participants acting on behalf of the Beneficial Owners. *Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.*

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other names as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownerships. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping account of their holdings on behalf of their customers.

So long as the Bonds are held by DTC under a book-entry only system, redemption proceeds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the County or the Paying Agent on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participants, and not of DTC, or the Bond Registrar and Paying Agent or the County, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest on the Bonds to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Bond Registrar and Paying Agent; disbursement of such payments to Direct Participants shall be in the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall

be the responsibility of the Direct and Indirect Participants. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

So long as the Bonds are held by DTC under a book-entry only system, the Bond Registrar and Paying Agent will send any notice with respect to the Bonds only to DTC. Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by agreements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Registrar and Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

DTC may discontinue providing its services as depository for the Bonds at any time by giving reasonable notice to the County or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. The County may determine to select a different securities depository or the County may determine to discontinue the book-entry only system at any time by giving notice to DTC (or its successor). In the event the County determines to discontinue a book-entry only system of registration of the Bonds, bond certificates will be delivered and payments of interest, principal and redemption or purchase premium, if any, will be made as described above under "THE BONDS - General".

The current "Rules" applicable to DTC and its Participants are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC. The information under this heading concerning DTC and DTC's book-entry only system has been obtained from sources that the County believes to be reliable. No representation is made by the Bond Registrar and Paying Agent or the County as to, and the Bond Registrar and Paying Agent and the County take no responsibility for, the completeness or the accuracy of such information or the absence of material adverse changes in such information subsequent to the date of this Official Statement.

So long as Cede & Co., or any successor thereto, is the registered owner of the Bonds, as DTC's partnership nominee, references herein to the Bond holders or registered owners of the Bonds shall mean DTC and shall not mean the Beneficial Owners of the Bonds. During such period, the Bond Registrar and Paying Agent and the County will recognize DTC or its partnership nominee as the owner of all of the Bonds for all purposes, including the payment of the principal of, redemption premium, if any, and interest on the Bonds, as well as the giving of notices and voting.

THE COUNTY AND BOND REGISTRAR AND PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OF THE BONDS WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT OF ANY AMOUNT DUE TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BONDS TO BE GIVEN TO BOND OWNERS; (5) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

DTC may charge the Participants a sum sufficient to cover any tax, fee or other governmental charge that may be imposed for every transfer and exchange of a beneficial interest in the Bonds, and the Participants may seek reimbursement therefor from the Beneficial Owners.

The Bonds will be valid and legally binding general obligations of the County, to which the full faith and credit and unlimited taxing power of the County will be pledged. They are not guaranteed by the State of Maryland or any other entity. Security for the Bonds is more fully described herein under "THE BONDS - Security for the Bonds".

Application of Proceeds

A portion of the proceeds of the Bonds (the “Refunding Bonds”) will be used to refund on July 1, 2009, all or some of the callable maturities of the County’s General Obligation Public Facilities Bonds of 1999 (the “1999 Bonds”) and on December 1, 2010, all or some of the callable maturities of the County’s General Obligation Public Facilities Bonds of 2000 (the “2000 Bonds”) as set forth in Appendix E herein (the “Refunded Bonds”). The remaining proceeds of the Bonds will be used to redeem the outstanding principal amount of the County’s Consolidated Public Improvement Variable Rate Demand Bond Anticipation Notes, 1997 Series, Second Issue (the “BANs”) issued August 1, 2002.

<u>Sources Of Funds</u>	<u>Issue Summary</u>
Par Amount of Bonds	\$107,015,000.00
Reoffering Premium	10,305,842.80
Accrued Interest from 05/01/2005 to 05/19/2005	260,065.00
 Total Sources	 <u>\$117,580,907.80</u>
 <u>Uses Of Funds</u>	
Deposit to Escrow Fund	\$113,066,005.55
BAN Redemption	3,610,000.00
Underwriter’s Discount	324,320.73
Cost of Issuance	317,000.00
Accrued Interest	260,065.00
Miscellaneous	3,516.52
 Total Uses	 <u>\$117,580,907.80</u>

Refunding Program

The County anticipates that the Bonds will be issued and delivered on May 19, 2005, and the proceeds of the Refunding Bonds will be escrowed and invested until applied on July 1, 2009 as to the 1999 Bonds, and December 1, 2010 as to the 2000 Bonds, to refund the respective Refunded Bonds. The County is issuing the Bonds to refund the Refunded Bonds in order to realize savings on debt service costs. As a result of the refunding, net present value savings will be obtained by the County.

The refunding method being used is frequently termed a “net defeasance” in that provision is made to set aside immediately, from the proceeds of a refunding bond issue and other funds then available for debt service on the refunded bonds, monies for investment which, together with the interest to be received thereon, shall be sufficient to satisfy all payments of principal of and premium, if any, and interest on the Refunded Bonds to and including the dates on which such bonds mature or are redeemed.

The proceeds of the Bonds will be applied to the purchase of non-callable direct obligations of the United States of America (“Government Obligations”) and used to pay certain expenses of the County related to the issuance and disposition of the proceeds of the Bonds. Any proceeds remaining after purchase of the Government Obligations will be held in cash. The Government Obligations will be held in the trust by Manufacturers and Traders Trust Company (the “Escrow Agent”) pursuant to an escrow agreement to be dated as of the date of issuance of the Bonds, between the Escrow Agent and the County. The Government Obligations will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts so that sufficient money will be available to pay all principal of and premium, if any, and interest on the Refunded Bonds on their respective redemption dates. An examination of yields and escrow sufficiency prepared by The Arbitrage Group, Inc. has been made showing that the cash and securities deposited to defease the Refunded Bonds will be sufficient for such purposes. The Escrow Agent will be irrevocably instructed to redeem the Refunded Bonds on their respective redemption dates. See Appendix E for a list of the Refunded Bonds. The Government Obligations will be pledged only to the payment of the Refunded Bonds and will not be available for the payment of principal, premium, if any, or interest on the Bonds.

Proceeds of the Bonds applied to the redemption of the BANs will be held by the County for payment to the Paying Agent for the BANs.

Authorization

The Bonds are issued pursuant to the authority of Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1979) as amended (the "Water and Sewer Act") and Article 31, Section 33 of the Annotated Code of Maryland, as amended; (together, the "Acts") and Article 31, Section 24 of the Annotated Code of Maryland and in accordance with Resolution No. 05-11 adopted by the Board on April 19, 2005.

Registration and Transfer

So long as the Bonds are maintained in book-entry form, transfers of ownership interests will be made as described above under "DTC and Book-Entry Only System." At any other time, the Bonds will be transferable only upon the registration books kept at the principal corporate trust office of Manufacturers and Traders Trust Company in Baltimore, Maryland (the "Bond Registrar"), by the registered owner thereof upon surrender thereof together with a written instrument of transfer in form attached thereto and satisfactory to the Bond Registrar and duly executed by the registered owner or his duly authorized attorney. The County may deem and treat the person in whose name a Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes. Upon any such transfer or exchange, the County shall execute and the Bond Registrar shall authenticate and deliver a new registered Bond or Bonds of any authorized denomination in an aggregate principal amount equal to the principal amount of the Bond exchanged or transferred and maturing on the same date and bearing interest at the same rate. In each case, the County and the Bond Registrar may require payment by any holder of Bonds requesting exchange or transfer of Bonds of any tax, fee or other governmental charge, shipping charges and insurance that may be required to be paid with respect to such exchange or transfer, and the County and the Bond Registrar may charge a sum sufficient to reimburse them for expenses incurred in connection with such exchange or transfer. The Bond Registrar shall not be required to transfer or exchange any Bond within fifteen (15) days preceding any interest payment date or after the mailing of notice calling such Bond or portion thereof for redemption as hereinafter described; provided, however, that the foregoing limitation shall not apply to that portion of a Bond in excess of \$5,000 which is not being called for redemption.

Redemption

Bonds maturing on or after August 1, 2016, are subject to redemption on or after August 1, 2015 as a whole at any time or in part on any interest payment date, in any order of maturities at the option of the County, at par together with interest accrued to the date fixed for redemption.

If less than all of the Bonds of any maturity shall be called for redemption, the particular Bonds to be redeemed shall be selected by lot by the Bond Registrar in such manner as, in its discretion, it shall determine, except that so long as The Depository Trust Company ("DTC") or its nominee is the sole registered owner of the Bonds, the particular Bond or portion to be redeemed shall be selected by lot by DTC, in such manner as DTC shall determine.

When less than all of a Bond in a denomination in excess of \$5,000 shall be so redeemed, then, upon surrender of such Bond, there shall be issued to the registered owner thereof, a Bond in any of the authorized denominations as shall be specified by the registered owner. Such Bonds in such authorized denominations shall be issued without charges. The aggregate face amount of such Bond shall not exceed the unredeemed balance of the Bond so surrendered and shall bear the same interest rate and shall mature on the same date as said unredeemed balance.

If, in accordance with the foregoing, the County elects or is required to redeem all outstanding Bonds, or less than all, it will give notice described herein of its intention to redeem by letter mailed first class, postage prepaid, to the registered owners of such Bonds at least 30 days prior to the redemption date, at the addresses of such owners as they appear on the registration books maintained by the Bond Registrar and Paying Agent (the "Bond Register"); provided, however, that the failure to mail any such notice to any of such registered owners or any defect in the notice so mailed or in the mailing thereof shall not affect the validity of the redemption proceedings relating to any other Bonds. The notice of redemption shall state whether the Bonds are to be redeemed in whole or in part and, if in part, the maturities and numbers of the Bonds to be redeemed, shall state the redemption date and redemption price, shall state that the interest on the Bonds so called shall cease to accrue on the date fixed for redemption, and shall require that the Bonds redeemed be then presented for redemption and payment at the principal corporate trust office in Baltimore, Maryland of the Bond Registrar and Paying Agent. From and after the date fixed for redemption, if notice has been given as herein provided and the funds sufficient for payment of the redemption price and accrued interest shall be available therefore on such date, the Bonds so designated for redemption shall cease to bear interest.

Upon presentment and surrender in compliance with said notice, the Bonds so called for redemption shall be paid by the Bond Registrar and Paying Agent at the redemption price. If not so paid on presentment thereof, said Bonds so called shall continue to bear interest at the rates expressed therein until paid.

Security for the Bonds

The Acts provide that the Bonds constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County to the payment of the maturing principal of and interest on the Bonds as and when they become payable. The maturing principal of and interest on a portion of the Bonds equal to the amount of Bonds issued pursuant to the Water and Sewer Act will be payable in the first instance from connection charges, special assessments and other charges permitted to be levied by the County pursuant to the Water and Sewer Act in connection with specific solid waste, water and sewer projects. The Acts further provide, and the County has covenanted in the Resolution, that in each and every fiscal year that any of the Bonds are outstanding the County shall levy or cause to be levied ad valorem taxes upon all assessable property within the corporate limits of Frederick County in rate and amount sufficient to provide for or assure the payment, when due, of the principal of and interest on all such Bonds maturing in each such fiscal year and, if the proceeds from the taxes so levied in such fiscal year prove inadequate for such payment, additional taxes shall be levied in the succeeding fiscal year to make up any deficiency.

The Acts further provide that the County may apply to the payment of the principal of and interest on any Bonds any funds received by it from the State of Maryland, the United States of America, or any agency or instrumentality of either, or from any other source. If such funds are available for the purpose of assisting the County in financing the construction of the public facilities as defined in the Acts, and, to the extent of any such funds received or receivable in any fiscal year, taxes that might otherwise be required to be levied under the Acts may be reduced or need not be levied.

Indebtedness of the County presently outstanding and the County's authority to issue future debt are described herein under "CERTAIN DEBT INFORMATION".

Bondholders' Remedies

It is the opinion of Bond Counsel that the County may be sued in the event that it fails to perform its obligations under the Bonds to the registered owners thereof and that any judgments resulting from such suits would be enforceable against the County. Nevertheless, a holder of a Bond who has obtained any such judgment may be required to seek additional relief to compel the County to assess, levy and collect such taxes as may be necessary to provide the funds from which such judgment may be paid. Although there is no Maryland law with respect to this issue, it is the opinion of Bond Counsel that the appropriate courts of Maryland have jurisdiction to entertain proceedings and power to grant additional relief, such as a mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds thereof to the holders of general obligation bonds, *pari passu*, subject to the inherent constitutional limitations referred to below.

It is also the opinion of Bond Counsel that, while remedies would be available to bondholders and while the Bonds are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute.

Enforcement of a claim for payment of the principal of or interest on the Bonds could be made subject to the provisions of federal bankruptcy laws or of any statutes that may hereafter be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time of payment or imposing other constraints upon enforcement.

RATINGS

Moody's Investors Service, Inc., Standard & Poor's Credit Market Services and Fitch Ratings have given the Bonds the ratings indicated on the cover page of this Official Statement. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. The County furnished to such rating agencies the information contained in a preliminary form of this Official Statement and other information. Generally, rating agencies base their ratings on such materials and information, as well as their own investigations, studies and assumptions. Such ratings may be changed at any time and no assurance can be given that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgment of any or all, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

Approval of Legal Proceedings

The validity of the Bonds will be passed upon by Venable LLP, Baltimore, Maryland, Bond Counsel. The form of Bond Counsel's opinion is set forth in Appendix B to this Official Statement.

Tax Exemptions

In the opinion of Bond Counsel, under existing law, the interest on the Bonds (including any original issue discount properly allocable to a holder thereof) (a) will be excluded from gross income for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

Under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain restrictions that must be met subsequent to the delivery of the Bonds, including restrictions that must be complied with throughout the term of the Bonds. These include a requirement that certain investment earnings received from the investment of the proceeds of the Bonds be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made) and other requirements applicable to the investment of the proceeds of the Bonds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The County will covenant to regulate the investment of the proceeds of the Bonds and to take such other actions as may be required to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds.

However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with such covenants. In the event of noncompliance with such covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includible in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

Interest on the Bonds will not be included in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment. However, for purposes of calculating the corporate alternative minimum tax, a corporation will be required to increase its alternative minimum taxable income by 75% of the amount by which its "adjusted current earnings" exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For such purposes, "adjusted current earnings" would include, among other items, interest income from the Bonds. In addition, interest income on the Bonds will be includable in the applicable taxable base for the purposes of determining the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States.

There are other federal income tax consequences of ownership of obligations such as the Bonds under certain circumstances, including the following: (i) deductions are disallowed for certain expenses of taxpayers allocable to interest on tax-exempt obligations, as well as interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations and interest expense of financial institutions allocable to tax-exempt interest; (ii) for property and casualty insurance companies, the amount of the deduction for losses incurred must be reduced by 15% of the sum of tax-exempt interest income and the deductible portion of dividends received by such companies; (iii) interest income which is exempt from tax must be taken into account for the purpose of determining whether, and what amount of, social security or railroad retirement benefits are includable in gross income for federal income tax purposes; and (iv) for S corporations having Subchapter C earnings and profits, the receipt of certain levels of passive investment income, which includes interest on tax-exempt obligations such as the Bonds, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status.

A purchaser's tax basis in a Bond may exceed the amount payable at maturity for the Bond such that the Bond will be considered to have been issued at a premium for federal income tax purposes. In such a case, a purchaser must determine the amortizable bond premium based on the amount payable for the Bond on the maturity or other call date that produces the lowest yield to maturity on the Bond to the purchaser. The amortizable bond premium that accrues during the period the purchaser holds the Bond (determined by using the constant yield method) must be applied to reduce the purchaser's tax basis in the Bond for purposes of determining gain or loss to be recognized for federal income tax purposes upon a sale or other disposition of the Bond. Even though the purchaser's basis will be reduced, no federal income tax deduction will be allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their

own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

The initial public offering price of certain maturities of the Bonds may be less than the amount payable on such Bonds at maturity (the Bonds of such maturities are referred to herein as "Discount Bonds"). The difference between the initial public offering price at which a substantial amount of the Discount Bonds of the same maturity was sold and the principal amount of such Discount Bonds payable at maturity constitutes "original issue discount." Original issue discount on the Discount Bonds will be treated as interest on the Bonds for purposes of federal income taxation. In the case of any holder of Discount Bonds, the amount of original issue discount which is treated as having accrued with respect to such Discount Bonds will be added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). A holder of a Discount Bond will recognize gain or loss upon the disposition of the Bond (including sale, redemption or payment at maturity) in an amount that is equal to the difference between (i) the amount received upon such disposition and (ii) the sum of (a) the holder's cost basis in the Discount Bond and (b) the amount of original issue discount, which is treated as having accrued during the period the holder held such bond.

Original issue discount on Discount Bonds will be attributed to semiannual compounding periods during the life of each Discount Bond in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Bonds is determined based on semiannual compounding. Such yield is then used to determine an amount of accrued interest for each semiannual compounding period. For this purpose, interest is treated as compounding semiannually on days which are determined by reference to the maturity date of the Discount Bonds. The amount of original issue discount which is treated as having accrued in respect of a Discount Bond for any particular semiannual compounding period is equal to the excess of (i) the product of (a) one-half of the yield for the Discount Bond (adjusted as necessary for an initial short period) multiplied by (b) the amount that would be the tax basis of such Discount Bond at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (ii) the amount actually payable as interest on such Discount Bond during such period. The tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial public offering price the sum of amounts that have been treated as accrued interest for such purposes during all prior periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then interest which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Prospective purchasers of the Bonds should consider possible state and local, excise or franchise tax consequences arising from original issue discount on the Bonds. In addition, prospective corporate purchasers of the Bonds should consider possible federal income tax consequences arising from original issue discount on the Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after the sale of the Bonds and prior to the issuance and delivery of the Bonds or after the issuance and delivery of the Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations sold or issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

In the opinion of Bond Counsel, under existing law, the Bonds, their transfer, the interest payable thereon and any income derived therefrom, including any profit made in their sale will be exempt from state, county, municipal and other taxation of every kind and nature whatsoever within the State of Maryland, but no opinion will be expressed as to estate or inheritance taxes or to any other taxes not levied or assessed directly on the Bonds or the income therefrom.

Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their tax advisors regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

COUNTY GOVERNMENT AND ADMINISTRATION

General

County Commissioners of Frederick County (the “County”) is a body corporate and politic, which performs local governmental functions within Frederick County except for those performed by its 12 incorporated municipalities. Certain independent agencies, which provide services to Frederick County residents, are funded by the County. See “Independent Agencies” under this heading.

The County provides a full range of services, including fire and rescue; law enforcement; sanitation services; construction and maintenance of highways, streets, and infrastructure; recreational activities; and general government activities. The County’s sanitation services, i.e., water, sewer, and solid waste management, are wholly supported through user fees; the remaining services are primarily tax-supported. Incorporated municipalities within Frederick County provide some or all of the following services within their boundaries which relieves the County from providing these services in those areas: bulk trash collection, highway and street maintenance, parks and recreation, and police protection. There have been no recent significant changes or interruptions in the provision of these services.

Section 3 of Article 25 of the Annotated Code of Maryland of 1957, as amended (the “Maryland Code”) sets out the enumerated powers of the county commissioners of each county in the State of Maryland (the “State”) that is governed by county commissioners. Section 1 of said Article 25 declares the county commissioners of a county to be a corporation. Under Maryland law, the county commissioners combine executive and legislative functions.

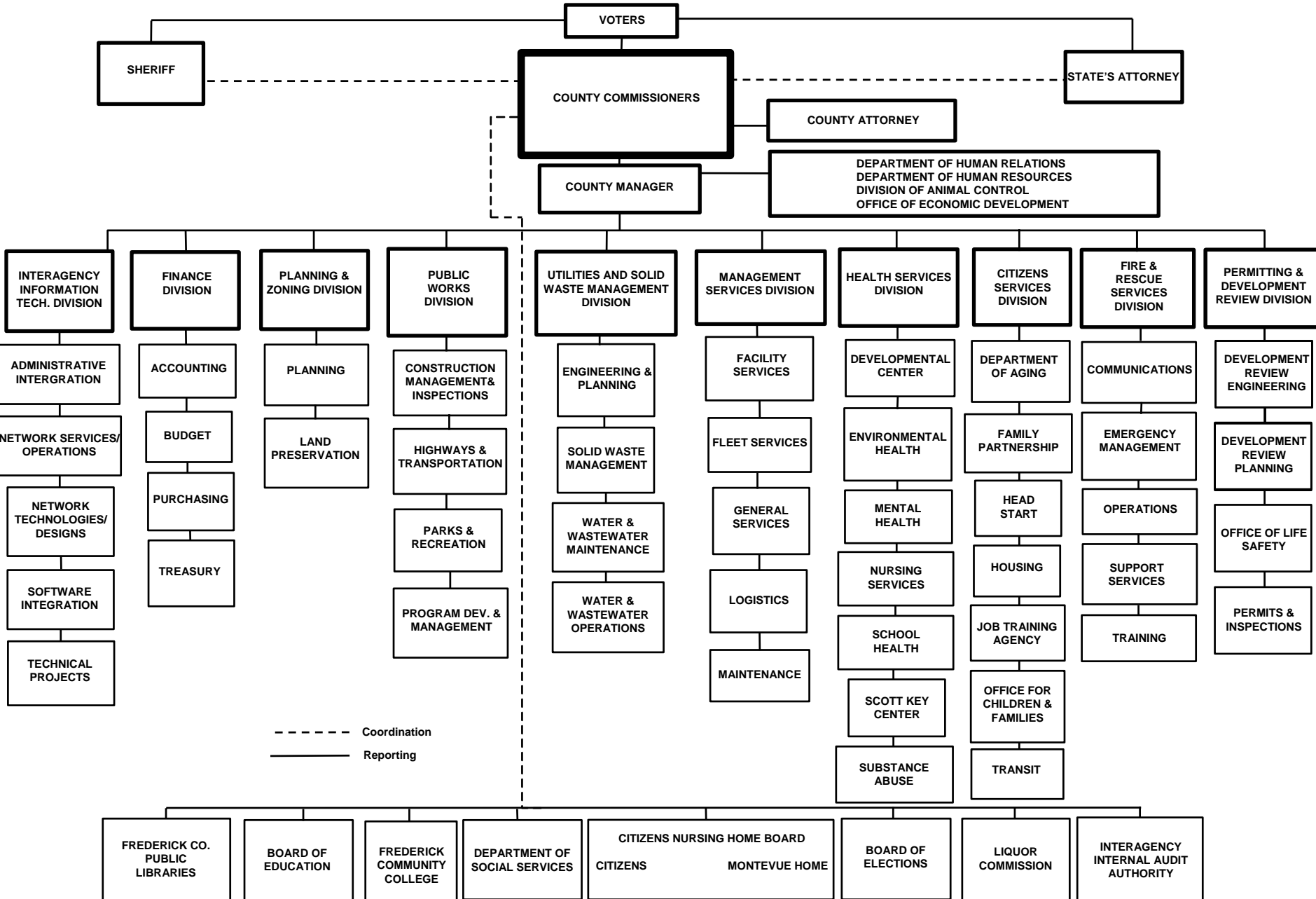
The Board consists of five commissioners, all of whom are elected by the voters of Frederick County on a county-wide basis every four years. The Board may exercise only such powers as are conferred on it by the Maryland Code, and by public local laws enacted by the General Assembly of Maryland, which are codified in Part II of the Frederick County Code, 1979, as amended (the “County Code”).

Section 1 of Article 25 of the Maryland Code empowers the Board to appoint a clerk to the Board, and all other officers, agents and employees required for County purposes not otherwise provided by law. The County Code empowers the Board to appoint an attorney to provide it with legal services and a county manager to administer and supervise the daily operations of County staff.

The financial affairs of the County are administered by the Director of Finance. The Director of Finance’s duties include the disbursement of County funds, the keeping and supervision of all accounts, the control of all expenditures on the basis of budgetary appropriations and allotments, the preparation of bond sales, advising on debt management and the preparation of the County’s annual financial report. In addition, the Director of Finance is responsible for the procurement operation, the budget office, the treasurer’s office and the risk management office.

FREDERICK COUNTY, MARYLAND GOVERNMENT ORGANIZATION CHART

Revised: 05/21/04
Planning Department
GIS Mapping and Data Services



Certain Elected and Appointed Officials

John “Lennie” Thompson, Jr., President, is a life-long resident of Frederick County. He earned an Associate Degree in 1985 from Frederick Community College, an undergraduate degree in Management and History in 1987 from Hood College, a M.B.A. in 1990 from Hood College, and a Juris Doctor in 1993 from the University of Maryland School of Law. Commissioner Thompson worked for 15 years at Farmers & Mechanics National Bank and, since 1993, has had his own law practice. He served as a Walkersville Town Commissioner from 1980-1990 and as Burgess of Walkersville from 1996-1998. Commissioner Thompson is a member of the Bush Creek Church of the Brethren. He is also a member of the Walkersville Volunteer Fire Company and a charter member of the Walkersville Volunteer Community Rescue Company. Mr. Thompson lives in Walkersville with his wife Suzan, his son Jacob, and his daughter Hannah. Commissioner Thompson currently serves as liaison to the Local Interagency Coordinating Council; Mental Health Advisory Committee; Mental Health Management Agency; Frederick County Department of Social Services; Frederick County Weed Advisory Committee; Head Start Policy Council; Solid Waste Advisory Committee and the Metropolitan Development Policy Committee, Human Services Policy Committee, Public Safety Policy Committee, and Noise Abatement at Reagan National and Dulles Airports of the Metropolitan Washington Council of Governments. He was reelected in 2002 to a second term as County Commissioner and serves as the President of the Board. His term expires on November 30, 2006.

Michael L. Cady, Vice President, is a U.S senior international Olympic coach. He formed and operated the Monocacy Valley Olympic Weightlifting Club and the USA Weightlifting Strength Development Center. He was inducted into the Weightlifting Masters Hall of Fame, named the Kiwanis International 1978-1979 Man of the Year for his efforts to discourage youth from using illegal drugs and won in excess of 125 awards in weightlifting (an Olympic Sport) over the past 40 years. He owns and manages two small businesses in Frederick. Commissioner Cady was the Executive Director and Legislative Agent from 1982 to 1987 for the Maryland State Dental Association and from 1975 to 1982 for the District of Columbia Dental Society. Prior to that, he was the liaison between the Social Security Administration and Blue Cross and Blue Shield of the National Capitol Area for the initiation of the Medicare Program and Director of Finance Office of the George Washington University Medical Center. Commissioner Cady is a member of the Rotary Club of Frederick. Commissioner Cady honorably served in the United States Marine Corps. He currently serves as liaison to the Board of Education; Building Utilization Committee; Frederick County Coalition for the Homeless; Parks and Recreation Commission; Planning Commission; Substance Abuse Advisory Council; Tourism Council of Frederick County, Inc.; Frederick County Underage Drinking and Drug Prevention Task Force; and the Weinberg Center for the Arts, Inc. His first term as County Commissioner expires on November 30, 2006.

Jan H. Gardner, Commissioner, has been involved in local politics as an advocate on school overcrowding, education, land use and other quality of life issues. Commissioner Gardner has an undergraduate degree in finance and economics from the University of Notre Dame and a M.B.A. from Xavier University, Cincinnati, Ohio. She has work experience in accounting and budgeting, having worked for the Quaker Oats Company, a Fortune 500 company, in operations planning, distribution, and new product development. She has been actively involved in the Frederick County community serving as Secretary of the Frederick County Civic Federation; Legislative Chair of the PTA Council of Frederick County; Chair of the Spring Ridge Advisory Committee; and a member of the Zoning Ordinance Update Committee. She has volunteered as a Girl Scout Leader for five years and organized a religious education program at her church. Commissioner Gardner has worked to build schools and address school overcrowding issues. Commissioner Gardner serves on a statewide Public School Facilities Task Force working to define adequate school facilities and make recommendations for the implementation of full day kindergarten. Commissioner Gardner has worked on transportation solutions and has served as the liaison for the Metropolitan Washington Council of Governments Transportation Planning Board and the Frederick Area Committee on Transportation. Commissioner Gardner is a member of the Interagency Internal Audit Authority and has been an active member of the Frederick County Planning Commission. She also serves on the Local Emergency Planning Committee. Commissioner Gardner represents the County at the Maryland Association of Counties and is the President of County Elected Women. She is a member of the Character Counts! Council, Committee for Frederick County, the Eastalco Citizens Advisory Committee, the Frederick Arts Council, the Frederick Community Action Agency, and the Historical Society for Frederick County, Inc. Additionally, she serves on the National Museum of Civil War Medicine Board, the Washington Council of Governments (“COG”) Metropolitan Washington Air Quality Committee, Workforce Development Board, and the Public Library Board. Commissioner Gardner’s second term as County Commissioner expires on November 30, 2006.

Bruce L. Reeder, Commissioner, is a graduate of Pennsylvania Military College and a veteran of World War II. He retired in 1990 after a successful 35-year career at Airpax Corporation in Frederick. Commissioner Reeder was elected to the Democratic State Central Committee for Frederick County in 1978, 1982, and 1986. He served as Chairman of the Central Committee from 1982-1990. He was reappointed in 2003 by Governor Robert Ehrlich to the Maryland Heritage Areas Authority, which he served on since its inception in 1996. In addition, he is a member of the Penn Laurel Girl Scouts Council Board and Friends of South Mountain State Battlefields. Commissioner Reeder is also currently serving as Maryland State

Lottery Commissioner and has served in this capacity since January 1999. He is an honorary member of ten local volunteer fire and rescue companies. Commissioner Reeder is currently the liaison to the Affordable Housing Council; Board of Supervisors of Elections; Citizens Nursing Home Board; Commission on Aging; Frederick County Housing Trust; Frederick County Landmarks Foundation; Greater Washington Initiative; Frederick County Roads Board; Transportation Services Advisory Council; and the Metropolitan Washington Council of Governments Transportation Planning Board. He continues to serve on the Frederick Area Committee for Transportation ("FACT") where he recently completed his term as President. He was elected and served from 1990 to 1998 as County Commissioner. He was reelected in 2002 and his term expires on November 30, 2006.

John R. Lovell, Jr., Commissioner, is a life long resident of Frederick County. He is a 1966 graduate of West Virginia Wesleyan College with a Bachelor of Science Degree in Business Administration. Commissioner Lovell reached the rank of Lieutenant serving seven and one-half years as a Naval Aviator (Helicopter Rescue Pilot) and Personnel Officer for Helicopter Anti-Submarine Squadron 10. Commissioner Lovell is an Associate Agent with the Brunner Insurance Agency in Walkersville, Md. His community involvement includes: six years with the Frederick County Board of Zoning Appeals (Chairman two years); Advisory Committee on School Construction and Attendance; PTA Officer Valley Elementary School and Brunswick High School; Past Officer of Jefferson Ruritan Club; Jefferson Volunteer Fire Company; and Frederick County 4-H Activities Center. He is a member of Francis Scott Key American Legion Post 11, VFW Post 3285, and Amvets Post No. 2. Commissioner Lovell and his wife, Johanna, live in Jefferson. Commissioner Lovell currently serves as liaison to the Business Development Advisory Council; Criminal Justice Coordinating Commission; Frederick County Volunteer Fire & Rescue Association; FORVM for Rural Maryland; Frederick Community College Board of Trustees; Greater Frederick Development Corporation; Human Relations Commission; and the Board of Directors, Chesapeake Bay Policy Committee and Task Force on Regional Water Supply of the Metropolitan Washington Council of Governments. His first term as County Commissioner expires on November 30, 2006.

Douglas D. Browning, CPA, County Manager, was appointed Director of Finance in July 1996. He held the position until February 1999 when he was appointed Assistant Vice President for Damascus Community Bank. In September 1999, the County reappointed Mr. Browning Director of Finance. Before becoming Director of Finance for Frederick County, Mr. Browning served as Finance Officer/Treasurer of Worcester County, Maryland. Prior to occupying that position, Mr. Browning served in various executive level positions over a 22-year period with the Finance Department of Montgomery County, Maryland. Mr. Browning received a Bachelor of Science Degree, Summa Cum Laude, from the University of Baltimore in 1973. He is a Certified Public Accountant and a Certified Government Financial Manager. He is a member of the American Institute of Certified Public Accountants, the Maryland Association of Certified Public Accountants, the Government Finance Officers Association, and the Maryland Government Finance Officers Association. He also serves as a trustee for the Employees' Retirement System of Frederick County. Mr. Browning was appointed Acting County Manager effective June 3, 2002, and was appointed County Manager in December 2002.

Joseph C. Zimmerman, CPA, Director of Finance, was appointed to his position in October 2004. Prior to joining the County, Mr. Zimmerman served as Director, Budget & Finance for Queen Anne's County, Maryland for over fourteen years. He earned a Bachelor of Science Degree in Accounting from Frostburg State College in 1979 and a Masters in Business Administration from the University of Baltimore in 1991. He is a Certified Public Accountant. Mr. Zimmerman is a member of the American Institute of Certified Public Accountants, the Maryland Association of Certified Public Accountants, and the Maryland Government Finance Officers Association.

Alan J. Hudak, PE, Director of Public Works, received a Bachelor of Civil Engineering Degree from Villanova University in 1973. He is a Registered Professional Engineer in both Pennsylvania and Maryland. Prior to joining Frederick County, he worked for a manufacturing firm, the Pennsylvania Public Utility Commission and as a private engineering consultant. Since joining Frederick County in June 1980, he has held the positions of Senior Design Engineer, Division Chief of Transportation Engineering, Bureau Chief of Highways and Transportation and Director of Public Works. He was appointed to the Director's position in May 2000.

John S. Mathias, County Attorney, received his Bachelor of Arts Degree in Economics from St. John's University, Collegeville, Minnesota in 1976; his law degree from the University of Maryland School of Law, Baltimore, Maryland in 1979; and his Master of Business Administration Degree from the University of Minnesota Graduate School of Management, Minneapolis, Minnesota in 1985. Mr. Mathias was an attorney with the law firm of Murnane, Conlin, White, Brandt & Hoffman in St. Paul, Minnesota from January 1980 through April 1983. From May 1983 until February 1987, Mr. Mathias was an attorney with Tenneco Oil Company in Houston, Texas. From February 1987 until September 1988, Mr. Mathias was an Assistant Attorney General in the Antitrust Division of the Office of the Attorney General of Maryland in Baltimore, Maryland. He has served as County Attorney for Frederick County since September 1988.

Eric E. Soter, Acting Director of Planning, began his career with the Frederick County Planning Division in March 2002 as Director of the Department of Planning and Zoning. Mr. Soter was appointed Acting Division Director for the Division of Planning in September of 2003. Prior to joining Frederick County, Mr. Soter served as Urban Design Director for the City of Gaithersburg, Maryland (2001-2002) and as Senior Staff Planner from 1999-2001. He also was employed with the Carroll County Government from 1997-1999 as a Transportation/Comprehensive Planner as well as an associate Planner with the Baltimore Metropolitan Council, a regional Metropolitan Planning Organization from 1994-1997. Mr. Soter earned a Dual Bachelors of Science Degree in Geography and Economics from Towson State University, Towson, Maryland in 1994, also earning a certificate in Cartography and Graphics. Mr. Soter is a member of the American Planning Association (“APA”) as well as the Maryland chapter of the APA.

Marie S. Keegin, Director of Economic Development, was appointed in April 2001. Prior to assuming this post, Ms. Keegin managed the Suburban Maryland Regional Office of the Maryland Department of Business and Economic Development (“DBED”), which includes Prince George’s, Howard, Montgomery and Frederick counties, beginning in 1998. From 1996 to 1998, she was responsible for the Advanced Technology Center Initiative for DBED, and prior to that, was Director of the Frederick County Job Training Agency/Workforce Development Board for 11 years. Ms. Keegin is a Certified Economic Developer through the International Economic Development Council. Ms. Keegin received a Bachelor of Arts Degree in Economics and Human Resources Management from Hood College and a Master of Business Administration Degree from Mount St. Mary’s College.

Michael G. Marschner, Director of Utilities and Solid Waste Management, was appointed as the Director of the newly created Division of Utilities and Solid Waste Management in February 2000; the County’s water and sewer utility and solid waste operation was previously administered by the Division of Public Works. Prior to his appointment as Director, Mr. Marschner served in several other utility management positions in the County’s Division of Public Works including Bureau Chief and Water and Sewer Operations from July 1997 to February 2000 and Division Chief, Division of Operations from July 1990 to June 1997. Before Mr. Marschner’s employment with Frederick County, he was employed as a sanitarian with the Baltimore County Health Department. A veteran of the U.S. Air Force, Mr. Marschner received his Environmental Technical Training at the U.S. Air Force Technical Training School, Sheppard Air Force Base, Texas. Mr. Marschner is an active member of the American Water Works Association and the Water and Environment Federation.

Remuneration of Certain County Officials

The following table presents the annual remuneration for certain County officials as of July 1, 2004:

<u>Official Title</u>	
Commissioner.....	\$ 30,000
County Manager	137,942
Director of Finance.....	106,000
Director of Public Works.....	108,026
County Attorney	121,512
Director of Economic Development	98,923
Director of Utilities and Solid Waste.....	101,707
Acting Director of Planning.....	87,353

Source: Frederick County Human Resources Department.

Retirement and Pension Programs

Frederick County employees participate in a single-employer pension plan, which is administered by the County in a separate trust fund, the Frederick County Employees’ Retirement Plan and in two cost-sharing multiple-employer pension plans administered by the State of Maryland, the Employees’ Retirement System of the State of Maryland and the Pension System for Employees of the State of Maryland.

Plan Descriptions

Single-Employer Pension Plan

The Frederick County Employees' Retirement Plan (the "County Plan") was established on July 1, 1993, under authority created by State legislation and Section 2-2-2 of the County Code.

Employees of the County hired on or after July 1, 1993, and current employees electing transfer into the County Plan on that date, are members of the County Plan. To be eligible for benefits, an employee must work 700 hours per year. Participation classification is based on the employee's status as either "uniformed" or "non-uniformed."

The type and number of employees covered as of June 30, 2004, was as follows:

	<u>Uniformed</u>	<u>Non-Uniformed</u>	<u>Non-Vested Terminations</u>
Retirees and Beneficiaries Currently Receiving Benefits	42	173	-
Terminated Employees Entitled to Benefits	-	-	84
Active Employees	445	1,638	-

A uniformed employee may retire at the earlier of age 50 or 20 years of eligibility service. Vesting begins after five years of service. Retirement benefits are calculated by formula and provide approximately 50% of average pay after 20 years or 66% after 28 years of service. Early retirement benefits are not available. Employees contribute 8% of their base pay. A non-uniformed employee may retire at the earlier of age 60 or 25 years of eligibility service. Vesting begins after five years of service. Retirement benefits are calculated by formula and provide approximately 50% of average pay after 25 years or 60% after 30 years of service. An employee may also take early retirement with reduced benefits at age 55 with 15 years of service. Employees contribute 4% of their base pay.

The benefits payable under the County's Plan which are not funded by employee contributions are funded entirely by the County.

Cost-Sharing Multiple-Employer Pension Plans

The Employees' Retirement System of the State of Maryland (the "Retirement System") covers most employees hired prior to January 1, 1980, who did not elect to transfer into the County Plan. The Pension System for Employees of the State of Maryland (the "Pension System") covers employees hired between December 31, 1979, and June 30, 1993, plus Retirement System participants who have voluntarily joined the Pension System, less employees who elected to transfer into the County Plan. The Retirement System and the Pension System are hereinafter jointly referred to as the "State Systems."

Under the terms of the Retirement System, a member may retire after 30 years of service regardless of age, or at age 60 or over, with at least five years of service. A member is eligible for vesting after five years of service; however, the contribution must be left in the Retirement System in order to qualify for benefits at age 60.

Under the terms of the Pension System, a member may retire after 30 years of service regardless of age, at age 65 with two years of service, at age 64 with 3 years of service, at age 63 with 4 years of service, or at age 62 with at least 5 years of service. An employee may also take early retirement with reduced benefits at age 55 with 15 years of service. A member is eligible for vesting after 5 years of service however, the contribution must be left in the Pension System in order to qualify for benefits at age 62.

Benefits under both plans are established under Titles 22 and 23 of the State Personnel and Pensions Article of the Annotated Code of Maryland (the "Maryland Code").

Under Titles 22 and 23 of the Maryland Code, both the Retirement System and the Pension System are jointly contributory. Members of the Retirement System contribute 7% of their gross employee compensation. Members of the Pension System contribute 2% of their gross employee compensation. The benefits payable under the State Systems which are not funded by employee contributions are funded entirely by the County.

Funding Status and Progress

Single-Employer Pension Plan

The actuarial accrued liability was determined as part of an actuarial valuation at July 1, 2004 for the County Plan. At July 1, 2004, the unfunded actuarial liability (i.e., actuarial accrued liability less actuarial value of plan assets for the plan) was as follows:

Actuarial accrued liability:	
Active participants.....	\$ 11,411,459
Vested terminated participants	3,767,888
Retired participants, beneficiaries and disabled participants	<u>36,707,243</u>
Total actuarial accrued liability.....	151,886,590
Actuarial value of plan assets	<u>(118,979,144)</u>
Unfunded actuarial liability	<u>\$ 32,907,446</u>

Contributions Required and Made

Single-Employer Pension Plan

Funding policy for the County Plan provides for periodic contributions based upon actuarial valuations. The projected unit credit cost method is the actuarial cost method used to determine the County’s normal cost and the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is being amortized as a level dollar amount over the next two and one half years.

The County’s actual contributions to the plan for fiscal year 2004 of \$8,459,701 were made in accordance with an actuarial valuation made at July 1, 2003.

Cost-Sharing Multiple-Employer Pension Plans

Due to the withdrawal of the County from the State Systems for all hires after June 30, 1993, the State calculated a net unfunded amount due from the County. The liability as of June 30, 2004 was \$5,703,345. Interest and principal payments due at maturity as of June 30, 2004, are \$7,761,096. The County paid the scheduled annual amount of \$862,344 to amortize and pay interest on the liability on December 31, 2004. The County met its required contribution to the State Systems for fiscal year 2004.

Labor Relations

As of June 30, 2004, the County employed 2,177 full-time permanent equivalent employees. The County has a merit system and is not a party to any collective bargaining agreements. Some County employees are members of the Maryland Classified Employees Association or the American Federation of State, County and Municipal Employees. The County has not experienced a work stoppage due to labor relation’s disputes and considers its relationships with employees to be satisfactory.

A majority of Frederick County teachers, who are employed by the Board of Education of Frederick County and not the County (see “Independent Agencies” under this heading), are members of the Frederick County Teachers Association, which negotiates employment agreements with the Board of Education. Such agreements are not binding on the County, which must approve funding for the Board of Education.

Insurance

The County maintains commercial insurance for general liability, automobile, workers’ compensation, law enforcement, public officials’ liability, and catastrophic coverage. The County is required to provide unemployment insurance coverage for County employees.

Leases and Other Contracts

The County is financing the purchase of numerous pieces of telecommunications, highway, and fire and rescue equipment through various lease arrangements to be paid off over the next five years.

The following is a schedule as of March 1, 2005 by fiscal year of the projected future minimum lease payments as of June 30, 2004, for all lease-purchase agreements:

<u>Fiscal</u> <u>Year</u>	<u>Total</u> <u>Payment</u>
2005	\$1,569,041
2006	1,392,883
2007	1,392,882
2008	1,015,947
2009	<u>538,026</u>
Subtotal	5,908,779
Less amount representing interest	<u>(370,444)</u>
Present value-net minimum lease payments	<u>\$5,538,335</u>

Frederick County is committed under various leases for building and office space, the majority of which are cancelable. These leases are considered for accounting purposes to be operating leases. Operating lease expenditures for fiscal year 2004 were approximately \$860,000.

In addition to contracts for goods and services incurred in the ordinary course of business of the County, the County is party to numerous other contracts, primarily with engineers, architects and contractors relating to capital projects. Funds necessary to meet the County’s obligations in respect to such contracts have been appropriated in the Governmental Funds of the County.

Independent Agencies

There are eight independent agencies which submit yearly requests for funding to the County. These requests are subject to the County’s budgetary process and must be approved by the Board. These agencies are the Citizens Nursing Home; the Board of Education; Frederick Community College; the Department of Social Services; the Interagency Internal Audit Authority; the Liquor Commission; the Board of Elections; and Frederick County Public Libraries. Except for the Board of Education and Frederick Community College, whose board members are appointed by the Governor of Maryland, or elected, members of the boards of the remaining agencies are either appointed by the Board or are designated members of other County agencies.

CERTAIN SERVICES AND RESPONSIBILITIES

Through its various departments, offices and related independent agencies (see “COUNTY GOVERNMENT AND ADMINISTRATION”), the County is responsible for supplying the following services:

Education

The Board of Education of Frederick County is responsible for the overall operation and policy decisions of the County’s 60 schools. The Board of Education is comprised of seven members who, prior to November 2000, were appointed by the Governor of Maryland. Members are now elected to serve four-year terms with a two-term limit. The election for the first three members was held on November 7, 2000 and will be held every four years thereafter. The remaining four positions were elected in 2002 and then every four years. As of September 2005, the Board of Education exercised control over 35 elementary, 12 middle schools, 9 high schools, and 4 vocational and special education facilities, accommodating 39,564 students, an increase of 560 from the previous year.

During the 2004-2005 school year, the teacher/student ratio was approximately 1 to 16. In June 2004, 2,612 students received high school diplomas.

The largest General Fund appropriation by the County in its adopted fiscal year 2005 budget is \$175,396,508 for operating expenditures for public education. County appropriations for operating expenditures constituted a 3.94% increase over approved operating expenditures by the County for public education in fiscal year 2004. County funds for educational purposes are requested and appropriated in accordance with categorical classifications delineated by the Education Article of the Maryland Code. County appropriations for capital expenditures for public education are \$60,749,400 in fiscal year 2005. The County expects to receive State aid of \$163,762,332 (including Federal funds pass through of \$16,981,629) and \$9,413,000 for operating and capital expenditures, respectively, for public education in Frederick County during fiscal year 2005.

Frederick Community College is a two-year community college offering three separate curricula: a transfer curriculum for those who wish to obtain a bachelor's degree; an occupational curriculum for those who seek entry-level employment; and a continuing education program for those who wish to upgrade basic skills or occupational skills. During the fall of 2004, 4,648 students enrolled in the academic programs of the College. Additionally, 11,873 students enrolled in non-credit continuing education programs during the 2002-2003 college year, a decrease from 12,377 the year before.

The fiscal year 2005 operating budget for Frederick Community College is \$28,120,918. Of this amount, 38% was appropriated from the County's General Fund. The balance of the College's funding is derived from a combination of State aid, student tuition and other miscellaneous sources. Additionally, the County funds certain capital improvements and renovations annually. New construction funding is usually shared by the County and State. The County's funding of the College's fiscal 2005 capital budget is \$950,000. Fiscal 2004 funding totaled \$805,000.

Hood College and Mount St. Mary's College, private four-year liberal arts colleges, are located within Frederick County, but receive no funding from the County.

Police and Fire

The Frederick County Sheriff's Office provides full service law enforcement services to the citizens of Frederick County. The Sheriff's Office provides law enforcement services to the unincorporated portions of the County, support to municipal law enforcement agencies, security and various other support functions for the courts, and maintains the county detention center.

The Sheriff's Office is divided into two bureaus, the Law Enforcement Bureau consisting of the Administrative Services Division and the Operations Division, and the Corrections Bureau, consisting of Administrative Services, Community Services, Inmate Services, and Security Operations.

The Sheriff's Office is staffed with 374 personnel, 198 within the Law Enforcement Bureau and 176 within the Corrections Bureau.

The Sheriff's Office is also responsible for the operation of the County Adult Detention Center and the Work Release Center. Currently, the bed space for inmates including work release inmates is 463.

The Frederick County Fire Emergency Division ("FED") provides fire, rescue and emergency medical services in conjunction with 26 volunteer fire/rescue companies operating from 30 stations. The FED is comprised of 175 uniformed personnel responding with approximately 1,200 volunteers. Emergency response vehicles include 54 pumpers, 8 aerials, 12 tankers, 9 squads, 30 brush trucks, 33 ambulances, and 7 medic units.

All volunteer companies, except one, receive funding for operating expenses and equipment through the County budget process; one fire company receives an appropriation. Private donations and fundraising remain significant sources of funding for volunteer company vehicles and buildings.

Fire tax districts provide tax revenues for FED firefighters and paramedics and for capital expenditures such as vehicles and stations. The first County-funded station opened in 2002 south of the City of Frederick. Another station is under design for Spring Ridge east of the City of Frederick, and a third station is planned for the north side of the City of Frederick. In January 2003, the County began billing for ambulance service.

In 2001, fire tax districts were consolidated into two districts. The Urban Tax District funds 24-hour career staffing for the greater Frederick area and Green Valley. The Suburban Tax District funds weekday career staffing in all other areas of Frederick County.

The FED's Department of Emergency Communications ("DEC") is comprised of 31 personnel who operate a centralized 911 center and dispatch the County's police agencies and fire/rescue services. In 2002, the DEC relocated, along with the Sheriff's Department and Maryland State Police to the new Law Enforcement Center adjacent to the Frederick Municipal Airport. Emergency Management is also part of the Fire Emergency Division.

Planning and Zoning

The County has maintained a comprehensive planning program since 1956. This program has included long and short range planning, zoning and land use management and preservation functions. The County's planning function is currently administered by a staff of 25 (including 16 professional positions), and an appointed Planning Commission of seven members – six appointed for five-year terms by the Board and one County Commissioner. Planning Commission members are appointed at large and represent a diversity of viewpoints including agriculture, business, professional services, civic groups and environmental perspectives.

The County's Comprehensive Plan (the "Plan") was first adopted in 1959 and has been reviewed periodically, with the latest revision adopted in October 1998. It provides goals and policies for the County's future development as well as recommendations for land use, public services, highways, and utilities including schools, parks, libraries, water and sewer. The Plan is implemented through the County's zoning ordinance, which was last comprehensively updated in 1977 and is currently undergoing a comprehensive review. The County maintains and annually updates a six-year Capital Program of public improvements related to development and service needs; semiannually updates a Master Water and Sewer Plan; and biennially updates a Solid Waste Plan. In December 1991, the County adopted an Adequate Public Facilities Ordinance (amended March 2002) to coordinate the timing of development with the adequacy of public facilities such as schools, roads, and water/sewer. In July 1993, an impact fee was adopted to partially offset the capital costs of new school construction. The impact fee was expanded in January 2001 to include capital costs of library facilities and to provide for an annual adjustment to reflect the construction cost index. The County also has established an Agricultural Preservation Program, which provides for farmland preservation through voluntary farm districts as well as easement acquisitions. See "ECONOMIC AND DEMOGRAPHIC FACTORS – Agriculture".

The County has an active program for the review and update of its planning program and development regulations in order to assure their adequacy and timeliness for future growth. The County has adopted a planning process, which calls for the Plan to be reviewed and updated every five years. The Plan update consists of two major tasks: update of the Countywide Plan, known as Volume I; and update of eight Regional Plans, known as Volume II. A comprehensive update of the Volume I Plan was approved by the Board on October 6, 1998. Two regions are scheduled to be updated each year. The Urbana and New Market Plans were adopted in 1993, the Walkersville and Thurmont Plans in 1995, the Middletown and Brunswick Plans in 1997-1998, the Adamstown Plan in 2001 and the Frederick Region Plan in 2002.

In July 2003, the Board of County Commissioners implemented a new, consolidated Division of Permitting and Development Review. This Division was established to provide for a "one-stop" location for all activities relating to the issuance of building, plumbing, electrical and gaming permits as well as the development plan review function. Staff for this Division was consolidated from the Planning and Zoning, Public Works and Emergency Services Divisions as well as new staff for legal support and Division administration. The consolidated permitting and development review function consists of a staff of 54 (including 23 professional positions) and five appointed Boards. The new Division was established as an enterprise operation with revenues to be generated by permitting and plan review fees.

Roads and Highways

Frederick County is served by I-270 of the federal interstate highway system running northwest from Washington, D.C., to the City of Frederick and I-70 running west from Baltimore to and continuing through Frederick County. U.S. 15 runs north of the City, U.S. 340 runs south of the City and U.S. 40 runs east and west of the City.

The County-owned and maintained road system of approximately 1,247 miles supplements approximately 39 miles of State-maintained and federally aided interstate highways and approximately 350 miles of additional State-maintained primary and secondary roadways serving Frederick County. The County budget includes capital and operating expenditures of \$16,073,540 and \$10,91,015, respectively, for the County's road system in fiscal year 2005. State Highway User Revenues to the County for highway maintenance through State-shared taxes is expected to be \$9,931,000 in fiscal year 2005.

Health

The County provides various health services to its citizens through the Department of Health. The Department of Health, alone or in conjunction with the Maryland Department of Health and Mental Hygiene, is responsible for the enforcement of all State and local health and sanitation laws. The Department of Health also provides services in the areas of nutrition, nursing, maternal and childcare, mental retardation and geriatrics. Pursuant to matching grants, the State reimburses a portion of the Department of Health's operating expenditures.

Nursing Home and Assisted Living Facilities

The County operates a licensed 170-bed intermediate and skilled-care nursing home in the City of Frederick. The occupancy rate is approximately 83%. The primary third-party reimbursement is through Medicaid. Budgeted expenses for fiscal years 2004 and 2005 were \$11,269,156 and \$11,424,931, respectively. The nursing home employs 166 full-time and part-time personnel.

Located adjacent to the nursing home is the Montevue Home, a 60-bed assisted living facility. Montevue provides minimal care with most patients responsible for self-care with the exception of the administration of medication. Budgeted expenses for fiscal years 2004 and 2005 were \$1,797,852 and \$1,921,401, respectively.

Solid Waste

The Division of Utilities and Solid Waste Management is responsible for the operations of the County-owned landfill. The 500 acre landfill property includes the 72 acre Reich's Ford Road Landfill (Site A), the 58 acre Site B and the 17 acre rubblefill. Municipal or private collectors provide trash collection in the County and the Reich's Ford Road Landfill is the primary disposal facility for municipal solid waste generated in Frederick County.

Site A ceased operating in August 1997 and its closure was completed in December 1998. Closure construction included the deployment of a synthetic cap, a landfill gas extraction and collection system, and flaring system. Site A is maintained as an open, grassed space.

To the south of Site A is a closed rubblefill. The County operates a yard waste mulching operation on the rubblefill footprint. Since the County's rubblefill was unlined, it was closed on September 28, 2001, in accordance with State regulations. Rubble is now being accepted and co-disposed at Cell 2 in the Site B landfill along with municipal sanitary waste. Rubblefill closure design and construction project is anticipated to be complete in fiscal year 2005. As a post closure end use, the rubblefill site will be used for yard waste mulching operations.

The State approved Site B permit documents in fiscal year 1995. Site B, adjacent to Site A, includes an 18-acre Cell 1, a 28-acre Cell 2 and a 12-acre Cell 3. The County constructed Cells 1 and 2 at Site B with double composite liner system.

The County owns and operates a Leachate Treatment Plant located between Site A and Site B. This plant collects and treats leachate from both Sites A and B. The County operates a comprehensive Groundwater and Gas Monitoring Program for Sites A, B and the rubblefill.

Cell 1 construction was completed and operational by January 1997. Cell 1 reached its interim capacity in August 2001. Construction of the first half of Cell 2 was completed and operational by August 2001. Construction of the second half of Cell 2 was completed and operational by November 2003. Cell 2 is expected to reach its interim capacity by July 2005. The design of final disposal Cell 3 is in progress with construction to be complete by fiscal year 2005. Cell 3 disposal operations are expected to begin in July 2005.

Construction of Cells 1 and 2 was funded with proceeds from the County's Public Facilities Bonds of 1995 and 2000; respectively. Funding for the Leachate Treatment Plant, Stormwater Diversion Project and Site A Closure Project was from the Maryland Department of the Environment Revolving Loan Program. Proposed Cell 3 Construction and Rubblefill Closure Project has been granted preliminary approval for the Maryland Department of the Environment Revolving Loan Program in fiscal year 2004.

A permanent Transfer Station Siting Study is underway. Transfer Station permitting and design is in progress with construction to be complete by fiscal year 2005.

Effective July 1, 1998, any waste hauler or a municipality may enter into a waste disposal agreement which states that their waste will be disposed of at Site B at a reduced municipal tipping fee of \$40/ton. This lower tipping fee is contingent upon the contract holder bringing all waste collected in Frederick County to the Frederick County disposal facilities. Effective July 1, 2003 the contract tipping rate was increased to \$41/ton per the 1998 agreements. All existing disposal agreements expire by June 1, 2005 and no new disposal agreements are being executed. Effective February 1, 2001, the tipping fee was increased to \$50/ton for both rubble and municipal sanitary waste.

The County's Recycling Program includes curbside collection of approximately 45,000 homes, 12 satellite drop-off locations and 3 yard waste drop-off sites with mulching operation.

Water Supply and Sewage Facilities

The Division of Utilities and Solid Waste Management is responsible for the planning, design, operation and maintenance of the County's water supply and sewerage disposal systems. The County's sanitary utilities are typically provided in unincorporated areas of Frederick County, although in some cases the County does own and operate utilities in incorporated towns or municipalities. Because of source water supply problems, the City of Frederick has requested that the County begin providing a significant portion of the City's current and future water supply. Projects to provide water to the City of Frederick as well as the County's expanding water service areas are underway and are expected to be completed in phases beginning in January 2005. The development of water and sewer infrastructure within Frederick County is controlled by the County's Comprehensive Plan and its subordinate Water and Sewer Plan.

The Division of Utilities and Solid Waste Management is the successor agency to the Frederick County Department of Public Works, Bureau of Water and Sewer. That Department was created when the Frederick County Metropolitan Commission was dissolved on February 14, 1978 as part of a general reorganization of County government. Prior to that date, the Commission had been a separate legal entity authorized to issue general obligation bonds guaranteed by the County to the payment of which the full faith and credit and unlimited taxing power of the County were pledged. The County assumed all obligations of the Commission when the Commission was dissolved. The Commission issued bonds in 1969 and 1975 and the County issued bonds in 1980 and 1986 solely for water and sewer facilities. The County issued bonds in 1987, 1991, 1993, 1995, 1999, 2000, 2002, and 2003 and bond anticipation notes in 1997 partially for water and sewer facilities. Portions of these bond issues (except 1987) are presently outstanding. The bonds issued in 1980 were refunded by the County's General Obligation Public Facilities Bonds of 1991, Series B (the "1991 Series B Bonds".) The bonds issued in 1986 were refunded by the County's General Obligation Public Facilities Refunding Bonds of 1993 (the "1993 Bonds"). A portion of the County's General Obligation Public Facilities Refunding Bonds of 1993 was refunded by the County's Public Facilities Refunding Bonds of 2002, Series A. The Commission bonds issued in 1975, a portion of the bonds issued in 1987 and the 2011 maturity of the 1991 Series B Bonds were refunded by the County's General Obligation Public Facilities Refunding Bonds of 1993, Series C. A portion of the bonds issued in 1995 was refunded with the County's General Obligation Public Facilities Refunding Bonds of 1998, Series A. A portion of the 1997 Bond Anticipation Notes was refunded with the County's Refunding Bonds of 1998, Series A. The 1997 bond anticipation notes were refunded with the County's General Obligation Public Facilities Refunding Bonds of 1999, 2000 and 2002. A portion of the 1991 Series B Bonds was refunded by the County's General Obligation Public Facilities Refunding Bonds of 2001. The County's General Obligation Refunding Bonds of 2003 refunded the 1993 Series C Bonds and a portion of the 1993 Series B Bonds. A portion of the funding for the Ballenger Wastewater Treatment Plant Expansion, New Market Wastewater Treatment Plant Upgrade, Adamstown Heights Pump Station/New Design Road Force Main, Lake Linganore Intake Structure, Braddock Heights/Fountaindale Water Treatment Plant and East County Water Distribution System and Buckeystown Sewerage Conveyance System was received from the Maryland Department of the Environment Revolving Loan Program. See "CERTAIN DEBT INFORMATION".

Frederick County owns and/or operates 16 water treatment plants. The County's two largest treatment facilities rely on surface water while the other 14 facilities rely on ground water. In 2003, approximately 62% or 1,066.5 billion gallons of water came from the Potomac River while 20% or 345.9 million gallons came from Lake Linganore. Sixteen percent or 280.2 million gallons were supplied from deep well sources and 2% or 31.6 million gallons were received from Frederick City.

The County has programmed a major expansion of its Potomac River surface water supply. The engineering and design of a 42 inch water transmission line is under way that will provide up to 30.5 million gallons per day ("MGD") of water transmission capacity from the Potomac River to south of the City of Frederick and east of the Monocacy River. The County is also completing the engineering and expansion of its Potomac River water treatment plant that will expand its treatment capacity from 6.6 MGD to 25 MGD. A portion of this treatment facility expansion and the new transmission line will provide the City of Frederick with up to 8 MGD. The total cost of the project(s) is estimated to be \$76 million of which the County will pay \$49 million and the City will pay \$27.4 million. The first phases of these complementary projects are expected to be complete and operational by calendar year 2005.

The County owns and operates 15 wastewater treatment plants; all but one have a design capacity less than 0.5 MGD. These smaller treatment facilities provide sewer service to individual subdivisions and small incorporated and unincorporated municipalities within Frederick County. The County's largest wastewater treatment plant ("WWTP") is located at the confluence of the Monocacy River and Ballenger Creek. Known as the Ballenger Creek WWTP, this facility has a design capacity of 6.0 MGD. This facility treats wastewater that originates in Ballenger Creek and parts of the developed area east of the Monocacy River. This facility also receives wastewater flow from the County's Monocacy sewage collection system, which is a large sewage conveyance system that serves areas within the City of Frederick as well as areas immediately north of the City of Frederick and the entire Town of Walkersville. Wastewater flow values for the Monocacy system shown in the

table below represent a portion of the total flow treated at the Ballenger Creek WWTP. As of December 31, 2004, the County owned and operated the following sewerage and water systems:

<u>System</u>	<u>Equivalent Dwelling Units Served(3)</u>	<u>Millions of Gallons Per Day</u>	
		<u>Current Flow</u>	<u>Capacity</u>
Sewerage (1)			
Ballenger Creek	21,565	5.391	6.000
Crestview	133	.033	.036
Fountaindale.....	695	.174	.200
Jefferson.....	594	.149	.300
Kemptown Elementary School	5	.001	.005
Knoxville	120	.030	.100
Lewistown Elementary School	11	.028	.022
Libertytown.....	138	.035	.050
Mill Bottom	246	.061	.100
Monrovia.....	301	.075	.200
New Market	284	.071	.240
Pleasant Branch.....	141	.035	.100
Point of Rocks.....	489	.122	.230
Urbana High School.....	11	.003	.030
White Rock	52	.013	.050
Water (2)			
Bradford Estates.....	58	.015	.050
Cambridge Farms.....	213	.053	.060
Cloverhill III	273	.068	.140
Copperfield	121	.030	.073
Fountaindale.....	1,082	.027	.200
Lake Linganore	4,047	1.012	2.000
Liberty East.....	24	.006	.008
Liberty West and Liberty Condos.....	11	.003	.029
New Design.....	13,803	3.451	6.600
Pleasant Branch.....	224	.056	.100
Point of Rocks.....	353	.088	.120
Sam Hill	308	.077	.100
Urbana.....	7	.002	.040
White Rock	95	.024	.050
Woodspring.....	229	.057	.075

(1) Average daily value based on 2004 flow data.

(2) Average daily value based on 2004 flow data.

(3) Based on 250 gallons per unit per day.

Source: Frederick County Division of Utilities and Solid Waste Management.

Parks and Recreation

The Parks and Recreation Bureau provides for acquisition and development of a County-wide park system, including those of local, regional, and stream-valley nature; develops and manages various community recreation programs; and maintains County grounds.

There are four State parks in Frederick County: Cunningham Falls State Park, Gambrill State Park, Gathland State Park and Washington Monument State Park. Federal recreation areas include Monocacy National Battlefield, Sugarloaf Mountain, C&O Canal Towpath and Catoclin Mountain National Park (the site of the presidential retreat, Camp David).

ECONOMIC AND DEMOGRAPHIC FACTORS

Frederick County is included as a part of the Washington, D.C. Maryland Virginia Metropolitan Statistical Area (“Washington MSA”). The Maryland portion of the Washington MSA includes the following counties: Calvert, Charles, Frederick, Montgomery and Prince George’s.

Population of Frederick County, Municipalities and the State of Maryland

Between 1950 and 2000, the U.S. Census Bureau tabulated population of Frederick County increased approximately 214%. Frederick County has provided estimates for the years between the U.S. Census Bureau reports.

<u>Year</u>	<u>Population of Frederick County</u>
2000.....	195,277
1995.....	176,044
1990.....	150,208
1985.....	127,860
1980.....	114,792
1970.....	84,927
1960.....	71,930
1950.....	62,287

Source: U.S. Department of Commerce, U.S. Census Bureau.
Frederick County Department of Planning and Zoning.

The following table sets forth Frederick County’s 12 incorporated municipalities and their populations for the Census years 1970, 1980, 1990, and 2000.

<u>Municipalities</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Brunswick.....	3,566	4,572	5,117	4,894
Burkittsville.....	221	202	194	171
Emmitsburg.....	1,532	1,552	1,870	2,290
Frederick.....	23,641	28,086	40,186	52,767
Middletown.....	1,262	1,748	1,834	2,668
Mount Airy (1).....	514	540	1,497	2,967
Myersville.....	450	432	464	1,382
New Market.....	339	306	374	427
Rosemont.....	250	305	256	273
Thurmont.....	2,359	2,934	3,398	5,588
Walkersville.....	1,269	2,212	4,145	5,192
Woodsboro.....	439	506	513	846

(1) Mount Airy is located partly within Carroll County and partly within Frederick County and the data set forth above include only the Frederick County portion.

Source: U.S. Department of Commerce, U.S. Census Bureau; Frederick County Department of Planning and Zoning.

Frederick County's growth in the decade from 1990 to 2000 as compared with the State and other Maryland counties is shown below:

Population of the State of Maryland and Subdivisions

<u>Subdivision</u>	<u>2000 Population</u>	<u>1990 Population</u>	<u>Percent Change</u>
Maryland	5,296,486	4,780,753	10.8%
Allegany	74,930	74,946	0.0
Anne Arundel	489,656	427,239	14.6
Baltimore City	651,154	736,014	-11.5
Baltimore County	754,292	692,134	9.0
Calvert	74,563	51,372	45.1
Caroline	29,772	27,035	10.1
Carroll	150,897	123,372	22.3
Cecil	85,951	71,347	20.5
Charles	120,546	101,154	19.2
Dorchester	30,674	30,236	1.4
Frederick	195,277	150,208	30.0
Garrett	29,846	28,138	6.1
Harford	218,590	182,132	20.0
Howard	247,842	187,328	32.3
Kent	19,197	17,842	7.6
Montgomery	873,341	762,207	14.6
Prince George's	801,515	723,373	10.8
Queen Anne's	40,563	33,953	19.5
St. Mary's	86,211	75,974	13.5
Somerset	24,747	23,440	5.6
Talbot	33,812	30,549	10.7
Washington	131,923	121,393	8.7
Wicomico	84,644	74,339	13.9
Worcester	46,543	35,028	32.9

Source: U.S. Department of Commerce, U.S. Census Bureau.

Income

Median household effective buying income in Frederick County was estimated at \$51,279 for the calendar year 2004. The median household effective buying income for the other counties in the Maryland portion of the Washington Region and the State are estimated as follows:

Median Household Effective Buying Income*

	<u>2004</u>
Calvert County	\$55,570
Charles County	52,385
Frederick County	51,279
Montgomery County	59,508
Prince George's County	46,618
State of Maryland	45,879

* Effective buying income is defined as money income less personal tax and non-tax payments.

Source: *Sales and Marketing Management, 2004 Survey of Buying Power and Media Markets* (A VNU Publication: September 2004). Copyrighted.

Comparative statistics relating to the distribution of calendar year 2004 effective buying income are presented in the following table:

	<u>Frederick County</u>	<u>Maryland</u>	<u>U.S.</u>
\$ 0–19,999.....	11.8%	16.7%	24.4%
20,000–34,999.....	17.0	19.8	23.2
35,000–49,999.....	19.7	18.8	19.5
50,000 and over.....	51.5	44.7	35.0

Source: *Sales and Marketing Management, 2004 Survey of Buying Power and Media Markets* (A VNU Publication: September 2004).
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The experience of personal income growth in Frederick County, the State and the United States is shown in the two following tables:

**Frederick County, State of Maryland and United States
Average Per Capita Personal Income**

<u>Calendar Year</u>	<u>Frederick County</u>	<u>Percent Change from Previous Year</u>	<u>State of Maryland</u>	<u>Percent Change from Previous Year</u>	<u>United States</u>	<u>Percent Change from Previous Year</u>
2002.....	\$34,478	5.1%	\$36,303	2.7%	\$30,906	1.2%
2001.....	34,302	4.9	35,355	3.2	30,527	2.3
2000.....	32,693	8.9	34,257	7.7	29,847	6.8
1999.....	29,999	4.2	31,796	4.9	27,939	3.9
1998.....	28,800	6.3	30,317	5.8	26,883	6.1

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, May 2004.

**Frederick County and State of Maryland
Total Personal Income**

<u>Calendar Year</u>	<u>Personal Income (\$000's)</u>		<u>Percent Change from Previous Year</u>	
	<u>Frederick County</u>	<u>State of Maryland</u>	<u>Frederick County</u>	<u>State of Maryland</u>
2002.....	\$7,214,897	\$197,868,861	3.9	3.9%
2001.....	6,946,996	190,331,297	8.1	4.6
2000.....	6,427,226	181,957,207	11.8	8.9
1999.....	5,748,060	167,074,691	6.6	5.9
1998.....	5,389,773	157,783,778	8.5	6.7

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, May 2004.

Personal income levels for Frederick County residents from 1997 to 2001 show a significant increase as measured by the number of income tax returns with adjusted gross income levels over \$50,000 filed with the Maryland Comptroller of the Treasury. Listed below is a five-year comparison of the experience for the subdivisions constituting the Maryland portion of the Washington MSA and the State of Maryland.

Adjusted Gross Income in Excess of \$50,000

	<u>2001 Number of Returns</u>	<u>1997 Number of Returns</u>	<u>Percent Increase</u>
Calvert County.....	14,436	10,607	36.1%
Charles County.....	20,629	15,501	33.1
Frederick County.....	36,971	26,347	40.3
Montgomery County.....	170,882	140,510	21.6
Prince George's County.....	106,476	83,711	27.2
State of Maryland.....	797,870	624,871	27.7

Source: Comptroller of the Treasury, Income Tax Summary Report, Tax Years 1997 and 2001.

Education

Survey results of the number of high school students in the Maryland portion of the Washington Region and the State as a whole who graduated in 2003, as a percentage of their ninth grade enrollment four grades earlier, are presented below:

Calvert County.....	87.7%
Charles County.....	85.2
Frederick County.....	94.6
Montgomery County.....	91.9
Prince George's County.....	86.7
State of Maryland.....	74.5

Source: Graduation Statistics and Holding Power: Maryland Public Schools: 2002-03, Maryland State Department of Education.

The following table sets forth the years of school completed by persons 25 years of age or older as a percentage of the population described in the 2000 Census for Frederick County and the other counties in the Maryland portion of the Washington Region and the State of Maryland.

	<u>Calvert</u>	<u>Charles</u>	<u>Frederick</u>	<u>Montgomery</u>	<u>Prince George's</u>	<u>State</u>
Elementary (grades K-8).....	3.1%	4.0%	4.2%	4.4%	4.7%	5.1%
High School						
1-3 years.....	9.9	10.1	8.7	5.3	10.4	11.1
4 years.....	34.4	33.4	30.1	14.5	27.3	26.7
College						
No degree.....	24.3	25.9	20.5	16.7	25.0	20.3
Associate degree.....	5.8	6.5	6.5	4.6	5.5	5.3
Bachelor's degree.....	14.2	13.2	18.9	27.1	16.9	18.0
Graduate/Professional degree.....	8.3	6.8	11.1	27.5	10.2	13.4

Source: Table DP-2. Profile of Selected Social Characteristics: 2000. U.S. Bureau of the Census, Census 2000.

Retail Sales

Retail sales (\$000's) by store group as measured by the 2004 Survey of Buying Power and Media Markets are listed below for the counties in the Maryland portion of the Washington Region and the State of Maryland:

	<u>Food & Beverage Stores</u>	<u>Food Serv. & Drinking Estab.</u>	<u>General Merch.</u>	<u>Furnit. & Home Furnish. and Electron. & Appliances</u>	<u>Motor Veh. & Parts Dealers</u>	<u>Miscellaneous</u>	<u>Total Retail Sales</u>
Calvert County.....	\$ 236,897	\$ 94,254	\$ 60,459	\$ 24,688	\$ 116,108	\$ 198,553	\$ 730,959
% of Total.....	32.4%	12.9%	8.3%	3.4%	15.9%	27.2%	
Charles County.....	259,397	202,207	366,420	155,786	396,259	748,570	2,128,639
% of Total.....	12.2	9.5	17.2	7.3	18.6	44.6	
Frederick County.....	620,210	260,488	436,948	241,362	939,551	1,647,241	4,145,800
% of Total.....	15.0	6.3	10.5	5.8	22.7	39.7	
Montgomery County.....	2,390,529	1,238,440	1,374,908	937,599	3,700,431	4,002,317	13,644,224
% of Total.....	17.5	9.1	10.1	6.9	27.1	29.3	
Prince George's County.....	1,751,958	788,345	899,891	661,107	2,090,768	2,561,962	8,754,031
% of Total.....	20.0	9.0	10.3	7.5	23.8	29.3	
State of Maryland.....	13,341,447	7,308,060	8,517,916	4,417,869	17,301,292	25,493,708	76,380,292
% of Total.....	17.5	9.6	11.2	5.8	22.6	33.4	

Source: *Sales and Marketing Management, 2004 Survey of Buying Power and Media Markets* (A VNU Publication: September 2004). Copyrighted.

Retail sales as measured by the growth in retail sales and use tax collections have experienced a steady gain between fiscal years 2003 and 2004. Listed below is the comparison of the experience of the counties in the Maryland portion of the Washington Region and the State of Maryland.

Retail Sales and Use Tax Collections
(\$000's)

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>	<u>Percent Increase</u>
Calvert County	\$22,481	\$20,653	8.9%
Charles County	72,570	66,769	8.7
Frederick County	115,560	102,443	12.8
Montgomery County	403,709	378,520	6.7
Prince George's County	353,751	322,329	9.7
State of Maryland	2,969,441	2,737,241	8.5

Source: State of Maryland, Consolidated Revenue Reports for fiscal years 2003 and 2004.

Business, Employment and Labor

In the following table, annual average statistics are provided relating to the distribution of employment in Frederick County by employer classification for the third quarter of 2004. These figures exclude railroad, domestic service, self-employed, agricultural and unpaid family workers:

Business and Employment Composition

<u>Classification</u>	<u>Number of Reporting Units</u>	<u>Percent of Total*</u>	<u>Quarterly Average Employment</u>	<u>Percent of Total*</u>
Natural Resources and Mining	50	0.1%	560	0.1%
Construction	1,003	18.0	10,217	10.0
Manufacturing	191	4.0	6,536	8.0
Trade/Transportation/Utilities	1,088	30.0	16,005	18.0
Information	93	2.0	1,606	2.0
Financial Activities	460	8.0	7,960	9.0
Professional and Business Services	1,083	20.0	12,137	13.0
Education and Health Services	541	11.0	10,352	12.0
Leisure and Hospitality	410	7.0	8,291	9.0
Other Services	472	8.0	3,207	3.0
Unclassified	<u>28</u>	<u>4.0</u>	<u>36</u>	<u>0.4</u>
Total – Private Sector	5,419	98.0	76,905	85.0
Local Government	71	0.2	7,942	11.0
State Government	7	0.1	603	.1
Federal Government	<u>56</u>	<u>1.0</u>	<u>3,195</u>	<u>4.0</u>
Total	<u>5,553</u>	<u>100.0%</u>	<u>88,646</u>	<u>100.0%</u>

* Totals may not add due to rounding.

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, "Employment and Payrolls, Third Quarter 2004."

Listed below are the 10 largest employers as of July 2004, exclusive of the local government located in Frederick County:

Ten Largest Employers in Frederick County

<u>Employer</u>	<u>Principal Products or Activities</u>	<u>July 2004 Employment</u>
Fort Detrick Campus	Research/Telecommunications	7,300*
Frederick Memorial Healthcare System.....	Comprehensive health care	2,270
Wells Fargo Home Mortgage.....	Mortgage servicing	1,700
Mid-Atlantic Medical Services, Inc.	Insurance	1,565
Bechtel	Telecommunications	1,457
Frederick Community College.....	Two-year college	1,137
State Farm Insurance.....	Insurance, regional headquarters	1,000
NVR Building Products	Wood building products	710
ALCOA-Eastalco Works.....	Aluminum manufacturing	659
Bank One.....	Operations center	640

* Includes military personnel.

Source: Frederick County Office of Economic Development.

The following table indicates the Frederick County's unemployment rate as compared with the other counties of the Maryland portion of the Washington Region, the State and the United States for the years 2000 -2004, as well as the two month average for 2005.

Average Annual Unemployment Rate

	<u>2005*</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Calvert County.....	3.6%	2.7%	3.0%	2.7%	2.5%	2.6%
Charles County	3.5	2.9	3.1	2.9	2.5	2.6
Frederick County	3.4	2.7	3.1	2.9	2.7	2.2
Montgomery County.....	3.4	2.3	2.6	2.8	2.3	1.9
Prince George's County.....	4.7	4.2	4.3	4.7	4.8	4.0
State of Maryland.....	4.6	4.0	4.5	4.4	4.0	3.8
United States.....	5.2	5.5	6.0	5.8	4.7	4.0

*January -February 2005 average.

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information.
U.S. Bureau of Labor Statistics.

The number of persons living in Frederick County who were available for work and composed the work force totaled 118,849 in February, and the total employment for this force was 114,700, resulting in an unemployment rate of 3.4% for this period. Certain comparative unemployment rates are given below for February 2005.

Calvert County.....	3.5%
Charles County	3.6
Frederick County	3.4
Montgomery County.....	3.4
Prince George's County.....	4.7
State of Maryland.....	4.2
United States.....	5.4

Source: "State of Maryland. Civilian Labor Force, Employment, and Unemployment by Place of Residence, February 2005."
Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information.

Commuting Patterns

The 2000 Census survey determined the work commuting patterns for workers 16 years and older for the labor forces of each of Maryland's counties and the City of Baltimore. Comparative figures for workers commuting outside the county of residence for the subdivisions in the Maryland portion of the Washington MSA are presented below:

Calvert County	60.6%
Charles County.....	59.8
Frederick County	41.1
Montgomery County	41.3
Prince George's County	60.8

Source: Census 2000 Summary File 3 (SF 3) – Sample Data, U.S. Census Bureau.

Agriculture

Agriculture is one of the largest industries in Frederick County, with 53% of the total land acreage dedicated to farmland. According to the most recent U.S. Census of Agriculture (1997), there are 1,304 farms located in Frederick County with an average size of 166 acres each. Dairy farming is the major type of farming, and Frederick County is the largest producer of dairy products in the State. Frederick County provides one-third of all milk for the State and is the third largest producer of milk in the mid-Atlantic region. Frederick County leads the State in the production of dairy products, hay, turkeys and ornamental fish and in the number of cattle sold.

Dedicated to farmland preservation, the County is a participant in the Maryland Agricultural Land Preservation Program. This program provides for the voluntary creation of agricultural preservation districts as well as the purchase of development rights easements. As of March 4, 2005, Maryland Agricultural Preservation Foundation (MALP) easements have been purchased on 16,108 acres with an additional 8,297 acres under the 5 year district status. In combination with County and State Land Preservation Programs, there are protective easements on 29,328 acres. The County is now in the third year of an agricultural land preservation installment purchase program which has purchased easements to protect an additional 4,582 acres and projects to preserve another 4,000 acres by June 2005.

Economic Development

The County is made up of a diverse business community and supports and cultivates the growth of entrepreneurship. The County provides a supportive and business friendly climate as well as a strategic location, a highly skilled and well-educated workforce, an award winning educational system and an array of business associations and agencies to assist and foster the growth and success of businesses

The County created 28% of the new jobs created in Maryland from second quarter 2001 to 2004. The County had the second highest number of new jobs created for the State of Maryland. The industries that saw the most growth in employment in the private sector were the financial activities, professional and business services, and the information sectors. The average wage per worker was \$675 up 13.45% from second quarter 2001. In 2004, the annual average unemployment rate for the County was 2.7%, which is significantly lower than the state of Maryland's unemployment rate of 4.0%.

The County's first business incubator, the Frederick Innovative Technology Center (FITCI), was established in 2004 and located on the Hood College campus near Fort Detrick. This new technology incubator will help to facilitate technology transfer between Fort Detrick and the County's emerging technology companies.

The County has experienced growth in the bioscience industry. The growth is part of the County's access to the Washington-Baltimore area's public and private high tech facilities and to Fort Detrick. Fort Detrick is home of the National Cancer Institute and the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID), which is the lead medical research laboratory for the nation's biological defense program

To support the local technology and bioscience businesses, the County has formed its own chapter of the Technology Council of Maryland (TCM). The Frederick Network of the TCM supports the advanced technology and life science companies and coordinates educational and networking events throughout the year.

The manufacturing industry represents approximately 9% of the private sector employment and the top four manufacturing sectors are printing and publishing, industrial machinery and equipment, electrical and electronic equipment and the primary metal industries. The manufacturing sector started to see an increase in employment from second quarter 2003 to 2004.

Transportation

CSX Corporation, Maryland Midland Shortline, and 34 truck lines provide railroad and truck freight service to Frederick County. Regular rail passenger service is provided by Amtrak and the Maryland Railroad Administration to Washington, D.C. Regular passenger bus schedules are maintained by Greyhound Corporation. The Frederick Municipal Airport is served by a common carrier as well as by private, industrial, and charter aviation. Three major airports are within a 45 minutes drive of the County – Dulles International, Reagan National and Baltimore-Washington International.

Utilities

Electric power in Frederick County is provided by the Allegheny Power Company, an operating unit of the Allegheny Power System, and Thurmont Municipal Light Company, which serves the incorporated town of Thurmont. Natural gas service is provided by the Frederick Gas Company, a subsidiary of the Washington Gas Company, and South Penn Gas Company, which services the incorporated town of Emmitsburg.

Health Care

Frederick Memorial Healthcare System (“FMH”) is a not-for-profit healthcare delivery system serving Frederick County and the surrounding area. FMH operates from multiple sites in Frederick County including an acute care hospital licensed for 224 beds with 350 physicians on staff.

FMH operations include a Regional Cancer Therapy Center, FMH Rose Hill, Corporate Occupational Health, the Glade Valley Nursing and Rehabilitation Center, Home Health Services, Hospice of Frederick County, FMH Diabetes Center, Home Medical Equipment, FMH Wellness Center, FMH Diagnostic Center, and two Immediate Care Centers, which provide walk-in care for non-life threatening cases.

Recreation and Leisure

There are many historical and cultural attractions in Frederick County that include Hessian barracks located on the grounds of the Maryland School for the Deaf, the Barbara Fritchie House, the Children’s Museum of Rose Hill Park, Francis Scott Key Monument and Grave, Roger Brooke Taney House/Francis Scott Key Museum, the Historical Society of Frederick County, the Delaplaine Visual Arts Center, Weinberg Center for the Arts, Seton Shrine Center, the Grotto of Lourdes, Lily Pons Water Gardens, Brunswick Railroad Museum, covered bridges and antiques shopping.

The National Museum of Civil War Medicine is located in the City of Frederick. During the Civil War, the City of Frederick, a busy crossroads on America’s first National Road and first railroad, was witness to three Confederate invasions, 38 skirmishes and two major battles (South Mountain, part of the Maryland Campaign of 1862 and Monocacy, the battle that saved Washington) as thousands of Federal and Confederate soldiers marched through the community.

The Appalachian Trail which runs from Georgia to Maine roughly follows the western boundary of Frederick County and skirts the Gathland State Park which contains the first monument to war correspondents. Frederick County is also home to professional baseball; the Frederick Keys, a Class A minor league team of the Baltimore Orioles, play in the Harry Grove Stadium in the City of Frederick.

Construction Activity

Construction activity as illustrated by the number of building permits issued and their estimated value is reflected below. This table reflects building activity in Frederick County including the incorporated municipalities:

**Building Permits
Year Ending December 31**

	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>	
	<u>Issued</u>	<u>Value (000's)</u>	<u>Issued</u>	<u>Value (000's)</u>	<u>Issued</u>	<u>Value (000's)</u>	<u>Issued</u>	<u>Value (000's)</u>	<u>Issued</u>	<u>Value (000's)</u>
Residential	1,558	\$220,400	1,924	\$374,304	1,605	\$284,486	2,072	\$265,192	3,005	\$395,110
Other	5,679	286,942	5,428	139,551	5,067	55,152	4,564	108,216	4,766	93,504
Total.....	<u>7,237</u>	<u>\$507,342</u>	<u>7,352</u>	<u>\$513,855</u>	<u>6,672</u>	<u>\$339,638</u>	<u>6,636</u>	<u>\$373,408</u>	<u>7,771</u>	<u>\$488,614</u>

Source: Frederick County Department of Planning and Zoning.

Housing

The number of dwelling units completed in Frederick County, including the incorporated municipalities, for the five most recent available calendar years are listed below:

	<u>Single Family</u>	<u>Multi-Family</u>	<u>Total</u>
2004			
2003	1,648	276	1,924
2002	1,373	232	1,605
2001	1,837	332	2,169
2000	2,700	218	2,918

Source: Frederick County Department of Planning and Zoning.

The age of the County's housing stock was determined by the 2000 Census survey to be relatively low. A comparison of housing units in the Maryland portion of the Washington MSA and the State of Maryland is set forth below:

	<u>Calvert</u>	<u>Charles</u>	<u>Frederick</u>	<u>Montgomery</u>	<u>Prince George's</u>	<u>State</u>
10 years old and under	37.4%	27.9%	28.3%	14.7%	15.6%	16.8%
11-20 years old.....	23.1	25.8	21.3	23.2	14.5	17.2
Over 20 years old	39.4	46.5	50.4	62.2	69.9	66.1

Source: Table DP-4. Profile of Selected Housing Characteristics: 2000. U.S. Bureau of the Census, Census 2000.

Land Use

Frederick County's land use is predominantly agricultural and woodland, with about 67,650 acres or 15.9% having been developed. The following table shows land use within Frederick County as of January 1, 2000:

	<u>Acres</u>	<u>Percentage</u>
Residential	46,802	11.0%
Commercial.....	3,829	0.9
Industrial	5,957	1.4
Government and Utilities.....	11,062	2.6
Parks, Wooded and Open Space	88,498	20.8
Agricultural and Undeveloped.....	<u>269,324</u>	<u>63.3</u>
Total.....	<u>425,472</u>	<u>100.0%</u>

Source: Frederick County Department of Planning and Zoning.

BUDGET AND ACCOUNTING

The County budget is comprised of the Current Expense Budget ("General Fund Budget"), the Capital Budget, and the Capital Program (a six year plan). Budgets are also adopted for Special Revenue, Enterprise and Internal Service Funds. The formulation of the County's budget is the responsibility of the Director of Finance, a County official appointed by the Board. Public local law requires the budget (1) to be adopted by the Board prior to the beginning of the fiscal year, and (2) to be in balance at the end of the fiscal year.

General Fund Budget

The General Fund Budget is prepared and submitted to the Board by the Director of Finance based on estimated revenues and expenditures of operations submitted by the County departments and agencies for the ensuing fiscal year. As submitted to the Board, the General Fund Budget must contain: the current fiscal year's estimated fund balance in excess of 5% of the General Fund expenditures and transfers to the Board of Education, Frederick Community College, and Frederick County Public Libraries on a budgetary basis for the prior fiscal year, if any; estimates of receipts from taxes at a rate sufficient to balance said budget; recommended appropriations for current expenditures for each department or agency, and for other purposes; and amounts sufficient to meet all general obligation debt service requirements for the next fiscal year, including portions of the Capital Program to be financed out of current revenues during said fiscal year.

Capital Budget and Capital Program

The Capital Budget is the County's plan to receive and expend funds for capital projects during the ensuing fiscal year. The Capital Program sets forth the County's plan of proposed capital projects to be undertaken in the ensuing fiscal year and the next five fiscal years and the proposed means of financing such projects. The Capital Budget and Capital Program are prepared by the Finance Division in cooperation with the Planning Division from submissions by the County departments and agencies and must be approved by the Board. The portion of the cost of the Capital Budget that is to be paid from current expense funds may be included in the General Fund Budget.

No department or agency of County government may, during any fiscal year, expend or contract to expend any money or incur any liability or enter into any contract which by its terms involves the expenditure of money in excess of the amounts appropriated or allocated for the same general classification of expenditure in the budget for such fiscal year, or in any line item transfer approved by the Board; and no payment may be made nor any obligation or liability incurred which has not been provided for in the Capital Budget. No funds resulting from the issuance of bonds, certificates of indebtedness, notes or other obligations of the County may be expended for any project or projects not expressly set forth in the Capital Budget. Transfer of appropriations among the items set forth therein may be authorized with the approval of the Board.

Accounting System

The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate fiscal and accounting entity. The financial position and operations of each fund are accounted for with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions, or limitations.

Fund Structure

The revenues and receipts of the County are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. The various funds are identified in the financial statements of the County included herewith as Appendix A.

The fund types used by the County are: Governmental Funds, which include the General Fund, the Special Revenue Funds, and the Capital Project Fund; Proprietary Funds, which include the Enterprise Funds and Internal Service Fund; and Fiduciary Funds, which include Agency and Pension Trust Funds. Details of the County's fund structure are set forth in the notes to the financial statements included herewith as Appendix A.

Basis of Accounting

The financial operations of the Governmental Funds are maintained on the modified accrual basis of accounting. Under this method of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded at the time liabilities are incurred, except for interest on long-term debt which is considered an expenditure when due and accrued annual leave which is considered an expenditure when paid. In addition, an encumbrance system is employed in the General, Special Revenue, and Capital Project Funds to account for expenditure commitments resulting from approved purchase orders and contracts.

The financial operations of the Proprietary, Agency, and Pension Trust Funds are maintained on the accrual basis of accounting, in which all revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (the "GFOA") has awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its Comprehensive Annual Financial Report ("CAFR") for fiscal year 2003. This was the twenty-second year that the County has received this prestigious award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The County intends to continue to conform its CAFR to the Certificate of Achievement program requirements and has submitted the CAFR for the fiscal year ended June 30, 2004 to the GFOA.

CERTAIN REVENUES AND EXPENDITURES

General

The County's principal source of General Fund revenue is taxes, which comprise \$306.8 million of the total budgeted revenues in fiscal year 2005.

In accordance with the general practice of Maryland governmental units and as discussed under "BUDGET AND ACCOUNTING - Fund Structure", the County records its transactions under various funds. The largest of these funds is the General Fund, from which all general expenses of County government are paid and to which taxes and other revenues not specifically directed by law to be deposited in special funds, are deposited. In addition to the General Fund, several special revenue funds receive revenues from particular sources for specific purposes, all as prescribed by law.

The following table indicates the County's General Fund revenues and expenditures for the fiscal years 2000-2004:

**Frederick County, Maryland
General Fund
Revenues and Expenditures – Budgetary Basis**

	Fiscal Year				
	2004	2003	2002 <u>Restated</u>	2001	2000
Revenues					
Property Taxes	\$152,677,680	\$144,707,212	\$136,783,793	\$129,149,170	\$111,643,136
Local Taxes	157,755,202	150,574,499	127,432,092	101,013,500	91,535,471
Licenses and Permits	847,080	2,294,473	2,202,833	2,211,075	1,986,857
Grants from Federal Government	17,986	47,909	60,200	40,590	36,734
Grants from State Government	10,531,860	13,506,458	14,209,962	13,045,873	12,095,547
Service Charges	4,441,562	12,171,162	11,374,472	10,031,575	8,917,426
Fines and Forfeitures	330,147	109,664	173,627	130,530	143,687
Investment Earnings	1,711,865	1,931,265	3,379,001	7,316,350	6,519,189
Miscellaneous	1,828,978	1,073,243	1,357,489	1,333,176	900,650
Total Revenues	<u>330,142,360</u>	<u>326,415,885</u>	<u>296,973,469</u>	<u>264,271,839</u>	<u>233,778,697</u>
Other Financing Sources	2,019,481	-	-	-	-
Total Revenues and Other Financing Sources	332,161,841	326,415,885	296,973,469	264,271,839	233,778,697
Expenditures:					
Current					
General Government	23,374,028	24,748,896	23,390,829	22,052,027	20,551,398
Public Safety	33,519,617	32,206,829	30,711,310	27,844,406	25,378,958
Public Works	12,644,580	12,460,331	11,810,948	11,155,183	10,475,455
Public Health	2,942,168	5,659,254	5,328,692	4,696,301	4,025,271
Public Welfare	4,781,956	2,489,243	2,322,706	2,374,106	1,690,285
Education	200	200	200	200	200
Recreation and Culture (excluding Library)	2,934,693	2,796,539	2,714,675	2,446,365	2,177,541
Public Service Enterprises	2,991,194	2,709,615	2,722,360	2,855,130	2,613,286
Miscellaneous	1,768,774	2,930,385	2,478,406	3,431,184	1,653,626
Intergovernmental					
Tax Equity	4,414,069	3,817,236	3,045,698	2,153,756	1,749,478
Property Tax Grants to Municipalities	49,273	49,273	49,273	49,273	49,273
Debt Service					
Principal	9,600,823	9,088,934	9,186,074	8,296,892	5,413,634
Interest	8,541,763	8,073,085	8,181,868	7,939,609	5,599,777
Total Expenditures	<u>107,563,138</u>	<u>107,029,820</u>	<u>101,943,039</u>	<u>95,294,432</u>	<u>81,378,182</u>
Other Financing Uses:					
Transfer to					
Grants Revenue Fund	5,331,967	6,890,825	5,081,635	4,586,664	3,852,254
Agriculture Preservation Fund	530,134	1,100,000	1,204,983	1,204,983	1,064,855
Economic Development Loans	-	-	76,495	86,095	86,095
Capital Projects Fund	19,725,275	21,275,615	16,603,842	15,943,050	17,738,950
Internal Service Fund-Fleet Services	220,000	-	-	-	-
Enterprise Fund – Citizens Nursing Home	1,843,738	1,279,613	832,499	1,137,281	1,005,574
Enterprise Fund – Montevue Home	1,209,551	1,162,046	1,036,269	949,298	850,881
Enterprise Fund – Permitting & Development Review	410,309	-	-	-	-
Enterprise Fund – Solid Waste	3,442,732	-	-	-	-
Board of Education	168,631,808	156,583,145	148,616,400	134,810,192	121,652,968
Community College	10,783,417	9,417,536	8,706,336	7,514,336	6,910,562
Library	5,053,300	4,714,379	4,135,059	3,567,771	3,014,489
Total Other Financing Uses	<u>217,182,231</u>	<u>202,423,159</u>	<u>186,293,518</u>	<u>169,799,670</u>	<u>156,176,628</u>
Total Expenditures and Other Financing Uses	<u>324,745,369</u>	<u>309,452,979</u>	<u>288,236,557</u>	<u>265,094,102</u>	<u>237,554,810</u>
Excess (Deficiency) of Revenues Over Expenditures					
And Other Financing Uses	<u>7,416,472</u>	<u>16,962,906</u>	<u>8,736,912</u>	<u>(822,263)</u>	<u>(3,776,113)</u>
Residual Equity Transfer from other funds	-	-	-	593,000	200,000
Change in Fund Balance	<u>\$ 7,416,472</u>	<u>\$ 16,962,906</u>	<u>\$ 8,736,912</u>	<u>\$ (229,263)</u>	<u>\$ (3,576,113)</u>

Source: Frederick County Finance Division.

The following table summarizes General Fund revenues and expenditures for fiscal year 2004, amended budget for fiscal year 2005 as of December 31, 2004, and actual unaudited operations from July 1, 2004 to December 31, 2004. This information is presented on a budgetary basis.

	<u>Audited Fiscal Year 2004</u>	<u>Amended Budget Fiscal Year 2005 as of December 31, 2004</u>	<u>Actual Unaudited Operations July 1, 2004 to December 31, 2004</u>
Revenues:			
Property Taxes	\$ 152,677,680	\$ 162,633,000	\$ 162,982,832
Local Taxes.....	157,755,202	140,778,520	50,041,600
Licenses and Permits.....	847,080	733,000	343,663
Grants from Federal Government	17,986	45,000	-
Grants from State Government	10,531,860	12,943,000	5,222,912
Service Charges	4,441,562	3,882,832	2,293,829
Fines and Forfeitures.....	330,147	219,500	85,692
Investment Earnings.....	1,711,865	1,075,000	337,165
Miscellaneous	<u>1,828,978</u>	<u>1,753,719</u>	<u>641,692</u>
Total Revenues	330,142,360	324,063,571	221,949,385
Other Financing Sources.....	<u>2,019,481</u>	<u>18,758,339</u>	<u>18,758,339</u>
Total Revenues and Other Financing Sources.....	<u>332,161,841</u>	<u>342,821,910</u>	<u>221,949,385</u>
Expenditures:			
Current:			
General Government.....	23,374,028	26,792,053	12,080,628
Public Safety	33,519,617	37,561,699	20,204,674
Public Works.....	12,644,580	13,956,744	7,295,564
Public Health.....	2,942,168	3,344,271	1,480,904
Public Welfare	4,781,956	5,385,770	2,570,993
Education	200	102,000	50,000
Recreation and Culture (excluding Library).....	2,934,693	3,311,048	1,621,020
Public Service Enterprises	2,991,194	2,998,133	1,312,040
Miscellaneous	1,768,774	2,073,353	317,073
Intergovernmental			
Tax Equity	4,414,069	4,798,018	2,412,906
Property Tax Grants to Municipalities	49,273	50,000	21,605
Debt Service			
Principal.....	9,600,823	11,926,521	11,467,901
Interest	8,541,763	10,780,340	4,478,738
Total Expenditures.....	<u>107,563,138</u>	<u>123,079,950</u>	<u>65,314,046</u>
Other Finance Uses:			
Transfers to			
Grants Revenue Fund.....	5,331,967	6,960,270	3,480,135
Agriculture Preservation Fund.....	530,134	1,060,597	530,299
Economic Development Loans	-	-	-
Capital Projects Fund.....	19,725,275	16,180,624	8,090,312
Internal Service Fund-Fleet Services	220,000	-	-
Enterprise Fund-Citizens Nursing Home	1,843,738	1,802,973	901,487
Enterprise Fund-Montevue Home.....	1,209,551	988,182	494,106
Enterprise Fund-Permitting & Development Review	410,309	843,513	421,757
Enterprise Fund-Solid Waste	3,442,732	-	-
Board of Education	168,631,808	175,546,922	84,726,816
Community College.....	10,783,417	10,770,267	5,633,294
Library	<u>5,053,300</u>	<u>5,588,612</u>	<u>2,714,987</u>
Total Other Financing Uses	<u>217,182,231</u>	<u>219,741,960</u>	<u>106,993,193</u>
Total Expenditures and Other Financing Uses.....	324,745,369	342,821,910	172,307,239
Excess (Deficiency) of Revenues and Other Financing			
Sources over Expenditures and Other Financial Uses.....	<u>7,416,472</u>	-	<u>49,642,146</u>
Residual Equity Transfer from other funds.....	-	-	-
Change in Fund Balance	<u>\$ 7,416,472</u>	<u>\$ -</u>	<u>\$ 49,642,146</u>

Source: Frederick County Finance Division.

Taxes

Ad valorem property taxes remain the County's most important source of revenues, amounting to 47.5% of total budgeted General Fund revenues and 53.0% of total budgeted local General Fund tax revenues in fiscal year 2005. By comparison, in fiscal year 2000, these percentages were 47.8% and 55.0%, respectively. The increase in property taxes between fiscal years 2000 and 2004 was 36.8% compared to increases in income tax revenues of 65.1% and other local tax revenues of 123.8%.

The following table represents the County's actual principal tax revenues by source for each of the five fiscal years 2000-2004, together with the budgeted revenues for fiscal year 2005:

	Total Local Taxes	General Property Taxes(1)	Income Taxes	Other Local Taxes
2005 Budget.....	\$306,785,560	\$162,633,000	\$127,374,000	\$16,778,560
2004	310,432,882	152,677,680	132,462,327(3)	25,292,875
2003	295,281,711	144,707,212	131,949,827(2)	18,624,672
2002	264,215,885	136,783,793	111,018,868	16,413,224
2001	230,162,670	129,149,170	88,736,934	12,276,566
2000	203,178,607	111,643,136	80,232,845	11,302,626

(1) Includes payment in lieu of taxes, additions and abatements, interest on taxes and tax credits for the elderly and disabled.

(2) In fiscal year 2003, Frederick County received a one-time income tax distribution for capital gains of approximately \$16,000,000.

(3) In fiscal 2004, the County received approximately \$8.0 million from a timing change in the distribution of income tax.

Source: Frederick County Finance Division.

Property Taxes

The assessment of all real and tangible personal property for purposes of property taxation by the County is the sole responsibility of the State Department of Assessments and Taxation, an independent State agency. The County does not currently impose property taxation on personal property. For State and County real property tax purposes, real property is valued at the currently phased-in market value. All property is physically inspected once every three years and any increase in value arising from such inspection is phased in over the ensuing three taxable years in equal annual installments.

Prior to legislation passed by the Maryland General Assembly during its 2000 Session, the Maryland real property assessment law had been a program of fractional property assessments. Beginning in fiscal year 2002, property tax rates are applied to 100% of the value of real property, rather than the 40% for most real property under prior law. On October 1, 2000, real property tax rates were reduced to 40% of their levels as of July 1, 2000. The County and municipal rates applicable to all personal property and operating real property of public utilities will be 2.5 times the property tax rate for real property so as to maintain them at their former levels. The changes made by this legislation are intended to be revenue neutral.

A tax credit is permitted against local real property taxes on certain owner-occupied residential property. The tax credit for tax years 1991-1992 and thereafter was computed by multiplying the prior year's taxable assessment by a percentage of between 100% and 110% (as determined by the State, each county and each municipality), subtracting that amount from the current year's assessment, and multiplying the difference, if it is positive, by the applicable tax rate. The County and most of its municipalities adopted 110% as the tax credit factor for tax year 2000-2001.

The State also provides a tax credit based on the ability of homeowners to pay property taxes. The credit is calculated by use of a scale, which indicates a maximum tax liability for various income levels. For fiscal year 2005, the County budgeted \$1,900,000 in tax credits of which approximately \$1,490,000 is reimbursable from the State. Other budgeted tax credits not reimbursed by the State include \$22,000 for historic districts, \$1,500,000 for homeownership, and \$525,000 for agriculture land and buildings.

Exemptions from State and County property taxation include public property; property owned by religious groups or organizations for public religious worship; property owned by charitable, fraternal, benevolent, educational and literary organizations; property owned by a national organization of veterans; property owned by historical societies and museums; property owned by fire companies and rescue squads; operating property owned by railroad and transportation companies (exempt from State taxation only); tangible personal property of certain domestic corporations, savings institutions and commercial banks; inventory, manufacturing equipment, manufacturing inventory and certain rolling stock (exempt from local taxation only); vessels, aircraft and motor vehicles; farming implements, certain agricultural products and commodities; all personal property located at a taxpayer's place of residence other than property used in connection with any business, occupation or profession; tools of mechanics or artisans; and non-operating property of public utilities and contract carriers (exempt from State taxation only).

The following table sets forth the assessment of all taxable property in Frederick County for fiscal years 2000-2004 and the County and State tax rates applicable in each of those years. As of July 1, 2003, the assessment of tax exempt property owned by federal, State and county governments, churches, schools, fraternal organizations, cemeteries, disabled and the blind aggregated \$1,736,487,525. Under applicable law, there are no limits on the rates of property taxes.

**Assessments and Tax Rates of All Property by Class
(Fiscal Years Ended June 30)***

	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>	<u>2001</u>	<u>2000</u>
Assessments					
Real Property	\$14,713,127,459	\$13,852,072,854	\$12,972,034,400	\$4,889,192,115	\$4,650,381,807
Public Utilities	<u>341,838,850</u>	<u>365,088,270</u>	<u>382,963,100</u>	<u>374,937,880</u>	<u>360,305,770</u>
Total Base	<u>\$15,054,966,309</u>	<u>\$14,217,161,124</u>	<u>\$13,354,997,500</u>	<u>\$5,264,129,995</u>	<u>\$5,010,687,577</u>
County Tax Rate (Per \$100 of Assessment).....	\$1.00**	\$1.00**	\$1.00**	\$2.50**	\$2.26**
State Tax Rate (Per \$100 of Assessment).....	\$ 0.132	\$ 0.084	\$ 0.084	\$ 0.21	\$ 0.21

* This table of Assessments and Tax Rates of All Property by Class shows assessments and rates in effect for fiscal years 2000-2004, prior to the change over to full market value assessments and corresponding reduction in rates to maintain tax neutrality that took effect for the fiscal year ended June 30, 2003, as described in the text above. The full market value assessment is presented for fiscal years 2003 and 2004, along with the corresponding reduced rates to maintain tax neutrality.

** Excludes Special Revenue Tax Districts.
Source: Frederick County Finance Division.

Tax rates for fiscal year 2005 are based on full market value assessment of \$16,095,620,217 and are as follows:

	<u>2005</u>
County Tax Rate (Per \$100 of Assessment)	\$1.00
State Tax Rate (Per \$100 of Assessment)	0.132

Source: Frederick County Treasurer's Office.

The following table lists the 20 largest taxpayers in Frederick County and the assessment of their property for fiscal year 2004:

<u>Name of Taxpayer</u>	<u>Assessment</u>	<u>Percentage of Total County Assessments</u>
Allegheny Power.....	\$144,838,860	0.96%
Verizon	106,294,010	0.71
Crown American Financing Partnership	69,870,200	0.46
M.O.R. Westview	49,200,300	0.33
Manekin/Morecop.....	44,211,800	0.29
Eastalco Aluminum Company	40,187,343	0.27
State Farm Insurance	39,616,032	0.26
Washington Gas Company	34,212,190	0.23
Butera Properties.....	33,051,100	0.26
EQR-Overlook Manor II, LLC	32,557,866	0.22
Brightseat LLC	28,772,032	0.19
First Real Estate Inv. Trust	28,146,510	0.19
Frederick Towne Mall Associates.....	27,753,200	0.18
Toys R Us	25,552,200	0.17
Kingscrest Apartment Association.....	24,014,000	0.16
Chevy Chase Savings Bank	23,738,100	0.16
Georgia Pacific	23,263,600	0.15
American Telephone & Telegraph.....	22,999,590	0.15
First Nationwide	21,344,600	0.14
Buckingham's Choice.....	<u>20,251,300</u>	<u>0.13</u>
Total.....	<u>\$ 839,874,833</u>	<u>5.58%</u>

Source: Frederick County Treasurer's Office.

Tax Levies and Collections

Property taxes are levied as of July 1. Effective July 1, 2000, taxes on owner-occupied residential real property are paid in two installments: one by September 30, and one by December 31. Discounts for timely payments are allowed through August 31 and taxes due and not paid by September 30 are subject to interest and penalties at a rate of 1% per month for each month or fraction thereof that taxes remain unpaid. Tax liens on real property are sold at public auction the second Monday in May when taxes have remained delinquent during the current fiscal year.

The County bills and collects its own property taxes and those of the State. County property tax revenues are recognized when levied to the extent that they result in current receivables. State property taxes collected are remitted to the State.

The following table sets forth certain information with respect to the County's tax levies and tax collections for each of the five fiscal years 2000-2004:

	<u>Total Tax Levy</u>	<u>Current Year's Taxes Collected in Year of Levy</u>		<u>Total Taxes Collected (Current and Delinquent)</u>		<u>Accumulated Delinquent Taxes</u>	<u>Accumulated Delinquent Taxes As a % of Current Year's Tax Levy</u>
		<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>		
2004	\$154,483,604	\$153,934,018	99.6%	\$154,482,618	100%	\$841,842	0.6%
2003	146,977,222	145,762,665	99.6	146,335,512	99.5	642,409	0.4
2002	137,981,958	137,338,900	99.5	137,599,443	99.7	702,171	0.5
2001	130,470,609	130,193,033	99.8	130,292,417	99.9	340,870	0.3
2000	112,274,339	112,023,603	99.8	112,268,901	99.9	330,264	0.3

Source: Frederick County Treasurer's Office.

Income Tax

The State imposes an income tax on the adjusted gross income of individuals for federal income tax purposes, subject to certain adjustments. The rate of tax is 2% on the first \$1,000 of taxable income, 3% on the second \$1,000, 4% on the third \$1,000 and 4.75% to 5% on the taxable income in excess of \$3,000 over the period 1998 through 2003. Each county and Baltimore City must levy a local income tax at the rate of at least 1.00% of Maryland taxable income, but not in excess of 3.20%. The County's income tax rate for tax year 2001 was 2.96%, and is the same for tax years 2002, 2003 and 2004. The County does not levy a local income tax on corporations.

Other Local Taxes

In addition to property taxes and income taxes, the County levies and collects miscellaneous taxes, the largest of which is the recordation tax on instruments conveying title to property and securing debt. Budgeted revenues from this tax in fiscal year 2005 are \$22,142,860 (including General Fund revenues of \$14,392,860) as compared to actual revenues for fiscal year 2004 of \$33,120,970 (including General Fund revenues of \$23,184,679). Actual revenues were \$24,030,876 (including General Fund revenues of \$16,821,612) in fiscal year 2003.

State and Federal Financial Assistance

The County receives grants from the Federal and State governments for use in the General, Special Revenue, and Capital Projects Funds. In addition, the Board of Education of Frederick County, Frederick Community College, Frederick County Public Libraries, and the Department of Social Services receive grants directly from the State. The following table summarizes some of the significant grants for fiscal year 2004, amended budget for fiscal year 2005 as of December 31, 2004, and actual unaudited operations from July 1, 2004 to December 31, 2004.

Selected Grant Awards

	<u>Audited Fiscal Year 2004</u>	<u>Amended Budget Fiscal Year 2005 as of December 31, 2004</u>	<u>Actual Unaudited Operations July 1, 2004 to December 31, 2004</u>
Highway User Revenues.....	\$8,644,549	\$9,931,000	\$3,945,408
Headstart Grants	2,063,745	2,119,567	735,942
Transit Grants	4,221,526	4,331,482	2,752,080
Child Support Enforcement Grants.....	694,457	726,972	365,704
Department of Justice COPS and COPS in School Grants.....	407,832	232,359	165,528
Section 8 Housing Grants	2,949,196	3,108,769	1,465,632
Workforce Investment Act Funds.....	832,105	571,376	129,824

* Allocations of indirect costs will significantly increase revenue recognized by June 30, 2004.
Source: Frederick County Finance Division.

Water and Sewer Enterprise Fund

Water and sewer user charges are recorded when earned and expenses are recognized when they are incurred based on the accrual basis of accounting. Unpaid water and sewer user charges are a lien on the real property served and are collectible in the same manner as real property taxes.

Prior to fiscal year 2002, water and sewer connection fees (also referred to as tap fees, capacity charges or capital recovery charges) were recorded when received as contributed capital. Effective with fiscal year 2002 and with implementation of GASB 33, these fees were recorded as capital contributions to the enterprise fund and reported on the Statement of Revenues, Expenses and Changes in Fund Net Assets after Net Income (Loss) before contributions and transfers. Also included in capital contributions is the cost of developer funded capital projects. For fiscal year 2004, the Water and Sewer Enterprise Fund reported \$8,810,279 of connection fees and \$5,928,940 in developer contributions for a total capital contributions of \$14,739,219. Overall for fiscal year 2004, net assets increased \$14,844,959 consisting of \$105,740 in net income and \$14,739,219 in capital contributions.

Per GASB 34 requirements, the Water and Sewer Enterprise Fund reported total Net Assets of \$227,051,106 or the fiscal year ended June 30, 2004. Of this amount, \$149,048,664 was invested in capital assets, net of related debt; and \$78,002,442 was unrestricted.

The current schedule of rates and charges for water and sewer service became effective on May 1, 2001.

The following table summarizes the revenues and expenses of the Water and Sewer Enterprise Fund for the five fiscal years 2000-2004:

**Water and Sewer Enterprise Fund
Revenues and Expenses**

	<u>2004</u>	<u>2003</u>	<u>2002</u> <u>Restated</u>	<u>2001</u>	<u>2000</u>
Revenues:					
Service Charges	\$ 18,454,801	\$ 15,890,183	\$ 16,442,207	\$ 9,950,556	\$ 8,885,517
Delinquent Fees Collected	66,273	48,907	9,416	63,452	72,742
Other Revenues	<u>359,651</u>	<u>424,375</u>	<u>544,198</u>	<u>1,600,363</u>	<u>325,441</u>
Total Operating Revenues	<u>18,880,725</u>	<u>16,363,465</u>	<u>16,995,821</u>	<u>11,614,371</u>	<u>9,283,700</u>
Operating Expenses:					
Personnel Services	3,821,608	3,290,505	3,325,434	3,881,011	2,489,696
Operating Expenses (Including Administrative Overhead)	6,338,648	5,794,200	7,291,231	5,664,784	5,347,916
Supplies	392,022	342,650	72,628	77,698	70,971
Repairs and Maintenance	880,558	697,286	411,767	480,277	461,479
Depreciation	<u>4,621,339</u>	<u>4,444,809</u>	<u>4,301,110</u>	<u>4,117,017</u>	<u>3,880,814</u>
Total Operating Expenses	<u>16,054,175</u>	<u>14,569,450</u>	<u>15,402,170</u>	<u>14,220,787</u>	<u>12,250,876</u>
Operating Income (Loss)	<u>2,826,550</u>	<u>1,794,015</u>	<u>1,593,651</u>	<u>(2,606,416)</u>	<u>(2,967,176)</u>
Non-operating Revenues (Expenses):					
Miscellaneous Revenue (Expense)	660,657	391,218	507,163	(123,056)	94,244
Gain(loss) on disposition of fixed assets	(701,411)	-	-	-	-
Interest Earned on Investments	363,962	3,731,186	3,822,444	3,843,858	1,913,563
Interest Expense	<u>(3,044,018)</u>	<u>(3,117,176)</u>	<u>(2,818,797)</u>	<u>(3,059,937)</u>	<u>(2,628,790)</u>
Non-Operating Revenues (Expenses)	<u>(2,720,810)</u>	<u>1,005,228</u>	<u>1,510,810</u>	<u>660,865</u>	<u>(620,983)</u>
Net Income (Loss)	<u>\$ 105,740</u>	<u>\$ 2,799,243</u>	<u>\$ 3,104,461</u>	<u>\$ (1,945,551)</u>	<u>\$ (3,588,159)</u>

Source: Frederick County Finance Division.

Fiscal year 2002 increase in service charges is the result of a rate increase that became effective May 1, 2001. The fiscal year 2002 decrease in Other Revenues is primarily due to changes in classifications of Revenue. In fiscal year 2001, a cumulative reclassification of design review fees from capital projects to operating revenue resulted in the recognition of \$663,476 of additional revenue. In addition, \$381,198 of miscellaneous revenues, including sludge hauling, were reclassified to non-operating revenue in fiscal year 2002. The fiscal year 2002 increase in operating expense is primarily due to a \$905,918 adjustment to expense in fiscal year 2002 to write-off assets previously capitalized, based on a change in the policy for capitalization threshold.

The following table summarizes Water and Sewer Enterprise Fund revenues and expenses for fiscal year 2004, amended budget for fiscal year 2005 as of December 31, 2004, and actual unaudited operations from July 1, 2004 to December 31, 2004.

	<u>Audited Fiscal Year 2004</u>	<u>Amended Budget Fiscal Year 2004 as of December 31, 2004</u>	<u>Actual Unaudited Operations July 1, 2003 to December 31, 2004</u>
Revenues:			
Water and Sewer Service Charges	\$ 18,454,801	\$ 20,477,862	\$ 9,521,685
Other Sources.....	425,924	211,833	64,320
Total Operating Revenues.....	<u>18,880,725</u>	<u>20,689,695</u>	<u>9,586,005</u>
Operating Expenses:			
Salaries and Fringes	3,821,608	6,302,601	1,878,631
Operating Expenses (Including Administrative Overhead).....	6,338,648	4,429,888	3,019,628
Operating Supplies.....	392,022	755,473	205,009
Repairs and Maintenance	880,558	2,381,074	342,186
Depreciation.....	4,621,339	5,140,223	2,570,112
Total Operating Expenses	<u>16,054,175</u>	<u>19,009,259</u>	<u>8,015,566</u>
Operating Income (Loss).....	<u>2,826,550</u>	<u>1,680,436</u>	<u>1,570,439</u>
Non-Operating Revenues (Expenses):			
Interest Earned on Investments	363,962	1,805,000	212,586
Interest Expense	(3,044,018)	(3,133,964)	(1,534,132)
Gain (loss) on disposition of fixed assets.....	(701,411)	-	-
Miscellaneous (Expense) Income	<u>660,657</u>	<u>373,183</u>	<u>193,808</u>
Total Non-Operating Revenues (Expenses).....	<u>(2,720,810)</u>	<u>(955,781)</u>	<u>(1,127,738)</u>
Income (Loss) Before Capital Contributions	<u>\$ 105,740</u>	<u>\$ 724,655</u>	<u>\$ 442,701</u>

Source: Frederick County Finance Division.

Solid Waste Management Enterprise Fund

As of July 1, 1989, the Solid Waste Management Enterprise Fund was established to account for the operations of the County landfill and future solid waste activities. Revenues from user fees are the primary source of funds for operations, debt service payments and capital projects.

Landfill user charges (tipping fees) are recorded as revenues when billed. Unpaid tipping fees are assessed interest at the rate of 1% per month and access is denied to landfill users whose accounts are over 60 days past due.

The following table summarizes the revenues and expenses of the Solid Waste Management Enterprise Fund for the five fiscal years 2000-2004:

**Solid Waste Management Enterprise Fund
Revenues and Expenses**

	<u>2004</u>	<u>2003</u>	<u>2002</u> <u>Restated</u>	<u>2001</u>	<u>2000</u>
Revenues:					
Tipping Fee Charges.....	\$11,404,532	\$8,898,575	\$9,462,892	\$ 5,686,260	\$ 6,291,489
Annual Charges	-	449	2,181	33,351	22,313
Rubblefill Fees	-	-	-	2,361,431	1,357,966
Delinquent Fees.....	50,970	42,407	35,166	24,165	31,674
Miscellaneous Charges	-	-	-	-	-
Total Operating Revenues	<u>11,455,502</u>	<u>8,941,431</u>	<u>9,500,239</u>	<u>8,105,207</u>	<u>7,703,442</u>
Operating Expenses:					
Salaries and Fringes.....	1,235,282	1,166,564	1,081,321	1,140,432	1,032,151
Operating Expenses (Including Administrative Overhead)	4,914,517	4,016,764	3,583,735	6,707,917	3,903,016
Operating Supplies	68,527	37,735	26,927	24,446	30,021
Repairs and Maintenance.....	93,754	95,173	72,343	55,553	80,113
Depreciation	<u>4,164,064</u>	<u>3,228,861</u>	<u>3,616,185</u>	<u>1,934,854</u>	<u>4,931,947</u>
Total Operating Expenses.....	<u>10,476,144</u>	<u>8,545,097</u>	<u>8,380,511</u>	<u>9,863,202</u>	<u>9,977,248</u>
Operating Income (Loss).....	<u>979,358</u>	<u>396,334</u>	<u>1,119,728</u>	<u>(1,757,995)</u>	<u>(2,273,806)</u>
Non-Operating Revenues (Expenses):					
Interest Income.....	265,080	422,419	674,805	1,209,470	855,946
Miscellaneous Revenue (Expense)	-	248,221	(9,560)	712	42,550
Gain (loss) on disposition of fixed assets.....	14,460	-	-	-	-
Interest Expense.....	<u>(1,146,318)</u>	<u>(1,081,199)</u>	<u>(885,190)</u>	<u>(932,130)</u>	<u>(957,132)</u>
Total Non-Operating Revenues (Expenses)...	<u>(866,778)</u>	<u>(410,559)</u>	<u>(219,945)</u>	<u>278,052</u>	<u>(58,636)</u>
Net Income (Loss).....	<u>\$ 112,580</u>	<u>\$ (14,225)</u>	<u>\$ 899,783</u>	<u>\$(1,479,943)</u>	<u>\$(2,332,442)</u>

Source: Frederick County Finance Division.

Fiscal year 2002 and 2003 Tipping Fee Charges include fees for rubble tonnage now accepted in Cell 2 of Site B, due to the mandated closure of the unlined rubblefill in September 2001. The increase in operating revenue is the result of a rate structure change in February 2001, that increased the tipping fee from \$40/ton to \$50/ton and charged for all incoming rubble. The decrease in fiscal year 2002 operating expenses was primarily due to a decrease in subcontracted hauling expense. Prior to the completion of Cell 2, trash was transferred to Pennsylvania which significantly increased hauling expense in fiscal year 2001.

The fiscal year 2003 decrease in operating revenue is primarily due to a decrease in rubble tonnage received. The fiscal year 2003 decrease in depreciation is due to the decrease in rubble tonnage as depreciation is calculated on a percentage of capacity used basis and correlates to revenue earned. The fiscal year 2003 increase in miscellaneous revenue is due to insurance proceeds received which resulted in a gain on disposal of asset that was damaged.

The following table summarizes Solid Waste Management Enterprise Fund audited revenues and expenses for fiscal year 2004, amended budget for fiscal year 2005 as of December 31, 2004, and actual unaudited operations from July 1, 2004 to December 31, 2004.

	<u>Audited Fiscal Year 2004</u>	<u>Amended Budget Fiscal Year 2005 as of December 31, 2004</u>	<u>Actual Unaudited Operations July 1, 2004 to December 31, 2004</u>
Revenues:			
Landfill Charges	\$ 11,404,532	\$ 10,502,000	\$5,808,667
Delinquent Fees	<u>50,970</u>	<u>20,000</u>	<u>41,759</u>
Total Operating Revenues.....	<u>11,455,502</u>	<u>10,522,000</u>	<u>5,850,426</u>
Operating Expenses:			
Salaries and Fringes	1235,282	1,264,061	672,530
Operating Expenses (Including Administrative Overhead).....	4,914,517	5,168,473	2,275,705
Operating Supplies.....	68,527	53,300	22,380
Repairs and Maintenance	93,754	229,000	102,260
Depreciation.....	<u>4,164,064</u>	<u>4,172,965</u>	<u>2,082,032</u>
Total Operating Expenses	<u>10,476,144</u>	<u>10,887,799</u>	<u>5,154,907</u>
Operating Income (Loss).....	<u>979,358</u>	<u>(365,799)</u>	<u>695,519</u>
Non-Operating Revenues (Expenses):			
Interest Expense	(1,146,318)	(1,149,551)	(567,285)
Interest Income	265,080	500,000	290,897
Gain (loss) on disposition of fixed assets.....	<u>14,460</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues (Expenses).....	<u>(866,778)</u>	<u>(649,551)</u>	<u>(276,388)</u>
Net Income (Loss).....	<u>\$ 112,580</u>	<u>\$ (1,015,350)</u>	<u>\$ 419,131</u>

Source: Frederick County Finance Division.

CERTAIN DEBT INFORMATION

Bonded Indebtedness of the County

The County may not issue general obligation bonds unless specific enabling legislation is passed by the Maryland General Assembly. In addition to the Bonds, the County has been authorized by the General Assembly to, among other things, (i) issue temporary notes during any single year in an amount up to \$100,000 to pay debt service on bonded indebtedness and \$5,000,000 to pay any expenses or obligations of the County, (ii) incur debt for the purpose of providing funds for the construction of water, sewerage, drainage systems and solid waste systems, as long as the amount issued, less any sinking funds or reserves to pay such bonds, does not exceed 6% of the valuation of all legally assessable property within Frederick County subject to unlimited County taxation, and (iii) issue bonds in an amount up to \$68,795,456 under Chapter 37 of the Laws of Maryland of 2003 which is equal to the authorization remaining after issuance of the Public Facilities Bonds of 2003 and Agricultural Land Preservation Installment Purchase Agreements issued between October 2003 and March 2005. The 6% limit on water, sewerage, drainage systems and solid waste systems debt was 15% of the valuation of all legally assessable property when the valuation was calculated at 40% of the value. The debt limit was revised to maintain debt neutrality when full market value assessments were instituted. See discussion under “CERTAIN REVENUES AND EXPENDITURES – Property Taxes” herein. The County is not subject to any general debt limitations with regard to its issuance of general obligation bonds other than water, sewer, drainage system and solid waste bonds and other specific types of bonds which are authorized to be issued under certain provisions of the Maryland Code, but any debt limitation which would be applicable to a particular issue of bonds would be contained within the enabling legislation enacted by the General Assembly of the State.

Any indebtedness authorized by the General Assembly may not be issued until a resolution authorizing the same has been adopted by the Board.

Except as described in “COUNTY GOVERNMENT AND ADMINISTRATION - Leases and Other Contracts”, the County is not a party to any long-term leases, lease-purchase obligations, installment purchase obligations, joint ventures, guaranteed debt, “moral obligation” indebtedness, output or supply contracts, take or pay or similar contracts or any other form of contingency indebtedness that does not appear on its balance sheet.

The following table sets forth the projected amount of the County's long-term general obligation bonded indebtedness issued and outstanding as of June 30, 2005:

**Statement of Long-Term Bonded Indebtedness
Issued and Outstanding
Projected to June 30, 2005
Based on Debt Outstanding as of March 31, 2005**

	<u>Date of Debt Issue</u>	<u>Date of Debt Maturity</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding 6/30/05</u>
General Government Debt				
EPA Asbestos School Hazard Abatement	08/05/92	11/30/11	\$ 1,370,471	\$ 494,893
MD Industrial Land Act Loan – Trading Lane (2).....	06/23/95	06/23/22	181,058	143,389
MD Industrial Land Act Loan – Dan Jay LLC (2).....	02/11/94	02/11/21	630,000	484,237
MICRF-Sport and Ice Arena (2)	04/01/96	01/01/06	113,637	7,501
MICRF-MedImmune (2)	12/31/97	01/01/17	1,436,502	955,156
Maryland State Pension	06/30/93	12/21/13	7,036,995	5,236,999
Public Facilities Bonds of 1995 (1)	3/15/95	07/01/05	27,162,400	1,266,447
Public Facilities Refunding Bonds of 1998, Series A (1)	10/15/98	07/01/15	19,346,419	18,694,521
Public Facilities Bonds of 1999 (3).....	08/15/99	07/01/19	89,631,000	74,440,347
Public Facilities Bonds of 2000 (3).....	11/15/00	12/01/20	52,815,000	45,828,015
Public Facilities Refunding Bonds of 2001 (5)	07/15/01	07/01/08	6,579,486	4,655,529
Public Facilities Refunding Bonds of 2002, Series A (6)	04/01/02	07/01/16	13,999,267	11,037,049
Bond Anticipation notes of 1997 Series, 2nd Issue (7)	07/31/02	10/01/07	11,130,000	4,010,000
Public Facilities Bonds of 2002	11/01/02	11/01/22	38,200,000	35,444,895
Public Facilities Refunding Bonds of 2003 (8)	09/01/03	08/01/18	41,792,400	39,164,641
Installment Purchase Agreement - #02-04	05/15/03	05/15/23	494,567	484,567
Installment Purchase Agreement - #02-08	05/15/03	05/15/13	181,052	171,052
Installment Purchase Agreement - #02-07(a)	05/15/03	05/15/15	236,504	224,695
Installment Purchase Agreement - #02-07(b)	05/15/03	05/15/15	281,104	266,914
Installment Purchase Agreement - #02-19	07/14/03	05/15/13	706,048	656,048
Installment Purchase Agreement - #02-03	07/14/03	05/15/23	1,273,527	1,273,527
Installment Purchase Agreement - #02-10	10/08/03	05/15/23	696,992	696,992
Installment Purchase Agreement - #02-24	12/11/03	05/15/23	793,565	753,565
Installment Purchase Agreement - #02-28	12/11/03	05/15/15	405,748	385,748
Installment Purchase Agreement - #02-22	12/11/03	05/15/23	1,320,273	1,320,273
Installment Purchase Agreement - #02-01	02/25/03	05/15/24	174,701	174,701
Installment Purchase Agreement - #02-11	02/25/04	05/15/24	695,412	695,412
Installment Purchase Agreement - #02-21	02/25/04	05/15/14	221,896	221,896
Installment Purchase Agreement - #02-18	05/04/04	05/15/24	99,717	99,717
Installment Purchase Agreement - #04-10	06/15/04	05/15/24	388,192	388,192
Installment Purchase Agreement - #04-15	06/15/04	05/15/14	447,207	447,207
Installment Purchase Agreement - #04-06	06/18/04	05/15/24	252,395	252,395
Installment Purchase Agreement - #02-13	06/29/04	05/15/24	261,769	261,769
Installment Purchase Agreement - #02-15	06/29/04	05/15/14	303,656	303,656
Installment Purchase Agreement - #04-16	08/03/04	05/15/24	592,631	592,631
Installment Purchase Agreement - #04-11	08/03/04	05/15/24	225,942	225,942
Installment Purchase Agreement - #04-12	08/03/04	05/15/24	208,592	208,592
Installment Purchase Agreement - #04-03	08/03/04	05/15/24	194,975	194,975
Installment Purchase Agreement - #04-01	08/03/04	05/15/24	262,012	262,012
Installment Purchase Agreement - #04-08	08/03/04	05/15/24	234,717	234,717
Installment Purchase Agreement - #04-05	08/31/04	05/15/24	308,768	300,000
Installment Purchase Agreement - #04-09	08/31/04	05/15/24	87,850	87,850
Installment Purchase Agreement - #04-10	03/29/05	05/25/25	684,624	670,000
Installment Purchase Agreement - #04-11	03/29/05	05/25/25	488,538	388,538
Installment Purchase Agreement - #04-12	03/29/05	05/25/25	432,746	389,470
Total General Government Debt			324,380,355	254,496,672
Less: BANS			11,130,000	4,010,000
Total Serial Bond General Government Debt			\$ 313,250,355	\$ 250,486,672
Frederick County Proprietary Debt (3)				
Maryland Department of Environmental (MDE) Loans				
(Construction draws to date) (4).....	VAR	VAR	43,602,175	28,917,194
Public Facilities Bonds of 1995 – W&S (1).....	03/15/95	07/01/05	4,000,000	186,500
Public Facilities Bonds of 1995 – Solid Waste (1)	03/15/95	07/01/05	8,837,600	412,053

Public Facilities Refunding Bonds of 1998, Series A – W&S (1).....	10/15/98	07/01/15	2,849,000	2,753,000
Public Facilities Refunding Bonds of 1998, Series A – Solid Waste (1)	10/15/98	07/01/15	6,294,581	6,082,479
Public Facilities Bonds of 1999 – W&S	08/15/99	07/01/19	5,159,000	4,284,653
Public Facilities Bonds of 2000 – W&S	11/15/00	12/01/20	14,185,000	12,308,443
Public Facilities Bonds of 2000 – Solid Waste	11/15/00	12/01/20	5,000,000	4,338,542
Public Facilities Refunding Bonds of 2001 (5).....	07/15/01	07/01/08	8,125,514	5,749,471
Water and Sewer Refunding Bonds of 2002, Series A (6)	04/01/02	07/01/16	8,590,733	6,772,951
Public Facilities Bonds of 2002 – W&S	11/01/02	11/01/22	16,680,000	15,476,986
Public Facilities Bonds of 2002 – Solid Waste.....	11/01/02	11/01/22	6,820,000	6,328,120
Public Facilities Refunding Bonds of 2003 – W&S (8).....	09/01/03	08/01/18	<u>7,212,600</u>	<u>6,640,360</u>
Total Proprietary Debt (5)			137,356,203	100,250,752
Less MDE Loans			<u>43,602,175</u>	<u>28,917,194</u>
Total Serial Bond Proprietary Debt.....			93,754,028	71,333,558
Total Serial Bond Long-Term Indebtedness.....			<u>\$ 407,004,383</u>	<u>\$ 321,820,230</u>

- (1) In fiscal year 1999, the County defeased the Public Facilities Bonds of 1995 by placing the proceeds of the new bonds, Public Facilities Refunding Bonds of 1998, Series A, in an irrevocable trust to provide for debt service payments on the old bonds, due in the year 2006 and later subject to a call provision and call premium of 1%. Accordingly, the trust account assets and liability for the defeased bonds are not included in the County's financial statements.
- (2) The proceeds of the loans in the original amounts of \$630,000 and \$181,058 under the Maryland Industrial Land Act ("MILA"), Article 83A, Section 5-401 et. seq. of the Annotated Code of Maryland, were reloaned to a certain private users to assist in the financing of the acquisition of certain industrial land in Frederick County. Similarly, loans in the original amounts of \$113,637 and \$1,436,502 from the Maryland Industrial and Commercial Redevelopment Fund ("MICRF") under Article 83A, Section 5-802 et. seq. of the Annotated Code of Maryland, were reloaned to private users to assist in the planning and executing of industrial and commercial redevelopment projects. Although it is expected that said loans (with the exception of the MICRF-Sport and Ice Arena loan) will be repaid by payments made by the private users, the loans are backed by the full faith and credit of the County.
- (3) Proprietary Fund debt service is funded by user charges in the appropriate fund (Water and Sewer or Solid Waste Management), although the debt is a general obligation of the County. Debt service on \$30,515,000 of the Public Facilities Bonds of 1999 and \$16,653,480 of the Public Facilities Bonds of 2000 is funded by impact fees, although the debt is a County general obligation.
- (4) The bonds for the Maryland Department of the Environment were issued on the following dates and have the following amounts outstanding at 6/30/04: 6/30/92, \$6,845,575; 6/1/93, \$8,559,887; 10/31/94, \$ 1,157,685; 5/27/99, \$7,123,532 12/23/99, \$ 5,039,629 and 5/31/02, \$ 2,680,685.
- (5) The County issued \$14,705,000 Public Facilities Refunding Bonds of 2001 on 7/15/01 to refund the callable maturities of the County's Public Facilities Bonds of 1991.
- (6) The County issued \$22,590,000 Public Facilities Refunding Bonds of 2002, Series A, on 4/01/02 to refund callable maturities of the County's General Obligation Facilities Bonds of 1993.
- (7) The County issued \$11,130,000 Consolidated Public Improvement Variable Rate Demand Bond Anticipation Notes, 1997 Series, Second Issue on July 31, 2002.
- (8) The County issued \$49,005,000 Public Facilities Refunding Bonds of 2003 on 9/1/03 to refund callable maturities of the County's Public Facilities Bonds of 1993 (B) and 1993 (C) and provide new money to fund capital projects.

Maryland Department of the Environment Loans

The Department of the Environment of the State of Maryland ("MDE") through the Maryland Water Quality Financing Administration, makes funds available to local governments at below market interest rates for certain water quality and drinking water projects. Proceeds of the loans are dispersed to the County as draws according to construction payments.

The County has been a participant in the MDE's loan program since fiscal year 1992. As of June 30, 2004, the County has authorized and approved borrowings in an aggregate principal amount of \$28,600,297 for eight water and sewer loans. The County has also authorized and approved borrowings in an aggregate principal amount of \$15,987,386 for two solid waste loans. As of June 30, 2004, \$28,469,543 of the water and sewer loan proceeds and \$15,987,386 of the solid waste loan proceeds have been drawn.

Maryland Industrial Land Act Loans

The County has an outstanding loan from the Department of Business and Economic Development of the State ("DBED") in the original amount of \$630,000 under the Maryland Industrial Land Act, Article 83A, Section 5-401 et. seq. of the Maryland Code. The outstanding balance of this loan at June 30, 2004 was \$503,584. The proceeds of this loan have been reloaned by the County to a private user to assist in the financing of the acquisition of certain industrial land and shell buildings in Frederick County. It is anticipated that the repayment of this loan by the private user will generate sufficient moneys for the County to repay DBED, however, the loan is a full faith and credit obligation of the County. A loan in the amount of \$181,058 has also been received under the program and granted to a private user to assist in the financing of certain street and site improvements in the County. The loan is a full faith and credit obligation of the County. The outstanding balance of this loan at June 30, 2004 was \$148,626.

Maryland Industrial and Commercial Redevelopment Fund Loans

The County has received a State loan in the amount of \$1,436,502 from the Maryland Industrial and Commercial Redevelopment Fund ("MICRF") pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Maryland Code. The outstanding balance of this loan at June 30, 2004 was \$1,025,025. The proceeds of this loan have been reloaned to a

certain private user to assist in the financing of the acquisition of a certain redevelopment project in Frederick County. Although it is expected that this loan will be repaid by payments made by the private user, the loan is a full faith and credit obligation of the County.

The County has also received a MICRF loan in the amount of \$113,637. The outstanding balance of this loan at June 30, 2004 was \$21,455. The proceeds of this loan were reloaned by the County to the Frederick Sports Arena Limited Partnership (the "Partnership") in financing a commercial development project. The loan is a full faith and credit obligation of the County.

United States Environmental Protection Agency

On April 17, 1992, the County entered into a loan agreement with the United States Environmental Protection Agency. These funds were provided in accordance with the provisions of the Asbestos School Hazard Abatement Reauthorization Act of 1990, 20 U.S.C. 4011 et. seq., for the purpose of removing asbestos from Frederick County Public Schools. The original amount of this loan was \$1,370,471, and the balance due as of June 30, 2004, is \$571,030. This is a non-interest bearing note. Semi-annual principal payments of \$38,069 are required, with a final payment due on November 30, 2011.

Maryland State Pension

See page 14, Cost Sharing Multiple Employer Pension Plans.

Other Loans and Bonds

The County has also received a loan in the amount of \$960,000 from the federal Community Development Block Grant ("CDBG") program through the Maryland Department of Housing and Community Development ("DHCD"). These funds were reloaned to Trans Tech, Inc. The purpose of this loan is to assist this organization with planning and executing certain commercial projects.

The County has issued taxable 8.16%, \$1,890,094, and 7.20%, \$1,090,000 Tax Increment Financing Bonds due serially through 2018 and 2007, respectively, to finance part of the infrastructure needed in the Dudrow Industrial Park Lot Two and Center Park Development Districts. The County has issued a tax exempt 4.08% \$300,000 Tax Increment Financing Bond due serially through 2009 to finance part of the infrastructure in the Dudrow Industrial Park Lot Three Development District. The debt is a special obligation of the County. The County surrenders its tax revenues on the incremental increase in property taxes within the districts to pay the debt service on the bonds. Cash and the related liability to bondholders are accounted for in an Agency Fund.

Frederick County has issued special obligation bonds on November 6, 1998 for the Urbana Community Development Authority in the amount of \$30,000,000 and January 18, 2001 for the Villages of Lake Linganore Community Development Authority in the amount of \$6,730,000. The bonds were for infrastructure costs within the boundaries of the respective Authorities. Neither the full faith and credit nor the general taxing power of the County is pledged to the payment of these special obligation bonds. The bonds are secured by special taxes levied on the property within the respective Authority. The County has issued a second series of bonds for the Urbana Community Development Authority. Parity bonds in the principal amount of \$26,513,000 and subordinate bonds in the amount of \$6,461,000 were issued on April 22, 2004.

Summary of Debt Service Requirements

The following tables illustrate the County's schedules of projected debt service requirements for outstanding long-term obligations as of June 30, 2004.

Summary of Debt Service Requirements for Outstanding Long-Term Bonds

Fiscal Year	General Government Debt(2)		Proprietary Debt		Total Long-Term Indebtedness		Total Indebtedness
	Principal	Interest	Principal	Interest	Principal	Interest	
Serial Debt:							
2005.....	\$14,142,081	\$ 11,708,760	\$7,400,726	\$4,273,008	\$ 21,542,807	\$15,981,768	\$ 37,524,575
2006.....	14,547,896	11,379,731	7,596,731	4,000,211	22,144,627	15,379,942	37,524,569
2007.....	14,824,945	10,812,044	7,652,512	3,718,617	22,477,457	14,530,661	37,008,118
2008.....	15,294,576	10,190,360	7,873,773	3,377,283	23,168,349	13,567,643	36,735,992
2009.....	15,716,894	9,527,006	8,023,240	3,125,465	23,740,134	12,652,471	36,392,605
2010.....	15,673,916	8,843,443	7,664,224	2,827,327	23,338,140	11,670,770	35,008,910
2011.....	16,036,484	8,127,103	7,686,241	2,532,344	23,722,725	10,659,447	34,382,172
2012.....	16,149,709	7,378,078	7,651,486	2,230,216	23,801,195	9,608,294	33,409,489
2013.....	16,234,294	6,659,323	6,534,827	1,952,339	22,769,121	8,611,662	31,380,783
2014.....	15,084,533	5,924,607	6,598,171	1,692,598	21,682,704	7,617,205	29,299,909
2015.....	16,677,961	5,204,376	5,138,729	1,421,647	21,816,690	6,626,023	28,442,713
2016.....	15,849,416	4,360,161	5,367,772	1,198,523	21,217,188	5,558,684	26,775,872
2017.....	14,194,573	3,634,954	4,366,426	990,559	18,560,999	4,625,513	23,186,512
2018.....	14,299,459	2,944,834	4,096,259	818,948	18,395,718	3,763,782	22,159,500
2019.....	15,014,235	2,220,672	3,925,664	630,497	18,939,899	2,851,169	21,791,068
2020.....	13,220,123	1,483,856	3,483,519	431,542	16,703,642	1,915,398	18,619,040
2021.....	6,662,251	951,518	3,245,191	252,303	9,907,442	1,203,821	11,111,263
2022.....	2,652,976	713,313	1,632,050	126,498	4,285,026	839,811	5,124,837
2023.....	7,314,988	726,488	1,713,937	42,848	9,028,925	769,336	9,798,261
2024.....	3,978,905	401,944	-	-	3,978,905	401,944	4,380,849
2025.....	1,058,538	85,517	-	-	1,058,538	85,517	1,144,055
Total Serial Bonds.....	<u>\$ 264,6286,753</u>	<u>\$113,278,088</u>	<u>\$ 107,651,478</u>	<u>\$35,642,773</u>	<u>\$372,280,231</u>	<u>\$148,920,861</u>	<u>\$521,201,092</u>
Bond Anticipation Notes.....	4,010,000	175,796	-	-	4,010,000	175,796	4,185,796
Total Long-Term Debt.....	<u>\$ 268,638,753</u>	<u>\$113,453,884</u>	<u>\$ 107,651,478</u>	<u>\$35,642,773</u>	<u>\$376,290,231</u>	<u>\$149,096,657</u>	<u>\$525,386,888</u>

(1) For an explanation of this obligation, see "CERTAIN DEBT INFORMATION - Maryland Department of the Environment Loans" herein.

(2) Includes Special Assessment debt and debt supported primarily by impact fees. Also includes estimated installment purchase agreements that are expected to be finalized by June 30, 2004.

Source: Frederick County Finance Division.

**Schedule of Debt Service Requirements
As Adjusted to Reflect the Issuance of the Bonds**

Fiscal Year	Total Outstanding Debt Service	Less: Refunded Debt Service	Public Facilities Refunding Bonds of 2005		Total Adjusted Debt Service Total(2)
			Principal	Interest(1)	
			Serial Debt		
2005	\$ 37,524,575	\$ 1,132,754	\$ 0	\$ 0	\$ 36,391,821
2006	37,524,569	5,373,420	200,000	3,897,475	36,248,624
2007	37,008,118	5,373,420	170,000	5,191,325	36,996,023
2008	36,735,992	5,373,420	175,000	5,185,288	36,722,860
2009	36,392,605	5,373,420	185,000	5,178,988	36,383,173
2010	35,008,910	5,373,420	190,000	5,172,425	34,997,915
2011	34,382,172	9,886,751	3,980,000	5,109,400	33,584,821
2012	33,409,489	13,284,758	8,760,000	4,830,700	33,715,431
2013	31,380,783	13,263,301	9,190,000	4,381,950	31,689,432
2014	29,299,909	13,239,720	9,630,000	3,911,450	29,601,639
2015	28,442,713	13,227,601	10,115,000	3,417,825	28,747,937
2016	26,775,872	13,215,401	10,625,000	2,899,325	27,084,796
2017	23,186,512	13,210,450	11,160,000	2,354,700	23,490,762
2018	22,159,500	13,209,705	11,730,000	1,782,450	22,462,245
2019	21,791,068	13,211,114	12,340,000	1,180,700	22,100,654
2020	18,619,040	13,199,268	12,960,000	548,200	18,927,972
2021	11,111,263	5,721,344	5,605,000	112,100	11,107,019
2022	5,124,837	0	0	0	5,124,837
2023	9,798,261	0	0	0	9,798,261
2024	4,380,849	0	0	0	4,380,849
2025	1,144,055	0	0	0	1,144,055
Total Serial Bonds	<u>\$ 521,201,092</u>	<u>\$ 162,669,266</u>	<u>\$ 107,015,000</u>	<u>\$ 55,154,300</u>	<u>\$ 520,701,126</u>
Bond Anticipation Notes (3)	3,610,000	3,610,000	0	0	0
Total Long-Term Debt	<u>\$ 524,888,092</u>	<u>\$ 166,279,266</u>	<u>\$ 107,015,000</u>	<u>\$ 55,154,300</u>	<u>\$ 520,701,126</u>

(1) Interest rates range from 3.00% to 5.00%.

(2) Totals may not add due to rounding.

(3) BAN payoff included in Refunded Debt Service, County had given notice prior to the proposed sale to redeem \$400,000 in May, 2005.

The following table sets forth the County's General Obligation long-term debt (including special assessment debt and debt supported primarily by impact fees) per capita and ratios of debt to assessment and debt to estimated actual value for the five fiscal years 2000-2004:

	General Government Debt	Property Tax Assessment	Estimated Actual Value	Debt to Assessment	Debt to Actual Value	Population	Debt Per Capita
2004	\$280,654,099	\$15,054,966,309	\$16,676,018,917	1.86%	1.68%	218,830(3)	\$1,283
2003	246,686,000	14,217,161,124	15,768,166,520	1.74	1.56	213,935(3)	1,153
2002 (4)	201,323,688	13,354,997,500	14,946,883,081	1.51	1.35	203,966(1)	987
2001	214,124,400	5,264,129,995	12,597,918,168	4.07	1.70	199,436(1)	1,074
2000	172,624,475	5,010,687,577	12,459,673,273	3.45	1.39	195,277(2)	884

(1) Population estimate as per the Maryland Department of Planning.

(2) Population estimate as per the U.S. Census Bureau.

(3) Population estimate as per the Frederick County Department of Planning.

(4) Beginning in 2002, the difference between the property tax assessment and the estimated actual value is the value of tax exempt real properties.

Source: Frederick County Finance Division.

The following table sets forth the County's debt service, exclusive of proprietary debt, as a percentage of General Fund Revenues for each of its five fiscal years 2000-2004:

	General Fund Revenues	Debt Service Expenditures	Percentage
2004	\$330,142,360	\$21,113,512	6.40%
2003	326,415,885	17,162,019	5.26
2002 (restated)	296,973,469	17,367,942	5.85
2001	264,271,839	16,236,501	6.14
2000	233,778,697	11,013,411	4.71

Source: Frederick County Finance Division.

The following table sets forth the computation of direct and overlapping debt of the municipalities within Frederick County as of June 30, 2004:

<u>Jurisdiction</u>	<u>Gross Debt Outstanding</u>	<u>Percentage Applicable to Frederick County</u>	<u>Amount Applicable to Frederick County</u>
Direct:			
Frederick County	\$ 381,883,514	100.0%	\$ 381,883,514
Overlapping:			
Brunswick	3,512,736	100.0	3,512,736
Emmitsburg	2,247,769	100.0	2,247,769
Frederick City	83,339,638	100.0	83,339,638
Middletown	4,697,560	100.0	4,697,560
Mount Airy	5,476,159	44.0	2,190,464
Myersville	4,754,306	100.0	4,754,306
Thurmont	8,040,967	100.0	8,040,967
Woodsboro	<u>3,552,649</u>	100.0	<u>3,552,649</u>
Totals	<u>\$ 497,505,298</u>		<u>\$ 494,219,603</u>

Source: Frederick County Finance Division.

The following table sets forth the different classes of capital projects and the amounts included in the Capital Budget for fiscal year 2005 and the amounts included in the Capital Program for the next five fiscal years indicated:

**Capital Budget, Program Requirements and Sources of Funds
(000s)**

<u>Classification</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government	\$15,415	\$50,446	\$ 9,756	\$17,781	\$ 18,010	\$ 29,055
Development Review	18,313	33,046	625	8,505	-	6,032
Water and Sewer	365	2,000	-	-	-	-
Parks and Recreation.....	5,164	3,311	10,733	5,370	3,969	1,205
Transportation Road Projects.....	119	287	252	3377	55	337
Transportation Bridge Projects.....	6,013	5,850	5,835	5,849	4,769	7,118
Road Widening, Overlay, Stabilization	3,175	2,627	3,189	863	1,459	1,221
Solid Waste	6,884	7,196	7,608	8,020	8,020	6,475
Community College	950	2,180	300	18,059	4,028	21,607
Board of Education	64,462	14,735	71,534	21,629	22,683	22,308
Municipalities.....	<u>5,507</u>	<u>1,490</u>	<u>5,015</u>	<u>705</u>	<u>7,834</u>	<u>16,050</u>
Total – Projects	<u>126,372</u>	<u>123,171</u>	<u>114,849</u>	<u>87,120</u>	<u>70,830</u>	<u>111,410</u>
Sources of Funds						
General Funds	\$ 17,464	18,400	19,320	20,286	21,300	22,365
General Obligation Bonds.....	21,211	25,640	43,135	33,540	29,833	52,848
Water /Sewer	3,562	1,323	100	250	103	-
Solid Waste Fund	365	1,000	-	-	-	-
Enterprise Fund Bonds.....	-	32,572	525	1,571	-	32
Federal Grants	3,026	11,572	2,680	1,016	8,736	1,252
State Grants	25,892	8,819	23,856	10,496	1,961	17,200
Impact Fees	5,058	4,460	1,344	4,635	3,049	882
	25,857	-	6,000	1,823	-	-
Building Excise	2,524	1,300	1,300	1,300	1,300	1,300
Recordation Tax – Parks.....	4,802	2,698	8,044	3,852	3,575	722
Recordation Tax – CNH	569	1,708	377	-	-	-
Recordation Bonds – CNH	-	16,929	1,311	-	-	-
Fire District Bonds	620	8,214	2,841	1,656	-	600
City of Frederick	1,000	1,357	4,013	9	969	8,205
Developer Funded	14,416	150	-	6,683	-	6,000
Private Donations	-	525	-	-	-	-
Total – Sources of Funds	<u>\$ 126,372</u>	<u>\$ 136,671</u>	<u>\$ 114,849</u>	<u>\$ 87,120</u>	<u>\$ 70,830</u>	<u>\$111,410</u>

Source: Frederick County Finance Division.

The County has consistently used a plan of “pay-as-you-go” financing. Under the pay-as-you-go approach, the County financed the construction of certain of its capital projects by appropriation of revenues from the current funds of the County. Monies expended under General Fund “pay-as-you-go” totaled \$17.7 million for fiscal year 2000; \$15.9 million for fiscal year 2001; \$16.6 million for fiscal year 2002; and \$21.3 million for fiscal year 2003, and \$19.6 million for fiscal year 2004. Through use of pay-as-you-go, the County has sought to reduce the aggregate amount of general obligation indebtedness issued that would otherwise bear interest to finance the construction of capital projects.

Future Plans to Issue Debt

The County’s capital improvement program is an ongoing process, which requires periodic issuance of the County’s general obligation bonds to fund any portion of such program appropriated from general obligation funds. The County anticipates the next general obligation bond sale in an appropriate amount of \$80,000,000 in the summer of 2005.

COUNTY LITIGATION

The County is currently involved in a number of legal disputes involving such matters as civil rights violations, construction contracts, personnel matters, automotive vehicle accidents and other negligence claims. Many of these are covered by insurance in whole or in part. Since certain of these disputes involve unspecified damages, it is not possible to provide a

total of the damages claimed. In the opinion of the County Attorney, such matters are unlikely to result, singly or collectively, in total liabilities that would have a material effect on the financial condition of the County.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

The financial statements included in Appendix A have been audited by Linton Shafer Warfield & Garrett, P.A., independent certified public accountants, as stated in their report appearing therein.

FINANCIAL ADVISOR

Davenport & Company LLC, Towson, Maryland, has rendered financial advice to the County in the preparation of this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc., a firm of independent arbitrage agents, will deliver to the County its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of computations prepared by Davenport & Company LLC relating to (a) the sufficiency of the anticipated receipts from the Government Obligations, together with the initial cash deposit, if any, to pay, when due, the principal, interest and redemption premium requirements of the Refunded Bonds and (b) the “yield” on the Government Obligations and on the Refunding Bonds.

The report of The Arbitrage Group, Inc. will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligations to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

CERTIFICATE OF COUNTY OFFICIALS

Simultaneously with or before delivery of and payment for the Bonds, the County will furnish to the purchaser or purchasers a certificate of the President of the Board and the Director of Finance, which shall state that, to the best of their knowledge and belief, this Official Statement (and any amendment or supplement thereto) as of the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in this Official Statement (and any amendment or supplement thereto).

CONTINUING DISCLOSURE UNDERTAKING

In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”) to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a continuing disclosure agreement (the “Continuing Disclosure Agreement”) on or before the date of issuance and delivery of the Bonds, the form of which is attached to this Official Statement as Appendix D. Potential purchasers of the Bonds should note that the definition of Reportable Events in Appendix D is intended to completely restate the events specified in Rule 15c2-12. It is noted that certain Reportable Events are expected to have no applicability to the Bonds, such as the possibility of unscheduled draws on debt service reserves and matters affecting collateral for the Bonds.

The County has not failed to comply with any prior continuing disclosure undertaking made pursuant to Rule 15c2-12.

SALE AT COMPETITIVE BIDDING

The Bonds were offered by the County at competitive bidding on May 5, 2005 in accordance with the Notice of Sale (the form of which is included herewith as Appendix C). The interest rate shown on the cover page of this Official Statement are

interest rates to the County resulting from the award of the Bonds at the competitive bidding therefore. Yields or prices shown on the cover page of this Official Statement are based on information supplied to the County by the successful bidder. Any other information concerning the terms of reoffering of the Bonds, if any, including yields or prices should be obtained from the successful bidders therefore, and not from the County.

MISCELLANEOUS

Financial data presented in this Official Statement which are identified as having been furnished by the County from its records, unless otherwise stated, reflect data prepared from the County's official records, which are public documents and which are believed to be accurate and reliable. Other data have been prepared by or furnished by sources (identified herein) which the County believes to be accurate and reliable, but the County does not guarantee the accuracy of such data. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement or any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The County's financial statements for the fiscal year 2004 were audited by Linton Shafer Warfield Garrett P.A.

This Official Statement has been prepared by the County. Davenport & Company LLC, Financial Advisor to the County, has assisted the County, with this financing. This Official Statement has been approved, authorized and executed by the appropriate officials of the County for use in connection with the sale of the Bonds, all pursuant to the legislation authorizing the issuance of the Bonds.

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Bonds.

Reference is made to Appendix B for the form of legal opinion on the validity of the Bonds.

The execution of this Official Statement and its delivery have been approved by the County.

COUNTY COMMISSIONERS OF FREDERICK COUNTY

BY: /S/JOHN L. THOMPSON, JR.
John L. Thompson, Jr.
President
Board of County Commissioners of Frederick County

BY: /S/ JOSEPH C. ZIMMERMAN, CPA
Joseph C. Zimmerman, CPA
Director of Finance

Frederick County, Maryland
Comprehensive Annual Financial Report
Fiscal Year 2004
July 1, 2003– June 30, 2004



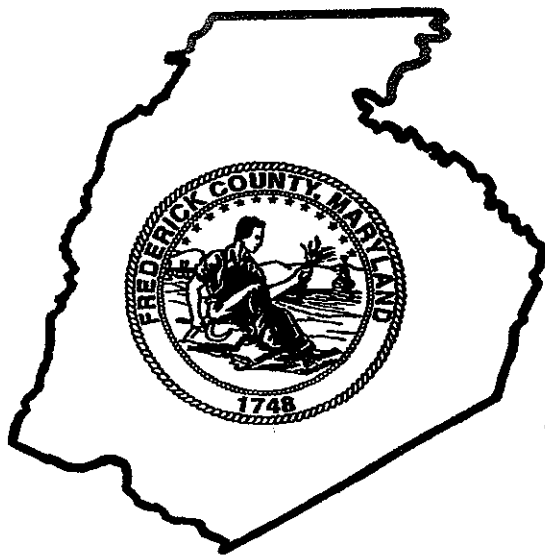
Prepared by the Finance Division

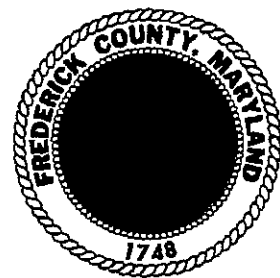
**FREDERICK COUNTY, MARYLAND
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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INTRODUCTORY SECTION





FINANCE DIVISION FREDERICK COUNTY, MARYLAND

Winchester Hall • 12 East Church Street • Frederick, Maryland 21701
301-694-1117 • FAX: 301-631-2302 • TTY: Use Maryland Relay
www.co.frederick.md.us

January 25, 2005

The Board of County Commissioners and the
Citizens of Frederick County, Maryland

COMMISSIONERS

John L. Thompson, Jr.
President

Michael L. Cady
Vice President

John R. Lovell, Jr.

Jan H. Gardner

Bruce L. Reeder

COUNTY MANAGER

Douglas D. Browning

DIVISION DIRECTOR

Joseph C. Zimmerman, CPA

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of Frederick County, Maryland (the "County") for the fiscal year ended June 30, 2004. This report was prepared by the County's Finance Division. The CAFR is designed to meet the requirements of generally accepted accounting principles and comply with the statutes and regulations that pertain to the presentation of financial information. This report includes the independent auditors' opinion of the Board of County Commissioners' appointed certified public accounting firm as provided by Section 2-7-68 of the Frederick County Code. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities have been included.

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement. The concept of reasonable assurance recognizes that:

- the cost of a control should not exceed the benefits likely to be derived, and
- the valuation of costs and benefits requires estimates and judgments by management.

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 financial statements of Frederick County, Maryland have been audited by Linton Shafer Warfield & Garrett, P.A., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable

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assurance that the financial statements of Frederick County, Maryland for the fiscal year ended June 30, 2004 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 financial statements for Frederick County, Maryland for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The auditor's report is presented as the first component of the financial section of this report.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 (as amended in 1996) and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be included in a separately issued single audit 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 County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Frederick County, founded in 1748, originally included the present Maryland counties of Garrett, Allegany, Washington, Carroll and Montgomery. It is located in the north central part of Maryland, is 664 square miles in area, and serves a population of 218,830. Frederick County, Maryland is bordered on the north by the state of Pennsylvania, on the west by Washington County, Maryland on the east by Howard and Carroll Counties, both in Maryland, and on the south by Montgomery County, Maryland and the state of Virginia.

There are twelve incorporated towns within Frederick County of which eight have populations over 1,000. The County seat and largest city is the City of Frederick, and according to the 2000 Census, has a population of 52,767. The City of Frederick is located approximately 45 miles northwest of Washington, D.C. and 45 miles west of Baltimore, Maryland.

Frederick County is governed by an elected five-member Board of County Commissioners (the "Board") which serves for four years. Section 3 of Article 25 of the Annotated Code of Maryland of 1957, as amended (the "Maryland Code") sets out the enumerated powers of the county commissioners of each county in the State of Maryland (the "State") that is governed by county commissioners. Section 1 of said Article 25 declares the county commissioners of a county to be a corporation. Under Maryland law, the county commissioners combine executive and legislative functions. The executive offices of the County are located at Winchester Hall, 12 East Church Street, Frederick, Maryland.

The Board may exercise only such powers as are conferred on it by the Maryland Code, and by public local laws enacted by the General Assembly of Maryland, which are codified in Part II of

the Frederick County Code, 1979, as amended (the "County Code").

Section 1 of Article 25 of the Maryland Code empowers the Board to appoint a clerk to the Board, and all other officers, agents and employees required for County purposes not otherwise provided by law. The County Code empowers the Board to appoint an attorney to provide it with legal services and a county manager to administer and supervise the daily operations of County staff.

The County provides a full range of services, including fire and rescue; law enforcement; sanitation services; construction and maintenance of highways, streets, and infrastructure; recreational activities; and general government activities. The County's sanitation services, i.e., water, sewer, and solid waste management, are wholly supported through user fees; the remaining services are primarily tax-supported. Incorporated municipalities within Frederick County provide some or all of the following services within their boundaries which relieves the County from providing these services in those areas: bulk trash collection, highway and street maintenance, parks and recreation, and police protection. The County is also financially accountable for legally separate entities which are reported separately within the County's financial statements. The entities, known as component units, that meet these criteria are the Frederick County Board of Education, the Frederick Community College, and the Frederick County Public Libraries. Additional information on the component units can be found in Note 1 in Exhibit II-A-14.

The annual budget serves as the foundation for the County's financial planning and control. The County budget is comprised of the operating budget for the General Fund, the Capital Budget, and the Capital Program (a six year plan). Budgets are also adopted for Special Revenue, Enterprise and Internal Service Funds. The formulation of the County's budget is the responsibility of the Director of Finance, a County official appointed by the Board. Public local law requires the budget (1) to be adopted by the Board prior to the beginning of the fiscal year, and (2) to be in balance at the end of the fiscal year.

The General Fund Budget is prepared and submitted to the Board by the Director of Finance based on estimated revenues and expenditures of operations submitted by the County departments and agencies for the ensuing fiscal year. As submitted to the Board, the General Fund Budget must contain: the current fiscal year's estimated fund balance in excess of 5 percent of the General Fund expenditures and transfers to the Board of Education, Frederick Community College, and Frederick County Public Libraries on a budgetary basis for the prior fiscal year, if any; estimates of receipts from taxes at a rate sufficient to balance said budget; recommended appropriations for current expenditures for each department or agency, and for other purposes; and amounts sufficient to meet all general obligation debt service requirements for the next fiscal year, including portions of the Capital Program to be financed out of current revenues during said fiscal year.

The Capital Budget is the County's plan to receive and expend funds for capital projects during the ensuing fiscal year. The Capital Program sets forth the County's plan of proposed capital projects to be undertaken in the ensuing fiscal year and the next five fiscal years and the proposed means of financing such projects. The Capital Budget and Capital Program are prepared by the Planning Department in cooperation with the Director of Finance from submissions by the County departments and agencies and must be approved by the Board. The portion of the cost of the Capital Budget that is to be paid from current expense funds may be

included in the General Fund Budget.

No department or agency of County government may, during any fiscal year, expend or contract to expend any money or incur any liability or enter into any contract which by its terms involves the expenditure of money in excess of the amounts appropriated or allocated for the same general classification of expenditure in the budget for such fiscal year, or in any line item transfer approved by the Board; and no payment may be made nor any obligation or liability incurred which has not been provided for in the Capital Budget. Transfer of appropriations among the items set forth therein may be authorized with the approval of the Board.

Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are presented for the two major governmental funds which adopt an annual budget, and are presented in Exhibits II-A-7 and II-A-8.

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 County operates.

Local Economy - The economic condition and outlook of the County have substantially improved during the past ten years. According to census records, the population of the County has grown from 150,208 in 1990 to 195,277 in 2000, with an estimated population of 218,830 as of July 2004, a 46 percent increase from 1990. The growth rate for the State of Maryland for that same time period was 14 percent. The Department of Planning and Zoning estimates the growth will be steady through the year 2020, when the population will reach an estimated 282,100.

Frederick County had the largest increase in the number of new jobs created from 2001 to 2003 compared to all counties in the State of Maryland. In 2001, there were 79,463 jobs and in 2003 the average employment increased by 6,705, for a total of 86,168. Approximately 85 percent of these jobs were in the private sector. The civilian labor force in the County was estimated at 113,051 in June 2004. Of this number, 109,775 were employed, resulting in an unemployment rate for the County of 2.9 percent in June 2004. This rate is substantially lower than the statewide unemployment rate of 4.2 percent and the national unemployment rate of 5.4%. (Source: Maryland Department of Labor, Licensing and Regulation)

The County's estimated actual property value has increased \$7.0 billion since 1995. As of June 30, 2004, taxable assessed value totaled \$15.1 billion. The growth in the taxable assessable base for FY2004 was 5.9 percent. The continuation of emphasis on economic development within the County should result in above average assessable base growth in the foreseeable future.

Long-term Financial Planning - Major initiatives during FY2004 were predominately in the Capital Budget area. Major general governmental projects approved in the six year Capital Improvements Program (fiscal years 2004-2009) include

- South County (Urbana) Regional Library
- North County (Thurmont) Regional Library
- Road & Bridge improvements (Countywide)
- Frederick Community College classroom building

- Middletown Primary School
- Urbana Area Elementary School
- Urbana Area Middle School
- Northeast Frederick City Area Elementary School
- East County Area High School
- Brunswick High School addition
- Brunswick Area Elementary School

Additional projects to expand and improve park facilities and construct water and wastewater infrastructure to serve the growing population are included in the plan. The entire Capital Improvements Plan totals \$609 million for fiscal years 2004 to 2009.

Frederick County concluded the fiscal year ended June 30, 2004, with a General Fund unreserved and undesignated fund balance of \$41.0 million. Section 2-7-1(a) of the Frederick County Code provides that "the County must maintain an unappropriated undesignated General Fund balance equal to 5% of General Fund expenditures and transfers to the Board of Education and the Frederick Community College". Expenditures and transfers to component units measured on a budgetary basis totaled \$292,031,663. The required balance of the reserve was \$14.6 million, an increase of \$.7 million over fiscal year 2003. The actual undesignated fund balance increased \$11.8 million from the undesignated fund balance at June 30, 2003. The major contributing factor to this increase was a change in the method of distributing local income tax collected by the State of Maryland for the County. This change yielded revenue of \$11.0 million which is of a one-time nature. The June 30, 2004 unreserved, undesignated fund balance of \$41.0 million provides \$26.4 million of excess fund balance above the required 5 percent requirement. This amount is available for use in funding future budgets.

Cash Management Policies and Practices - In accordance with State law, Frederick County has adopted an investment policy that provides the legal framework for the County's investment and cash management operation. Within this framework, the County maintains a sophisticated and aggressive cash management and investment program in order to achieve maximum financial return on available funds. Idle cash is pooled and invested on a daily basis at the best obtainable rates. Investments are generally limited to federal obligations and fully collateralized repurchase agreements. For FY2004 General Fund earnings from these programs totaled \$1.7 million.

Risk Management - The County continues to work to keep safety programs and loss control operations working effectively. The Office of Risk Management is tasked with protecting the assets of Frederick County from unnecessary and controllable losses. The primary goal is to reduce losses by providing a safe workplace for our employees, and eliminating hazards to the public on County property. Implementation of Safety and Loss Control programs combined with ongoing analysis of exposures has reduced our overall losses and the associated cost. As liaison to the Appointed Insurance Committee, the County's Risk Manager is to act in an advisory capacity to aid in obtaining the best insurance coverage possible for the most economical premiums available. The broad knowledge base of the Insurance Committee assists the County in negotiating premiums lower than that of the standard market. The County's Workers' Compensation policy carries a 5 percent drug free workplace credit, which equates to a premium savings of \$144,812. The County's modified duty policy, which returns injured workers back to the workplace during recuperation, saves in lost work time and increases productivity.

Pension and Other Post-employment Benefits - Frederick County employees participate in a single-employer pension plan (all employees hired after June 30, 1993 and existing employees as of that date who elected to transfer to the plan) which is administered by the County and in two cost-sharing multiple-employer pension plans administered by the State. Employer's contributions for the year were \$10.2 million. Employees' contributions were \$3.3 million.

The remaining eligible County employees are members of either the Employees' Retirement System of the State of Maryland or the Pension System for Employees of the State of Maryland. Due to the withdrawal of the County from the State systems for all hires after June 30, 1993, the State calculated a net unfunded amount due from the County at that date. Interest and principal payments due to maturity as of June 30, 2004 are \$7,761,096. The County has chosen to make 9 remaining payments of \$862,344 to amortize and pay interest on the liability.

The employees of the Board of Education are covered under one of four defined benefit retirement plans which are administered by the Maryland State Retirement and Pension Systems. The Board's share of contributions for teachers and administrative employees' is primarily the responsibility of the State. Total contributions were approximately \$14.8 million in FY 2004. This contribution was recognized as both a revenue and expenditure for the Board of Education.

Substantially all permanent employees of Frederick Community College are covered under one of three pension/retirement plans. Two of these plans are provided directly by the State, and the employer funding for eligible College employees is provided by the State. The other retirement plan is an option for certain professional employees, and is also provided for those College employees for which the State does not provide employer share funding. For FY2003, State contributions toward retirement for College employees were approximately \$890,000.

In 1985, the County created the Length of Service Awards Program (LOSAP). In fiscal year 2003, LOSAP provided 74 annuities to former volunteer members of the County's fire companies or rescue squads who met certain age and service criteria. Benefits and life insurance premiums totaling \$224,227 in fiscal year 2004 also include survivor annuities and lump-sum death benefits and are reported in the Primary Government's General Fund on a "pay-as-you-go" basis.

In addition to the retirement benefits described in Note 4, Exhibit II-A-14, the County provides post-employment health care benefits, in accordance with County policy, to all employees (and their dependents) who are eligible to and retire from the County and who meet certain requirements. Benefits are based on when an employee was hired. For employees hired on or before July 1, 1992, the County pays 83 to 84 percent of the cost of premiums for medical and hospitalization costs. Employees hired after July 1, 1992, also must have worked for the County for a minimum of ten years; these employees pay 50 percent of the cost of premiums. Currently, 368 retirees are receiving post-employment health care benefits. Upon the attainment of age 65, Medicare coverage becomes primary, although the County continues to pay its share of premium costs for the insurance coverage selected by its retirees. Expenses for post-employment health care benefits are recognized as incurred. During the year, expenses of \$1,662,786 were recognized for post-employment health care.

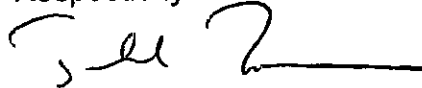
Awards and Acknowledgements - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Frederick County, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such 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 our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not have been accomplished without the dedicated team effort of the staff of the County's Finance Division. Each member of the Division has my sincere appreciation for the contributions made in preparation of this report. Special recognition is given to the Accounting Department Team Leaders: Leslie Pellegrino, Erin White, Susan Blum, and Lori Decker, along with their staffs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. Zimmerman", with a long horizontal line extending to the right.

Joseph C. Zimmerman, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Frederick County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



Nancy L. Zjelke

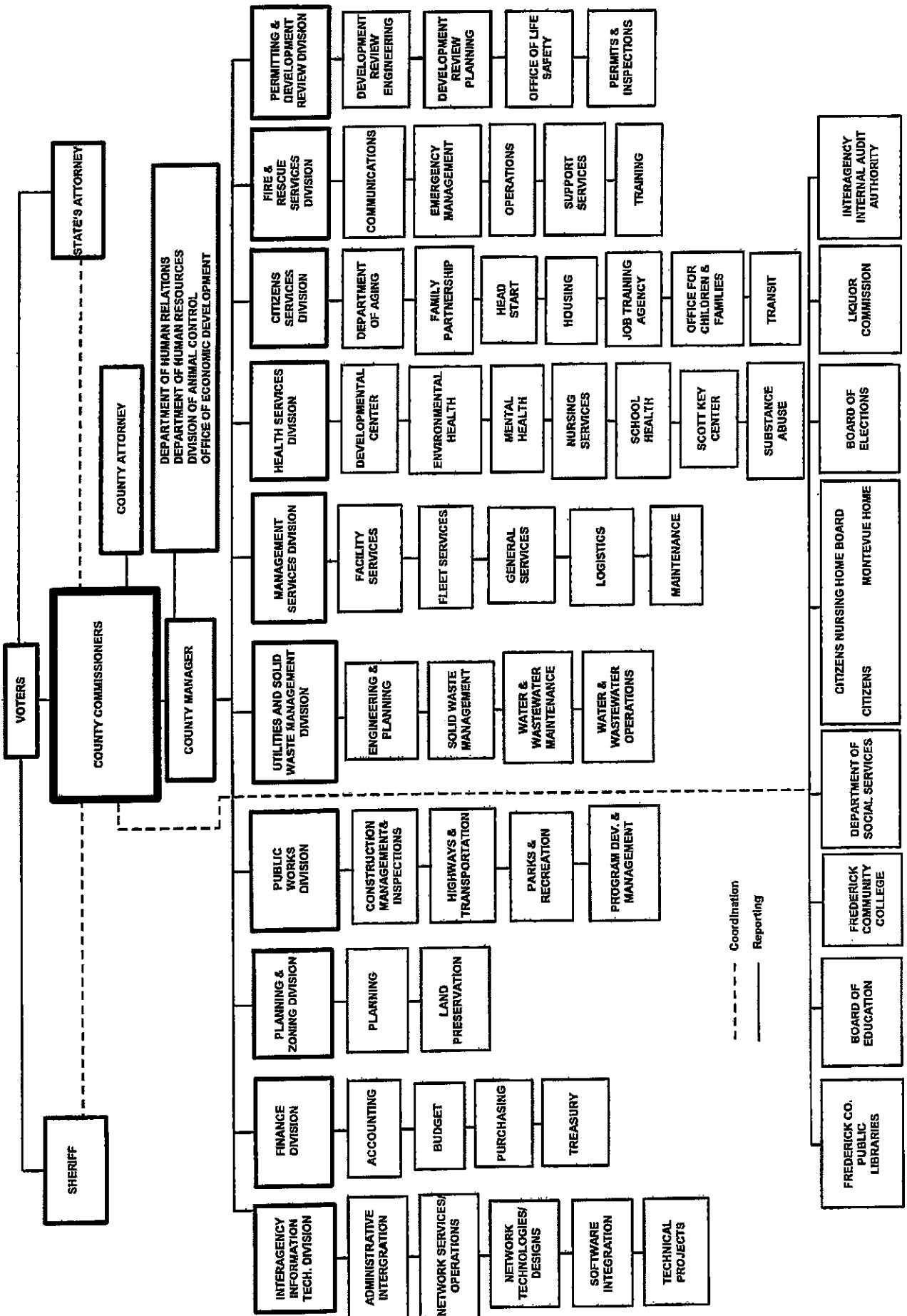
President

Jeffrey R. Emer

Executive Director

FREDERICK COUNTY, MARYLAND GOVERNMENT ORGANIZATION CHART

Printed 5/11/14
Frederick County, Maryland
201 Popper Street, Room 200
Frederick, MD 21734



Frederick County, Maryland

Summary of Elected and Appointed Officials

Board of County Commissioners

John L. Thompson, Jr., *President*

Michael L. Cady, *Vice President*

John R. Lovell, Jr.

Jan H. Gardner

Bruce L. Reeder

Sheriff

State's Attorney

County Attorney

County Manager

Division of Animal Control

Director of Citizens Services Division

Director of Finance Division

Director of Fire and Rescue Services Division

Director of Interagency Information Technologies Division

Director of Management Services Division

Director of Planning Division

Director of Permitting & Development Review

Director of Public Works Division

Director of Utilities and Solid Waste Management Division

Health Officer - Health Services Division

Director of Department of Human Relations

Director of Department of Human Resources

Director of Office of Economic Development

Director of Frederick County Public Libraries

Director of Internal Audit

James W. Hagy

Scott L. Rolle, Esquire

John S. Mathias, Esquire

Douglas D. Browning

Harold L. Domer

Michael E. Stovall, Ph.D.

Joseph C. Zimmerman, CPA

Walter F. Murray

Dale R. Spangenberg

Austin S. Abraham

Eric E. Soter

Gary W. Hessong

Alan J. Hudak, P.E.

Michael G. Marshner

Barbara A. Brookmyer, MD

Lydell Scott

Mitchell L. Hose

Marie S. Keegin

Darrell L. Batson

Martin T. Standel

FINANCIAL SECTION

**Report of Independent Certified Public Accountants
on Basic Financial Statements**

Board of County Commissioners of
Frederick County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Frederick County, Maryland, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Frederick County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Frederick County Board of Education and the Frederick Community College, which represents 99% and 98%, respectively, of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Frederick County Board of Education and the Frederick Community College, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

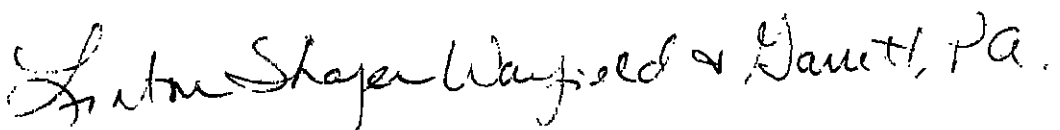
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Frederick County, Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3H to the basic financial statements, the beginning net assets of the governmental and business-type activities of the primary government, the beginning fund balances of the governmental funds, and the beginning net assets of the proprietary funds have been restated for changes and errors in the application of accounting principles generally accepted in the United States of America. The beginning balances of Frederick Community College were restated in accordance with *Governmental Accounting Standards Board Statement No. 39*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2005 on our consideration of Frederick County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information is not a required part of the basic financial statements but is 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 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 basic financial statements of Frederick County, Maryland. The introductory section, combining and individual nonmajor fund financial statements, other schedules listed in the Table of Contents as supplementary information, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, and other schedules of supplementary information, listed in the Table of Contents as Exhibits II-B, II-A-15, and II-A-16, have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

January 13, 2005 

MANAGEMENT'S DISCUSSION AND ANALYSIS

Frederick County Government's (the "County") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the County's financial activity, (c) identify changes in the County's financial position (it's ability to address the next and subsequent years challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter (beginning on page 1) and the County's financial statements (beginning on page 30).

HIGHLIGHTS

Financial Highlights

- The assets of Frederick County Government exceeded its liabilities at the close of the most recent fiscal year by \$452.3 million (net assets). Approximately 53.0% of this amount is attributable to the County's business-type activities. Of total net assets, \$374.0 million is invested in capital assets, net of related debt, and \$26.8 million is restricted for specific purposes (restricted net assets). The County's total unrestricted net assets is \$52.0 million. This total unrestricted net asset amount includes a balance of \$90.1 million from business-type activities, offset by a deficit balance in unrestricted net assets from governmental activities of \$38.1 million. This deficit balance in unrestricted net assets is the result of the County issuing debt to fund construction for the Frederick County Board of Education, a component unit. The school buildings that are constructed through the County's financial support are assets of the Frederick County Board of Education, and therefore are not shown as assets of Frederick County Primary Government. Included in the County's liabilities at year-end is approximately \$186.0 million of bonds payable, the proceeds of which were used to fund school construction.
- The County's overall financial position has improved since the prior fiscal year. Total net assets increased by \$32.5 million (or 8.0%). The governmental net assets increased by \$13.8 million (or 7.0%), primarily the result of revenues from Income Taxes and Recordation Taxes being higher than expected. For fiscal year 2004, the State of Maryland changed the method of distribution for local income tax collected by the State. This change resulted in a one-time increase in revenues of \$8.0 million. Additionally, the State made a one-time adjustment to the amount of local income taxes held as undistributed at any given time. This change resulted in one-time revenues of \$3.0 million. The business-type net assets increased by \$18.7 million (or 9.0%), primarily the result of capital contributions in the Water and Sewer Fund.
- The governmental activities revenue totaled \$410.6 million (or 87.0% of total revenue) and the net results from governmental activities totaled \$13.8 million (or 42.0% of the total change in net assets).

- The business-type activities revenue totaled \$59.5 million (or 13.0% of total revenue) and the net assets from business-type activities increased by \$18.7 million (or 58.0% of the total change in net assets).
- The total cost of all County programs was \$437.6 million.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase in fund balance of \$6.3 million. At the close of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$41.0 million, or 14.0% of total General Fund expenditures. Of the total unreserved amount, \$14.6 million, is a required set-aside. Designated fund balance of the General Fund was \$25.3 million, or 62.0% of the total unreserved fund balance.
- As of June 30, 2004, the County's governmental funds reported combined fund balances of \$156.1 million, an increase of \$29.4 million in comparison with the prior year.
- Frederick County's total bonded debt increased by \$13.1 million during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Frederick County Government's basic financial statements. The basic financial statements are comprised of three components:

Government Wide Financial Statements
Fund Financial Statements
Notes to the Financial Statements

This report also contains other required and non-required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which present a total for the Primary Government. The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to bottom line results for the County and its governmental and business-type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

Component Units, which are other governmental units over which the County can exercise influence and/or may be obligated to provide financial subsidies, are presented as separate

columns in the government-wide statements. The focus of the statements is clearly on the Primary Government and the presentation allows the user to address the relative relationship with the Component Units.

The Statement of Activities (Exhibit II-A-2) is focused on both the gross and net cost of various functions (including governmental, business-type and component units), which are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities and/or component units. This statement presents information showing how the government'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 affect cash flows in future fiscal years and to a limited effect, has affected cash flows in a prior reporting period.

The Government Activities reflects the County's basic services, including general government, public safety, public works, health, social services, education, parks/recreation/culture, conservation of natural resources, community development/public housing, economic development, intergovernmental and interest on long term debt. Local property, income, and other local taxes, along with charges for services, and grants finance the majority of these services. The Business-type Activities reflect private sector type operation including water and sewer services, solid waste management and health care facilities, where the fee for service typically covers all or most of the cost of operation, including depreciation.

The government-wide financial statements include not only Frederick County itself (known as the primary government), but also a legally separate board of education, a legally separate community college, and a legally separate library board for which the County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits II-A-1 and II-A-2 of this report.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. The County, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County 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 governmental-wide financial statement. 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.

The Governmental Major Fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 33).

Frederick County maintains thirteen individual governmental funds: the General Fund, the Grants Fund, the Capital Projects Fund, the Fire/Rescue Tax Districts Fund, the Agricultural Preservation Fund, the Impact Fees Fund, the Economic Development Loan Fund, the Electric Lighting Districts Fund, the Parks Acquisition and Development Fund, the Development Road Improvement Fund, the Sheriff's Office Fund, the Fire/Rescue Loans Fund and the Non-Profit Organizations Loans Fund.

Frederick County adopts an annual appropriated budget for its General Fund and each of the Special Revenue Funds (except for the Fire/Rescue Loans Fund and the Non-Profit Organizations Loans Fund). A budgetary comparison statement has been prepared for the general and grants funds. The budget comparison schedules showing budget and actual results, can be found on pages 38 and 39 of this report.

Proprietary Funds: Frederick County maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. Frederick County has six individual enterprise funds: the Water & Sewer Fund, the Solid Waste Management Fund, the Citizens Nursing Home Fund, the Montevue Home Fund, the Bell Court Apartments Fund, and the Department of Permitting and Development Review. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among Frederick County's various functions and activities. Frederick County uses an internal service fund to account for fleet services operations. Because the services of this fund benefit both the governmental and business-type functions, it has been included in both the governmental activities and business-type activities in the government-wide financial statements. The basic proprietary fund financial statements are presented in Exhibit II-A-9, II-A-10, and II-A-11.

Fiduciary Funds: The Fund Financial Statements also allow the government to address its Fiduciary Funds, (See Exhibits II-A-12 and II-A-13). Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. The County's Fiduciary Funds include the Pension Trust Fund and various Agency Funds. While the Fiduciary Funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the Government-Wide Financial Statements. The accounting used for the Fiduciary Funds is much like that used for Proprietary Funds.

While the total column on the Business-type Fund Financial Statements (see Exhibit II-A-9 and II-A-10) may be the same as the Business-type column on the Government-Wide Financial Statement, the Governmental Major Funds total column requires a reconciliation because of

the different measurement focus (current financial resources versus total economic resources) which is reflected on Exhibits II-A-7 and II-A-8. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the Governmental Activities column in the Government-wide statements.

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 are part of the basic financial statements and are presented in Exhibit II-A-14.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Frederick County's progress in funding its obligation to provide retirement benefits to its employees. The required supplementary information is presented in Exhibits II-A-15 and II-A-16.

Infrastructure Assets

This is the government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) in the governmental financial statements. These assets have been valued and reported within the Governmental activities column of the Government-wide Statements. Additionally, the County had the option to elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The County has elected to depreciate the assets over their estimated useful life.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section presents the County's financial information in the government-wide financial statement format.

As noted earlier, changes in net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of Frederick County, assets exceeded liabilities by \$452.3 million at the close of the fiscal year. Frederick County's net assets are divided into three categories, invested in capital assets-net of related debt, restricted net assets and unrestricted net assets. The largest portion of the County's net assets (83.0%) reflects its investment in capital assets-net of depreciation (e.g. land and easements, buildings, machinery, equipment, infrastructure and improvements), less any unmatured debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 6.0% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government

have a balance of \$52.0 million, which represents 12.0% of total net assets. The unrestricted net assets for business-type activities have a balance of \$90.1 million.

The County issues long-term debt to finance the construction of public schools. These public schools are considered capital assets of the Board of Education and are not included as assets of the County. The fact that the County must report the long-term debt for the schools as a liability, but cannot report the schools being financed by the County as assets, has an adverse impact on the County's unrestricted net assets.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets for the current and prior years.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated
Current and other assets	\$ 229,693	\$ 193,858	129,086	\$ 114,178	\$ 358,779	\$ 308,036
Capital assets	296,703	291,489	242,141	236,519	538,844	528,008
Total assets	<u>526,396</u>	<u>485,347</u>	<u>371,227</u>	<u>350,697</u>	<u>897,623</u>	<u>836,044</u>
Current and other liabilities	31,722	28,767	12,867	8,305	44,589	37,072
Long-term debt outstanding	280,654	256,330	120,037	122,796	400,691	379,126
Total Liabilities	<u>312,376</u>	<u>285,097</u>	<u>132,904</u>	<u>131,101</u>	<u>445,280</u>	<u>416,198</u>
Net Assets:						
Invested in capital assets, net of debt	225,535	225,304	147,999	142,220	373,534	367,524
Restricted	26,589	20,310	191	158	26,780	20,468
Unrestricted (deficit)	(38,104)	(45,364)	90,133	77,218	52,029	31,854
Total net assets	<u>\$ 214,020</u>	<u>\$ 200,250</u>	<u>\$ 238,323</u>	<u>\$ 219,596</u>	<u>\$ 452,343</u>	<u>\$ 419,846</u>

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets as a whole.

The government's net assets increased by \$32.5 million during the fiscal year. Net assets of governmental activities increased \$13.8 million in fiscal year 2004, compared to an increase of \$41.7 million for fiscal year 2003 as restated. The increase in net assets of business-type activities was \$18.7 million in fiscal year 2004, compared to an increase of \$13.3 million for fiscal year 2003 as restated.

For more detailed information see the Statement of Net Assets (Exhibit II-A-1).

Statement of Activities

The following table presents the revenues and expenses for the current fiscal year, with comparative data for the prior year. This information reflects the increases in net assets for these two fiscal years.

Table 2
Statement of Activities
For the Fiscal Year Ended June 30,
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated
REVENUES						
Program revenues						
Charges for services	\$ 10,666	\$ 18,392	\$ 43,393	\$ 34,467	\$ 54,059	\$ 52,859
Operating grants and contributions	33,920	35,879	8,810	6,304	42,730	42,183
Capital grants and contributions	6,508	5,678	5,929	3,312	12,437	8,990
General revenues						
Local property taxes	167,913	139,943	-	-	167,913	139,943
Local income taxes	137,782	144,297	-	-	137,782	144,297
Other local taxes	49,074	36,782	-	-	49,074	36,782
Investment earnings	2,514	2,514	654	4,155	3,168	6,669
Miscellaneous	2,251	2,024	695	660	2,946	2,684
Total revenues	410,628	385,509	59,481	48,898	470,109	434,407
EXPENSES						
Program Activities						
Primary Government						
Governmental Activities:						
General government	24,302	37,043	-	-	24,302	37,043
Public safety	48,232	45,682	-	-	48,232	45,682
Public Works	31,657	12,583	-	-	31,657	12,583
Health	15,002	20,753	-	-	15,002	20,753
Social services	5,935	4,018	-	-	5,935	4,018
Education	214,619	192,710	-	-	214,619	192,710
Parks, recreation, and culture	10,937	8,163	-	-	10,937	8,163
Conservation of natural resources	4,981	2,999	-	-	4,981	2,999
Community development and public housing	3,634	2,951	-	-	3,634	2,951
Economic development and opportunity	10,369	11,047	-	-	10,369	11,047
Miscellaneous	4,397	2,291	-	-	4,397	2,291
Intergovernmental	4,797	4,455	-	-	4,797	4,455
Interest on long term debt	11,090	9,866	-	-	11,090	9,866
Business-type Activities						
Water and sewer	-	-	19,786	17,682	19,786	17,682
Solid waste management	-	-	11,613	9,619	11,613	9,619
Non-major proprietary funds	-	-	16,261	12,445	16,261	12,445
Total expenses	389,952	354,541	47,660	39,746	437,612	394,287
Increase in net assets before transfers	20,676	30,968	11,821	9,152	32,497	40,120
Transfers	(6,906)	(2,442)	6,906	2,442	-	-
Increase (Decrease) in Net Assets	13,770	28,526	18,727	11,594	32,497	40,120
Net Assets - Beginning	200,250	158,540	219,596	206,297	419,846	364,837
Prior Period Adjustment	-	13,184	-	1,705	-	14,889
Net Assets - Ending	\$ 214,020	\$ 200,250	\$ 238,323	\$ 219,596	\$ 452,343	\$ 419,846

Governmental Activities: Governmental activities increased Frederick County's net assets by \$13.8 million, thereby accounting for 42.0% of the total growth in the net assets of Frederick County. A key element of this overall increase is due to total taxes collected from all governmental sources. Total tax revenue increased by 11.0% or \$33.7 million during fiscal year 2004. \$11.0 million of the increase is due to changes in the distribution method for local income tax collected for the County by the State of Maryland. This amount is considered to be one-time in nature.

Business-type Activities: Business-type activities increased Frederick County's net assets by \$18.7 million, accounting for 58.0% of the total growth in the government's net assets. The key element of this increase relates to contributions from developers. Capital contributions continue to provide a major revenue source for the Water and Sewer Fund during the current fiscal year, producing \$14.7 million in revenue.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Frederick County's governmental funds reported combined ending fund balance of \$156.1 million. Approximately 88.0% of this total amount (\$137.7 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period (\$16.6 million), (2) for inventories (\$.5 million), (3) for long-term receivables (\$.9 million) or (4) dedicated for a variety of restricted purposes (\$.4 million). The reserved fund balance, at 12.0% of total fund balance, does not significantly affect the availability of fund resources for future use.

The General Fund is the chief operating fund of Frederick County. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$41.0 million, while total fund balance reached \$69.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 22.6% of total General Fund expenditures, while total fund balance represents 24.0% of that same amount.

The fund balance of Frederick County's General Fund increased by \$6.3 million during the current fiscal year.

The Capital Projects Fund has a total fund balance of \$39.3 million. The total increase in fund balance was \$5.3 million.

Proprietary Funds: Frederick County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$78.0 million and unrestricted net assets in the Solid Waste Management Fund totaled \$12.0 million.

General Fund Budgetary Highlights

The final budget for the General Fund was increased \$2.6 million over the original budget. This increase was the result of appropriating lease purchase proceeds received during the fiscal year. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, eliminating the need to draw upon the appropriated fund balance of \$26.1 million. The major differences between the final budget and the actual amounts are summarized as follows:

- Local property tax revenue exceeded the budget amount by \$.5 million due to new construction above budget estimates.
- Local income tax distributions exceeded the budget by \$12.0 million primarily due to changes in distribution methods by the State of Maryland as previously mentioned.
- Other local taxes, primarily recordation tax collections, exceeded the budget by \$9.6 million. These funds are generated by recordation taxes charged on the recording of mortgage instruments are a result of the County's strong real estate market coupled with increased refinancing activity.
- Investment earnings were under budget by \$1.4 million due to continued poor yields on short-term investments.
- Various departmental under spending of appropriations resulted in total expenditures being under budget by \$10.0 million. The largest contribution to this savings was \$3.2 million in debt service due delays in issuance of new bonds.

Capital Asset and Debt Administration

Capital Assets: Frederick County Government's investments in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2004 and 2003, as restated, amount to \$538.8 million and \$528.0 million, respectively. This investment in capital assets includes land, easements, buildings, improvements, machinery and equipment, vehicles, roads, water and sewer lines, highways and bridges and construction

in progress. The total increase in Frederick County's investment in capital assets for the current fiscal year was 2.0%.

Table 3
Capital Assets, Net of Depreciation
June 30,
(In Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated
Land	\$ 20,879	\$ 17,382	\$ 7,059	\$ 7,059	\$ 27,938	\$ 24,441
Construction in prog.	16,226	40,860	25,334	23,157	41,560	64,017
Buildings, impr. & equip.	109,157	77,632	56,218	57,754	165,375	135,386
Infrastructure	150,441	155,615	153,530	148,549	303,971	304,164
Total	\$ 296,703	\$ 291,489	\$ 242,141	\$ 236,519	\$ 538,844	\$ 528,008

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in Note 3C.

Table 4
Change in Capital Assets
For the Fiscal Year Ended June 30, 2004
(In Thousands)

	Governmental Activities	Business-type Activities	Total
Beginning Balance (as restated)	\$ 291,489	\$ 236,519	\$ 528,008
Additions	69,039	28,055	97,094
Retirement	(49,612)	(15,243)	(64,855)
Depreciation	(16,258)	(9,011)	(25,269)
Retirement*	2,045	1,821	3,866
Ending Balance	\$ 296,703	\$ 242,141	\$ 538,844

*Reduction in accumulated depreciation related to retirement.

Costs incurred for major capital asset additions during the current fiscal year, not including prior year costs, include the following projects:

Governmental Activities:

- Construction costs were incurred for the following projects:
 - Emmitsburg Community Center, \$1.1 million
 - Detention Center, \$1.8 million

- Transferred to the Frederick County Board of Education for school construction:
 - Tuscarora Elementary, \$8.9 million
 - Crestwood Middle, \$8.7 million
 - Tuscarora High School, \$2.9 million

Business-type Activities:

- Landfill Site B Cell II, phase 2, \$1.8 million
- Fountaindale Line Replacement, \$1.0 million
- Buckeystown Pike Water Transmission, \$1.1 million
- Adamstown Sewer, \$.9 million

Debt Outstanding

As of year-end, the County had \$320.4 million in bond debt outstanding compared to a total of \$307.3 million last year, a 4.0% net increase.

Table 5
Outstanding Debt
(In Thousands)

	<u>Balance</u> <u>June 30, 2004</u>	<u>Balance</u> <u>June 30, 2003</u>
Governmental Activities:		
Bonds and notes payable:		
General obligation bonds	\$ 243,800	\$ 225,823
Bond anticipation notes	8,150	11,130
Installment purchase agreements	8,775	1,147
Other notes payable	7,973	8,586
	<u>268,698</u>	<u>246,686</u>
Add remaining original issue premium	1,851	1,298
Less deferred amount on bond refundings	(1,125)	(842)
Total bonds and notes payable	<u>269,424</u>	<u>247,142</u>
Other liabilities:		
Capital lease obligations	5,538	3,942
Compensated absences	5,692	5,355
Total other liabilities	<u>11,230</u>	<u>9,297</u>
Governmental activities long-term liabilities	<u>\$ 280,654</u>	<u>\$ 256,439</u>
Business-type Activities:		
Bonds and notes payable:		
General obligation bonds	\$ 76,586	\$ 81,447
Other notes payable	31,062	31,407
	<u>107,648</u>	<u>112,854</u>
Add remaining original issue premium	889	840
Less deferred amount on bond refundings	(871)	(820)
Total bonds and notes payable	<u>107,666</u>	<u>112,874</u>
Other liabilities:		
Compensated absences	1,067	878
Landfill closure costs	11,304	9,044
Total other liabilities	<u>12,371</u>	<u>9,922</u>
Business-type activities long-term liabilities	<u>\$ 120,037</u>	<u>\$ 122,796</u>

In September 2003, the County issued \$49,005,000 of General Obligation Public Facilities and Refunding Bonds of 2003. The proceeds of these bonds were used to refund certain maturities of bonds issued in 1993 and to provide funds for the design, planning, renovation and construction of public schools and other governmental facilities. The rating agencies provided the following ratings to this new debt issue.

Aa2 from Moody's Investors Service Inc.
AA from Standard & Poor's
AA+ from Fitch Ratings

In February 2004, the County entered into a capital lease agreement. The \$2,515,000 in proceeds was used to acquire fire and rescue equipment.

Principal payments and reductions of long term debt in the amounts of \$28.4 million and \$14.1 million were made in the governmental and business-type activities respectively.

Additional information on the County's long-term debt can be found in Note 3F on pages 69 - 71 of this report

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following summarizes some economic factors and trends:

- The average unemployment rate for the County is 3.2%, while the average unemployment rate for the State of Maryland is 4.4%.
- Median household effective buying income in Frederick County is estimated at \$60,276, while the estimate for the State of Maryland is \$52,868.
- The number of jobs in Frederick County increased from 2001 to 2004 by 11.0% for a total of 89,536 jobs.

FINANCIAL CONTACT

The County's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions about the report or need additional financial information, contact the Director of Finance, Frederick County Government, 12 E. Church Street, Frederick, Maryland 21701.

BASIC FINANCIAL STATEMENTS

This section provides a combined overview of the County's net assets and operating activities. The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which present a total for the Primary Government, using the accrual basis of accounting.

The fund financial statements presented in this section focus on major funds, and present a combined total for nonmajor funds.

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government		Component Units		
	Governmental Activities	Business-type Activities	Board of Education	Community College	Public Libraries
Assets					
Cash	\$ 1,642,653	\$ 3,755,022	\$ 9,860,221	\$ 6,893,715	\$ 345
Investments-cash equivalents	-	-	-	3,967,299	-
Equity in pooled invested cash	141,087,287	92,326,230	-	6,566	-
Total cash and cash equivalents	142,729,940	96,081,252	9,860,221	10,867,580	345
Investments	5,469,089	22,327,049	-	-	282,459
Receivables, net of allowance for uncollectibles:					
Property taxes	841,842	-	-	-	-
Accounts	3,065,837	7,556,727	1,421,242	1,695,597	-
Intergovernmental	59,828,939	268,369	1,742,477	1,743,338	28,703
Internal balances	1,293,033	(1,293,033)	-	-	-
Due from primary government	-	-	8,981,581	-	876,486
Due from component units	3,855,067	-	-	-	-
Inventories	711,362	154,973	935,280	421,559	-
Prepaid items	240,305	-	1,428	288,379	-
Deferred charges	804,868	464,463	-	-	-
Long-term receivables, net of allowance for uncollectibles	2,729,196	-	-	12,629	-
Cash and cash equivalents - restricted	8,122,930	3,526,697	-	-	-
Capital assets:					
Land	20,879,104	7,059,358	34,647,676	271,620	-
Buildings and improvements	108,044,236	81,363,156	376,649,633	43,607,592	-
Equipment	54,849,327	28,125,203	55,324,389	5,143,948	72,240
Library collection	-	-	-	1,612,020	8,824,356
Infrastructure	272,073,229	177,544,393	-	-	-
Construction in progress	16,225,912	25,333,983	118,524,481	4,108,067	-
Accumulated depreciation	(175,369,548)	(77,285,093)	(161,159,336)	(19,474,443)	(5,994,812)
Total assets	526,395,668	371,227,497	446,929,072	50,291,886	4,089,777

(continued)

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Public Libraries
Liabilities						
Accounts payable	3,153,101	1,628,663	4,781,764	12,902,682	1,577,744	95,580
Accrued liabilities	9,052,782	4,518,276	13,571,058	115,764	19,777	-
Payroll and benefit deductions	1,609,643	-	1,609,643	8,551,455	105,861	157,587
Property taxes payable	82,742	-	82,742	-	-	-
Due to third parties	1,733,508	-	1,733,508	-	148,582	-
Due to other governmental units	292,236	-	292,236	-	-	-
Due to component units	9,858,067	-	9,858,067	-	-	-
Deferred revenue	1,665,252	1,760,542	3,425,794	159,718	1,260,137	103,129
Performance and security deposits	-	8,194	8,194	-	-	-
Other liabilities	4,274,242	4,951,781	9,226,023	-	-	-
Noncurrent liabilities:						
Due within one year	19,687,583	7,526,907	27,214,490	7,062,207	95,966	5,981
Due in more than one year	260,986,246	112,509,723	373,475,969	15,312,829	1,147,377	253,446
Total liabilities	312,375,402	132,904,086	445,279,488	44,104,655	4,355,444	615,723
Net Assets						
Investment in capital assets, net of related debt	225,535,503	147,999,499	373,535,002	421,157,627	35,171,621	2,890,816
Restricted for:						
School and library construction	18,496,688	-	18,496,688	-	-	-
Additional or expanded road facilities	3,644,548	-	3,644,548	-	-	-
Other purposes	4,447,644	191,252	4,638,896	-	3,915,815	500,566
Unrestricted	(38,104,117)	90,132,660	52,028,543	(18,333,210)	6,855,006	82,672
Total net assets	\$ 214,020,266	\$ 238,323,411	\$ 452,343,677	\$ 402,824,417	\$ 45,942,442	\$ 3,474,054

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

Frederick County, Maryland
Statement of Activities
For the Year Ended June 30, 2004

Net (Expense) Revenue and
Changes in Net Assets

Functions/Programs	Program Revenues			Primary Government		Component Units				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Public Libraries
Primary government:										
Governmental activities:										
General government	\$ 24,301,666	\$ 1,026,093	\$ 544,025	\$ -	\$ (22,731,558)	\$ -	\$ (22,731,558)	\$ -	\$ -	\$ -
Public safety	48,231,735	2,687,452	3,200,999	551,443	(41,791,841)	-	(41,791,841)	-	-	-
Public works	31,656,980	759,069	11,418,698	2,166,033	(17,313,180)	-	(17,313,180)	-	-	-
Health	15,002,153	3,461,277	6,391,288	17,309	(3,132,279)	-	(3,132,279)	-	-	-
Social services	5,935,055	1,737,198	1,092,065	-	(3,105,792)	-	(3,105,792)	-	-	-
Education	214,618,912	-	-	-	(214,618,912)	-	(214,618,912)	-	-	-
Parks, recreation and culture	10,937,095	472,016	69,949	155,145	(10,239,986)	-	(10,239,986)	-	-	-
Conservation of natural resources	4,981,389	120,408	187,397	3,612,818	(1,060,766)	-	(1,060,766)	-	-	-
Community development and public housing	3,634,079	-	3,429,577	-	(204,502)	-	(204,502)	-	-	-
Economic development and opportunity	10,369,467	402,481	5,565,739	5,676	(4,375,571)	-	(4,375,571)	-	-	-
Miscellaneous	4,397,069	-	-	-	(4,397,069)	-	(4,397,069)	-	-	-
Intergovernmental	4,796,634	-	-	-	(4,796,634)	-	(4,796,634)	-	-	-
Interest on long term debt	11,089,623	-	-	-	(11,089,623)	-	(11,089,623)	-	-	-
Total governmental activities	389,951,857	10,655,984	33,919,736	6,508,424	(338,857,713)	-	(338,857,713)	-	-	-
Business-type activities:										
Water and Sewer	19,785,831	18,880,725	8,810,279	5,928,940	-	13,834,113	13,834,113	-	-	-
Solid Waste Management	11,613,296	11,455,502	-	-	-	(157,794)	(157,794)	-	-	-
Nursing Homes	12,815,110	9,674,807	-	-	-	(3,140,303)	(3,140,303)	-	-	-
Public Housing	111,334	81,765	-	-	-	(29,569)	(29,569)	-	-	-
Permitting & Development Review	3,334,752	3,300,643	-	-	-	(34,109)	(34,109)	-	-	-
Total business-type activities	47,660,323	43,393,442	8,810,279	5,928,940	-	10,472,338	10,472,338	-	-	-
Total primary government	\$ 437,612,180	\$ 54,059,426	\$ 42,730,015	\$ 12,437,364	(338,857,713)	10,472,338	(328,385,375)	-	-	-
Component Units:										
Board of Education	\$ 349,173,156	\$ 6,219,000	\$ 222,287,912	\$ 41,035,573	-	-	-	(77,620,671)	-	-
Community College	34,023,184	12,752,024	14,992,345	3,092,049	-	-	-	-	(3,186,766)	-
Public Libraries	7,140,948	448,386	6,298,899	-	-	-	-	-	-	(393,663)
Total Component Units	\$ 390,337,288	\$ 21,419,410	\$ 243,569,156	\$ 44,127,622	-	-	-	(77,620,671)	(3,186,766)	(393,663)
General Revenues:										
Local property taxes					167,913,097	-	167,913,097	-	-	-
Local income taxes					137,782,293	-	137,782,293	-	-	-
Other local taxes					49,074,166	-	49,074,166	-	-	-
Grants and contributions not restricted to specific programs					-	-	-	98,659,106	5,122,360	2,449
Investment earnings					2,513,831	654,240	3,168,071	130,543	456,021	1,095
Miscellaneous					(6,906,330)	6,906,330	-	-	-	-
Transfers					352,627,438	8,295,274	360,922,712	99,812,570	7,283,101	3,544
Total general revenues and transfers					13,769,725	18,727,612	32,497,337	22,191,899	4,096,335	(390,119)
Change in net assets					200,250,541	219,595,799	419,846,340	380,632,518	41,846,107	3,884,173
Net assets - beginning of year, as restated					\$ 214,020,266	\$ 238,923,411	\$ 452,343,677	\$ 402,824,417	\$ 45,942,442	\$ 3,474,054
Total net assets - end of year										

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

FREDERICK COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Grants Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 1,300,792	\$ 10,881	\$ -	\$ 330,980	\$ 1,642,653
Equity in pooled invested cash	101,225,553	-	-	39,861,734	141,087,287
Total cash and cash equivalents	102,526,345	10,881	-	40,192,714	142,729,940
Investments	-	-	-	5,469,089	5,469,089
Receivables, net of allowance for uncollectibles:					
Property taxes	799,216	-	-	42,626	841,842
Accounts	112,675	16,170	-	234,553	363,598
Intragovernmental	55,368,885	4,010,712	40,689	406,953	59,827,239
Due from other funds	4,022,189	107,167	41,715,071	-	45,844,447
Due from component units	-	67,356	-	-	67,356
Inventories	478,320	-	-	-	478,320
Prepaid items	233,801	929	-	5,575	240,305
Long-term receivables, net of allowance for uncollectibles:					
Loans to property owners	68,183	-	-	-	68,183
Employee salary advances	206,142	-	-	-	206,142
MILAMICRP loans	-	-	-	1,591,139	1,591,139
Fire/Rescue loans	-	-	-	163,033	163,033
Non profit organization loans	-	-	-	96,000	96,000
Small business loans	-	-	-	36,866	36,866
Community development block grant loans	-	567,833	-	-	567,833
Cash and cash equivalents - restricted	6,990,969	-	-	1,131,961	8,122,930
Total assets	\$ 170,806,925	\$ 4,781,068	\$ 41,755,760	\$ 49,370,509	\$ 266,714,262
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,151,372	\$ 601,610	\$ -	\$ 119,925	\$ 2,872,907
Accrued liabilities	3,270,258	670,169	-	563,934	4,524,361
Payroll and benefit deductions	1,167,943	441,700	-	-	1,609,643
Property taxes payable	82,742	-	-	-	82,742
Due to third parties	1,166,500	-	-	567,008	1,733,508
Due to other governmental units	-	280,716	-	11,520	292,236
Due to other funds	42,759,884	-	-	-	42,759,884
Due to component units	9,656,972	-	-	-	9,656,972
Other liabilities	-	251,235	2,464,814	1,558,193	4,274,242
Deferred revenue	40,651,877	787,571	-	1,147,615	42,587,063
Total liabilities	101,107,548	3,033,001	2,464,814	3,988,195	110,593,558
Fund balances:					
Reserved	3,390,883	1,231,866	13,486,611	274,555	18,383,915
Unreserved:					
Designated for:					
Subsequent year's expenditures	21,460,120	516,201	-	-	21,976,321
Other purposes - General fund	3,635,000	-	-	-	3,635,000
Other purposes - Special revenue funds	-	-	-	24,354,576	24,354,576
Undesignated:					
General fund	41,013,374	-	-	-	41,013,374
Special revenue funds	-	-	-	20,753,183	20,753,183
Capital projects fund	-	25,804,335	-	-	25,804,335
Total fund balances	69,699,377	1,748,067	39,290,946	45,382,314	156,120,704
Total liabilities and fund balances	\$ 170,806,925	\$ 4,781,068	\$ 41,755,760	\$ 49,370,509	\$ 266,714,262

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

FREDERICK COUNTY, MARYLAND
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balance - governmental funds (See Exhibit II-A-3) \$ 156,120,704

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

Long-term assets used in governmental activities are not financial resources and therefore are not reported in the funds.

State Forward-Funding Receivable 3,787,711

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land	\$ 20,879,104
Buildings and Improvements	108,044,236
Equipment	54,849,327
Infrastructure	272,073,229
Construction in Progress	16,225,912
Less Accumulated Depreciation	<u>(175,368,548)</u>
	296,703,260

Long-term liabilities related to governmental activities are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable, net of Deferred Loss on Bond Refunding	(242,674,418)
Accrued Bond Interest	(4,457,858)
Installment Purchase Agreements	(6,774,670)
Bond Anticipation Notes	(8,150,000)
Notes Payable	(2,289,720)
Capital Lease Obligations	(5,538,335)
Unamortized Premium on Bonds Payable	(1,851,489)
Maryland State Retirement Liability	(5,703,345)
Compensated Absences	(5,691,852)
Recognition of Deferred Revenue	<u>40,921,812</u>
	(244,189,875)

Costs from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements.

Deferred Issuance Costs - General Obligation Bonds	692,765
Deferred Issuance Costs - IPAS	81,757
Deferred Issuance Costs - Capital Leases	<u>804,868</u>

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of an internal service fund is included in governmental activities in the statement of net assets. This balance is net of Capital Assets included above.

793,598

\$ 214,020,266

Net assets of governmental activities (See Exhibit II-A-1)

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

**FREDERICK COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General	Grants Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 152,677,680	-	\$ -	\$ 14,130,173	\$ 166,807,853
Local income taxes	132,462,327	-	-	-	132,462,327
Other local taxes	25,292,875	-	-	23,684,606	48,977,481
Licenses and permits	847,080	-	-	-	847,080
Grants from federal government	17,986	10,927,913	-	-	10,945,899
Grants from state government	10,531,860	13,207,181	784,374	3,778,499	28,301,914
Charges for services	4,441,562	2,976,973	-	1,895,478	9,314,013
Fines and forfeitures	330,147	-	-	94,486	424,633
Interest from loans	-	-	-	8,440	8,440
Investment earnings	1,711,865	6,617	-	795,349	2,513,881
Miscellaneous	1,828,978	289,732	644,073	-	2,762,783
Total revenues	330,142,360	27,408,416	1,428,447	44,387,031	403,366,254
Expenditures					
Current:					
General government	20,603,336	863,046	-	173,322	21,639,704
Public safety	33,981,197	1,129,206	-	13,382,469	48,492,872
Public works	12,606,105	5,389,912	-	12,056	18,008,073
Health	2,929,921	11,903,441	-	-	14,833,362
Social services	4,847,745	1,466,915	-	-	6,314,660
Education	179,415,425	-	-	-	179,415,425
Parks, recreation and culture	8,021,816	13,362	-	-	8,035,178
Conservation of natural resources	460,249	230,576	-	3,814,736	4,505,561
Community development and public housing	284,703	3,343,130	-	-	3,627,833
Economic development and opportunity	2,231,216	8,099,730	-	46,229	10,377,175
Miscellaneous	4,583,681	-	-	-	4,583,681
Intergovernmental	4,463,342	-	2,977,013	-	4,463,342
Debt service	18,669,696	-	48,477,679	4,309,841	25,956,550
Capital projects	-	-	51,464,692	-	48,477,679
Total expenditures	293,098,432	32,439,318	(50,026,245)	22,648,378	398,731,095
Excess (deficiency) of revenues over expenditures	37,043,928	(5,030,902)			4,635,159
Other financing sources (uses)					
Transfers in from General Fund	-	5,331,967	19,725,275	530,134	25,587,376
Transfers in from Special Revenue Funds	184,481	-	6,233,650	-	6,418,131
Transfers out to:					
General Fund	-	(29,936)	-	(154,545)	(184,481)
Special Revenue Funds	(5,862,101)	-	-	-	(5,862,101)
Capital Projects Fund	(19,725,275)	-	-	(6,233,650)	(25,958,925)
Enterprise Funds	(6,906,330)	-	-	-	(6,906,330)
Internal Service Fund	(220,000)	-	-	-	(220,000)
Proceeds of public facilities and refunding bonds	-	-	41,792,400	-	41,792,400
Payment to refunded bond escrow agent	-	-	(13,032,948)	-	(13,032,948)
Bond premium on public facilities and refunding bonds	-	-	654,580	-	654,580
Proceeds of capital lease	1,835,000	-	-	680,000	2,515,000
Sale of capital assets	-	-	-	6,900	6,900
Total other financing sources and (uses)	(30,694,225)	5,302,031	55,372,957	(5,171,161)	24,809,602
Net change in fund balances	6,349,703	271,129	5,346,712	17,477,217	29,444,761
Fund balances (deficit) - July 1, as restated	63,349,674	1,476,938	33,944,234	27,905,097	126,675,943
Fund balances - June 30	\$ 69,699,377	\$ 1,748,067	\$ 39,290,946	\$ 45,382,314	\$ 156,120,704

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

FREDERICK COUNTY, MARYLAND
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (See Exhibit II-A-5) \$ 29,444,761

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 10,284,676
Depreciation Expense	(16,258,084)
Adjusted for Internal Service Fund Depreciation	<u>1,569,530</u>
	(4,383,878)

The net effect of various miscellaneous transactions involving capital assets is to increase net assets.

Donation of Capital Assets	809,519
Additions to Construction in Progress	10,159,969
Asset Replacements, Retirements and Deletions	<u>(5,133,737)</u>
	5,835,751

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Income Taxes - Deferred in the fund Statements	37,242,770
Income Taxes - Recognized as Income in the Prior Year	(31,922,804)
State Funding Receivable - Current Year	3,787,711
State Funding Receivable - Prior Year	(8,391,624)
Other Revenues - Deferred in the Funds Statements	3,724,625
Other Revenues - Recognized as Income in the Prior Year	<u>(1,782,933)</u>
	2,657,745

(continued)

FREDERICK COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

The issuance of long-term debt (i.e. bonds, leases, installment purchase agreements) proceeds provide 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.

Issuance of General Obligation Bonds	(41,792,400)
Issuance of IPAs	(7,825,442)
Capital Lease Financing	(2,515,000)
Bond Premiums	(654,580)
Deferred Loss on Bond Refunding	504,207
Deferred Charge for Issuance Costs	363,078
Principal Payments on General Obligation Debt	26,795,496
Principal Payments on Installment Purchase Agreements	198,000
Principal Payments on Notes Payable	179,293
Principal Payments on Capital Leases	918,435
Principal Payments on Maryland State Retirement Liability	433,812
Amortization of Bond Premiums	101,000
Amortization of Deferred Loss on Refunding	(221,561)
Amortization of Issuance Costs	(114,119)
	(23,629,781)

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.

Accrued Interest - Prior Year	3,739,949
Accrued Interest - Current Year	(4,457,858)
Accrued Payroll Expense - Prior Year	347,521
Compensated Absences Accrual	(394,004)
Other expenses	15,099
	(749,293)

Internal service funds are used by management to charge the costs of motor pool services to individual funds.

4,594,420

Change in net assets of governmental activities (See Exhibit II-A-2)

\$ 13,769,725

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

**FREDERICK COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance - Positive (Negative)
	Original	Final		
Revenues				
Local property taxes	\$ 152,225,000	\$ 152,225,000	\$ 152,677,680	\$ 452,680
Local income taxes	120,500,000	120,500,000	132,462,327	11,962,327
Other local taxes	15,685,700	15,685,700	25,292,875	9,607,175
Licenses and permits	503,500	624,700	847,080	222,380
Grants from federal government	42,000	42,000	17,986	(24,014)
Grants from state government	9,848,766	9,848,766	10,531,860	683,094
Charges for services	3,837,539	3,806,828	4,441,562	634,734
Fines and forfeitures	225,000	225,000	330,147	105,147
Investment earnings	3,075,000	3,075,000	1,711,865	(1,363,135)
Miscellaneous	1,395,300	1,408,329	1,828,978	420,649
Total revenues	307,337,805	307,441,323	330,142,360	22,701,037
Expenditures				
Current:				
General government	25,358,876	25,423,926	23,374,028	2,049,898
Public safety	33,996,903	33,993,474	33,519,617	473,857
Public works	12,325,717	15,315,294	12,644,580	2,670,714
Health	3,634,537	3,659,032	2,842,168	716,864
Social services	4,886,912	5,013,395	4,781,956	231,439
Education	179,632,991	179,632,991	179,415,425	217,566
Parks, recreation and culture	7,895,677	7,924,660	7,987,993	(63,333)
Conservation of natural resources	502,751	502,751	456,610	46,141
Community development and public housing	324,251	324,251	279,493	44,758
Economic development and opportunity	2,348,819	2,274,362	2,255,091	19,271
Miscellaneous	517,008	2,104,903	1,768,774	336,129
Intergovernmental	4,464,067	4,464,067	4,463,342	725
Debt service	21,981,545	21,370,051	18,142,586	3,227,465
Total expenditures	297,870,054	302,003,157	292,031,663	9,971,494
Excess (deficiency) of revenues over expenditures	9,467,751	5,438,166	38,110,697	32,672,531
Other Financing Sources (Uses)				
Appropriated fund balance	25,458,388	26,107,302	26,107,302	-
Proceeds from capital leases	-	1,835,000	1,835,000	-
Transfers in	154,545	154,545	184,481	29,936
Transfers out	(35,080,684)	(33,535,013)	(32,713,706)	821,307
Total other financing sources (uses)	(9,467,751)	(5,438,166)	(4,586,923)	851,243
Net change in fund balance	-	-	33,523,774	\$ 33,523,774
Net change in reserves and adjustment to GAAP basis			(27,174,071)	
Fund balance - beginning, as restated			63,349,674	
Fund balance - ending			\$ 69,699,377	

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

FREDERICK COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GRANTS FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance -
	Original	Final	Budgetary Basis	Positive (Negative)
Revenues				
Grants from federal government	\$ 9,491,344	\$ 16,055,077	\$ 10,927,913	(5,127,164)
Grants from state government	13,564,391	15,267,130	13,207,181	(2,059,949)
Charges for services	3,315,111	3,822,216	2,976,973	(845,243)
Investment earnings	-	8,859	6,617	(2,242)
Miscellaneous	95,175	563,770	289,732	(274,038)
Total revenues	26,466,021	35,717,052	27,408,416	(8,308,636)
Expenditures				
General government	864,507	866,951	863,046	3,905
Public safety	585,732	2,113,457	1,129,206	984,251
Public works	5,566,432	10,147,590	5,389,912	4,757,678
Health	12,660,852	13,255,699	12,198,801	1,056,898
Social services	1,197,773	1,678,428	1,466,915	211,513
Parks, recreation and culture	50,440	13,362	13,362	-
Conservation of natural resources	77,490	303,397	230,576	72,821
Comm development and public housing	2,678,179	3,669,256	3,387,425	281,831
Economic development and opportunity	9,114,337	10,343,840	8,156,539	2,187,301
Total expenditures	32,795,742	42,391,980	32,835,782	9,556,198
Excess (deficiency) of revenues over expenditures	(6,329,721)	(6,674,928)	(5,427,366)	1,247,562
Other financing sources (uses)				
Transfer from General Fund	6,329,721	6,674,928	5,331,967	(1,342,961)
Transfer from Special Revenue Funds	-	-	(29,936)	(29,936)
Total other financing sources (uses)	6,329,721	6,674,928	5,302,031	(1,372,897)
Net change in fund balances	\$ -	\$ -	(125,335)	\$ (125,335)
Net change in reserves and adjustment to GAAP basis			396,464	
Fund balance - beginning, as restated			1,476,938	
Fund balance - ending			\$ 1,748,067	

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

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
Assets					
Current assets:					
Cash	\$ 3,508,481	\$ 2,100	\$ 244,441	\$ 3,755,022	\$ -
Equity in pooled invested cash	57,550,886	32,626,041	2,169,283	92,326,230	-
Total cash and cash equivalents	61,059,377	32,628,141	2,413,734	96,081,252	-
Short-term investments	5,022,419	-	-	5,022,419	-
Cash & cash equivalents - restricted	3,526,687	-	-	3,526,687	-
Receivables, net of allowance for uncollectibles accounts	4,807,982	1,398,462	1,252,283	7,556,727	19,483
Intergovernmental receivables	-	288,369	-	288,369	1,700
Due from other funds	-	-	-	-	233,042
Inventories	121,816	-	33,157	154,973	-
Total current assets	74,618,281	34,292,972	3,699,174	112,610,437	1,191,681
Noncurrent assets:					
Long-term investments	17,304,630	-	-	17,304,630	-
Capital Assets:					
Land	3,489,873	2,837,164	752,321	7,069,358	-
Buildings and improvements	44,667,017	30,058,445	6,639,684	81,365,156	414,048
Equipment	23,096,289	3,740,067	1,288,897	28,125,203	15,732,783
Other improvements	177,544,393	-	-	177,544,393	-
Accumulated depreciation	(48,787,581)	(23,523,081)	(4,974,431)	(77,285,093)	(7,453,161)
Construction in progress	24,881,464	452,519	-	25,333,983	-
Deferred bond issue expense	351,229	113,234	-	464,463	-
Total noncurrent assets	242,527,264	13,676,348	3,706,481	259,910,093	9,693,680
Total assets	317,145,555	47,969,320	7,405,655	372,520,530	9,885,541
Liabilities					
Current liabilities:					
Accounts payable	1,203,024	218,608	207,031	1,628,663	280,194
Accrued expenses	3,402,452	593,280	522,544	4,518,276	70,564
Due to other funds	-	124,736	1,214,707	1,339,443	-
Deferred revenues	1,084,239	2,803	673,500	1,760,542	-
Security deposits	-	-	8,194	8,194	-
Other liabilities	4,550,806	170,871	230,304	4,951,781	-
Current portion landfill closure and postclosure liability	-	290,002	-	290,002	-
Current portion general obligation bonds and notes	5,504,225	1,616,853	-	7,121,079	-
Current portion of compensated absences	15,493	4,045	96,288	115,826	1,017
Total current liabilities	15,760,240	3,020,898	2,952,568	21,733,806	351,775
Noncurrent liabilities:					
Long term portion landfill closure and postclosure liability	-	11,014,303	-	11,014,303	-
Long term portion general obligation bonds and notes	73,951,898	26,592,362	-	100,544,260	-
Liability for compensated absences	382,311	79,675	489,174	951,160	81,048
Total noncurrent liabilities	74,334,209	37,686,340	489,174	112,509,723	81,048
Total liabilities	90,094,449	40,707,338	3,441,742	134,243,529	432,823
Net Assets					
Invested in capital assets, net of related debt	149,040,664	(4,765,646)	3,706,481	147,989,499	8,693,681
Restricted	78,002,442	12,017,628	66,180	90,086,250	759,037
Unrestricted	\$ 227,051,106	\$ 7,267,982	\$ 3,963,913	\$ 238,277,001	\$ 9,452,718
Total net assets					
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.			46,410		
Net assets of business-type activities				\$ 238,323,411	

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

FREDERICK COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
Operating revenues					
Water and sewer charges	\$ 18,454,801	\$ -	\$ -	\$ 18,454,801	\$ -
Landfill charges	-	11,404,532	-	11,404,532	-
Charges for health care services, net of contractual adjustments	-	-	9,416,289	9,416,289	-
License and permit revenue	-	-	2,353,260	2,353,260	-
Fee revenue	-	-	947,083	947,083	-
Rental charges	-	-	81,750	81,750	-
Fleet services charges	-	-	-	-	6,279,843
Total net charges for services	18,454,801	11,404,532	12,798,382	42,657,715	6,279,843
Delinquent fees collected	66,273	50,970	-	117,243	-
Other revenues	359,651	-	258,833	618,484	-
Total operating revenues	18,880,725	11,455,502	13,057,215	43,393,442	6,279,843
Operating expenses					
Personal services	3,821,608	1,235,282	11,279,056	16,335,946	1,524,783
Operating expenses (including administrative overhead)	6,338,648	4,914,517	3,557,051	14,810,216	760,208
Supplies	392,022	68,527	1,139,904	1,600,453	2,296,506
Repairs and maintenance	880,558	93,754	50,642	1,024,954	344,102
Depreciation expense	4,821,339	4,164,064	225,916	9,011,319	1,589,530
Total operating expenses	16,054,175	10,476,144	16,252,569	42,782,888	6,515,129
Operating income (loss)	2,826,550	979,358	(3,195,354)	610,554	(235,286)
Nonoperating revenues (expenses)					
Donations	-	-	19,587	19,587	-
Interest income	363,962	265,080	25,198	654,240	-
Miscellaneous income (expense)	660,657	-	-	660,657	18,595
Interest expense	(3,044,018)	(1,146,318)	-	(4,190,336)	-
Gain (loss) on disposition of fixed assets	(701,411)	14,460	(13,254)	(700,205)	(63,486)
Total nonoperating revenues (expenses)	(2,720,810)	(866,778)	31,531	(3,556,057)	(44,991)
Net income (loss) before contributions and transfers	105,740	112,580	(3,163,823)	(2,945,503)	(280,177)
Capital contributions					
Transfers in	14,739,219	-	-	14,739,219	4,701,853
Total contributions and transfers	14,739,219	3,442,732	3,463,598	6,906,330	220,000
Change in net assets	14,844,959	3,555,312	299,775	18,700,046	4,641,676
Net assets - July 1, as restated	212,206,147	3,706,670	3,664,138	4,811,042	4,811,042
Net assets - June 30	\$ 227,051,106	\$ 7,261,962	\$ 3,963,913	\$ 27,566	\$ 9,452,718

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.

Change in net assets of business-type activities

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

FREDERICK COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
Cash flows from operating activities					
Cash received from patients, residents, and customers	\$ 22,417,445	\$ 11,078,090	\$ 13,934,856	\$ 47,430,391	\$ 5,127,370
Cash paid for interfund services used	(7,660,920)	(2,036,586)	(240,638)	(9,938,044)	-
Cash paid to suppliers	(7,158,047)	(2,963,165)	(4,511,128)	(14,632,340)	(3,249,385)
Cash paid to employees	(3,479,965)	(1,182,897)	(10,837,285)	(15,500,147)	(1,403,272)
Other	-	-	343,828	343,828	-
Net cash provided (used) by operating activities	4,118,613	4,895,442	(1,310,367)	7,703,688	474,713
Cash flows from noncapital financing activities					
Transfers in from general fund	-	3,442,732	3,463,598	6,906,330	220,000
Cash received from donations	-	-	19,588	19,588	-
Cash received from patient and resident funds	-	-	1,565	1,565	-
Cash paid to memorial and employee funds	-	-	(1,116)	(1,116)	-
Net cash provided (used) by noncapital financing activities	-	3,442,732	3,483,635	6,926,367	220,000
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(12,466,483)	(2,115,594)	(21,240)	(14,603,317)	(2,194,163)
Recoveries for damages	-	-	-	-	18,595
Proceeds from sale of assets	9,064,327	15,950	-	15,950	(63,486)
Proceeds from debt issues	(12,865,915)	-	-	9,064,327	-
Payment of bond and note principal	(3,034,579)	(1,592,980)	-	(14,458,895)	-
Interest paid on bonds	16,379,086	(1,089,624)	-	(4,124,203)	-
Contributed capital	-	-	-	16,379,086	1,544,341
Net cash provided (used) by capital & related financing activities	(2,923,564)	(4,782,248)	(21,240)	(7,727,052)	(694,713)
Cash flows from investing activities					
Purchase of investments	(427,651)	-	-	(427,651)	-
Proceeds from the sale of investments	10,302,237	4,600,500	-	14,902,737	-
Interest received on investments	2,390,138	374,024	25,198	2,789,360	-
Net cash provided (used) by investing activities	12,264,724	4,974,524	25,198	17,264,446	-
Net increase in cash and cash equivalents	13,459,773	8,530,450	2,177,226	24,167,449	-
Cash and cash equivalents, July 1, as restated	51,106,301	24,097,691	236,508	75,440,500	-
Cash and cash equivalents, June 30	\$ 64,566,074	\$ 32,628,141	\$ 2,413,734	\$ 99,607,949	\$ -

(continued)

FREDERICK COUNTY, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,826,550	\$ 979,358	\$ (3,195,354)	\$ 610,554	\$ (235,286)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	4,621,339	4,164,064	225,916	9,011,319	1,589,530
Landfill closing costs	-	2,471,258	-	2,471,258	-
Miscellaneous non operating loss	720,346	-	-	720,346	-
Change in assets and liabilities:					
(Increase) decrease:					
Accounts receivable	(3,975)	(380,215)	1,076,787	692,597	(4,020)
Bad debt allowance	-	45,848	(503,023)	(457,175)	-
Intergovernmental receivables	1,754,940	(268,369)	-	1,486,571	(637)
Due from other funds	-	-	711,705	711,705	(937,626)
Inventory	37,296	-	24,956	62,252	6,605
Increase (decrease):					
Accounts payable	400,395	(50,648)	38,249	387,996	144,826
Accrued expenses	308,816	(79,941)	391,383	620,258	70,564
Deferred revenues	-	-	667,111	667,111	-
Liability for compensated leave	33,149	(7,077)	54,425	80,497	50,947
Due to other funds	(7,660,820)	(1,768,217)	(952,343)	(10,381,380)	(210,190)
Security deposits	-	-	436	436	-
Closure liability	-	(210,619)	-	(210,619)	-
Other liabilities	1,080,577	-	149,385	1,229,962	-
Net cash provided (used) by operating activities	\$ 4,118,613	\$ 4,895,442	\$ (1,310,367)	\$ 7,703,688	\$ 474,713

Noncash investing, capital, and financing activities:
Included in interest income in the Water and Sewer and Solid Waste Management Funds are unrealized gains (losses) of \$1,707,803 and (\$35,052), respectively.

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

**FREDERICK COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	Pension Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 38,957,481	\$ 580,446
Equity in pooled invested cash	-	3,111,615
Investments:		
Fixed income securities	37,876,101	-
Equity securities	40,648,447	-
Accounts receivable	481,367	-
Interest receivable	334,474	-
Total assets	118,297,870	\$ 3,692,061
LIABILITIES		
Accounts payable	184,744	-
Accrued payroll	251,420	-
Due to other funds	2,250,941	431,805
Deferred revenue	551	-
Due to third parties	-	152,815
Performance deposits	-	3,107,441
Retirement benefit deductions	40,444	-
Total liabilities	2,728,100	\$ 3,692,061
NET ASSETS		
Held in trust for pension benefits and other purposes	\$ 115,569,770	

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

**FREDERICK COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Pension Trust
Additions	
Contributions	
Employer contributions	\$ 10,209,701
Member contributions	3,290,778
Total contributions	13,500,479
Investment income	
Net appreciation (depreciation) in fair value of plan investments	11,304,569
Interest and dividends	2,624,515
Investment expense	(510,656)
Net investment income	13,418,428
Total additions	26,918,907
Deductions	
Benefits and refunds paid to plan members and beneficiaries	3,434,126
Administrative expenses	577,863
Total deductions	4,011,989
Change in net assets	22,906,918
Net assets held in trust for pension benefits, July 1	92,662,852
Net assets held in trust for pension benefits, June 30	\$ 115,569,770

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

NOTES TO FINANCIAL STATEMENTS

Frederick County, Maryland

Directory For

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JUNE 30, 2004

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**FREDERICK COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Frederick County (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 consistent with these principles are described below.

A. Financial Reporting Entity

For financial reporting purposes, in conformance with GAAP, the reporting entity includes the Board of Commissioners of Frederick County (the primary government) and its component units. The concept of "financial accountability" determines which organizations are included in the reporting entity and how they are reported. The primary government, or the separately elected governing body, is the nucleus of the financial reporting entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are part of the primary government.

In addition, a primary government is also financially accountable for legally separate organizations if its officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific benefits to, or to impose specific financial burdens on, the primary government. The Board of Trustees of Frederick County Public Libraries meets the conditions for financial accountability with respect to the Board of Commissioners of Frederick County, as discussed below, and is included in the reporting entity.

The Board of Trustees of Frederick County Public Libraries (FCPL) is a legally separate organization created by State law to operate the County's library system. The FCPL Board of Trustees are appointed by the Board of Commissioners of Frederick County. The FCPL's budget is submitted to and approved by the Board of Commissioners in accordance with the budgetary procedures described in Note 2, except that any unspent appropriations are retained by the FCPL as a component of fund balance.

Finally, a primary government may be financially accountable for governmental organizations that are fiscally dependent on it, regardless of the method of election or appointment of the governing board of the fiscally dependent government. Fiscal dependence occurs if the government may not (1) determine its budget without another government's having the authority to approve and modify that budget, (2) levy taxes or set rates or charges without approval by another government, or (3) issue bonded debt without approval by another government. The Frederick County Board of Education and the Board of Trustees of Frederick Community College meet the conditions for fiscal dependency with respect to the Board of Commissioners of Frederick County, as discussed below, and are included in the reporting entity.

The Board of Education of Frederick County (BOE) is a legally separate organization created by State Law to operate the County's school system. Day-to-day management of the schools is under the control of the BOE, with final decision-making authority held by the State Board of Education. The BOE's budget is subject to approval by the Board of Commissioners of Frederick County. The BOE submits a funding request by major categories of expenditure; the Board of Commissioners can reduce the BOE request and appropriate a lesser amount in total and/or redistribute funds between major categories. The Board of Commissioners also must approve budget amendments between major categories. The State Board of Education, through the State Department of Education, reviews the BOE's budget to ensure that the Board of Commissioners funds a minimum budget as a condition for State funding. However, this review is considered ministerial, and not substantive in nature.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The Board of Trustees of Frederick Community College oversees the day-to-day management of Frederick Community College (FCC). FCC is also legally separate under State Law. The Governor appoints FCC board members. FCC's budget is subject to approval by the Board of County Commissioners of Frederick County. FCC requests a single amount to fund its operations; the Board of Commissioners can reject FCC's request and appropriate a lesser amount, but it does not have the ability to modify the individual line item amounts in FCC's requested budget. Financial data related to FCC also includes its component unit, Frederick Community College Foundation, Inc. (the Foundation). The Foundation was included in the financial statements of FCC as a result of FCC's implementation of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for the fiscal year ended June 30, 2004.

The above component units have been included with the financial reporting entity using a discrete presentation. The component units do not provide services entirely, or almost entirely, to the County nor are any of the governing boards substantially the same. Discrete presentations in the combined financial statements are created with separate columns for the individual component units in the government-wide financial statements to emphasize that they are legally separate from the government.

The FCPL does not issue separate financial statements. Complete financial statements of the BOE and FCC can be obtained from their respective administrative offices.

Board of Education of Frederick County
7630 Hayward Road
Frederick, Maryland 21702

Frederick Community College
7932 Opossumtown Pike
Frederick, Maryland 21702

B. Government-wide and Fund Financial Statements

The government-wide financial statements, which include the Statement of Net Assets and the Statement of Activities, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the primary government is financially accountable or for which their relationship with the County is of such significance that exclusion would cause the County's financial statements to be misleading.

The Statement of Net Assets displays the financial position of the County as of year end. Governmental activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The County's net assets are reported in three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

Fund Financial Statements: 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 governmental funds and enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

General Fund and Grants Fund Budget-to-Actual Comparison Statements: Demonstrating compliance with the adopted budgets is an important component of a government's accountability to the public. For this reason, the County has chosen to make its General Fund and Grants Fund budget-to-actual comparison statements part of the basic financial statements. The County revises its original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in these 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 the pension trust 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds also use the accrual basis of accounting to recognize assets and liabilities.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except (1) employees' annual leave is recognized in the year it is accrued and expected to be liquidated with expendable available financial resources; and (2) principle and interest on general long-term debt are recognized when due.

Property taxes, income taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County 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 *Grants Fund* accounts for Federal and State grant revenues and expenditures. This fund is a special revenue fund and receives revenues from Federal and State grants and expends these funds in accordance with the terms of the grants. For the Fiscal Year ended June 30, 2004, the Grants Fund did not meet the criteria for inclusion as a Major Fund. However, it has been a Major Fund since the implementation of GASB Statement No. 34 and is expected to be a Major Fund again in FY2005. Accordingly, in order to enhance consistency from year to year, the Grants Fund has been included as a Major Fund in this report.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The *Capital Projects Fund* accounts for the purchase, construction or renovation of major capital assets. It is composed of the General Government Capital Projects Fund and accounts for additions of education facilities, roads and similar general government capital assets (other than those financed by the proprietary funds).

Nonmajor governmental funds include the following special revenue funds:

- *Fire/Rescue Tax Districts Fund* – This fund accounts for property taxes that are legally restricted to providing fire and rescue services within designated areas of the County.
- *Agricultural Preservation Fund* – This fund accounts for taxes on the transfer of agricultural properties that are legally restricted to providing funding for state or approved local agricultural land preservation programs. It also accounts for other revenue sources designated for agricultural land preservation.
- *Impact Fees Fund* – This fund accounts for impact fees collected from developers to pay a portion of the cost of schools necessitated by the development.
- *Development Road Improvement Fund* – This fund accounts for building excise tax collections which are dedicated to road development.
- *Electric Lighting Tax Districts Fund* – This fund accounts for property taxes that are legally restricted to paying for street lighting.
- *Parks Acquisition and Development Fund* – This fund accounts for recodation taxes dedicated for parkland acquisition and development.
- *Economic Development Loans Fund* – This fund accounts for the receipt of loan proceeds from other governments and subsequent relanding of these proceeds to certain private users for economic development purposes. This fund received loans from the State of Maryland under the Maryland Industrial Land Act and the Maryland Industrial and Commercial Redevelopment Fund Programs.
- *Sheriff's Office Fund* – This fund accounts for activities such as the Sheriff's drug enforcement program, Sheriff's Department receipts, narcotics task force, and inmates' canteen.
- *Fire/Rescue Loans Fund* – This fund accounts for the receipt of loan proceeds and subsequent relanding of these proceeds to volunteer fire and rescue companies for the purchase of vehicles and/or equipment.
- *Non-Profit Organization Loans* – This fund accounts for the receipt of loan proceeds and subsequent relanding of these proceeds to non-profit organizations for capital projects located on County or Board of Education owned property.

The County reports the following major proprietary funds:

- *Water and Sewer Enterprise Fund* – This fund accounts for the acquisition and operation of utility systems providing water and sewer service to certain sections of the County.
- *Solid Waste Management Enterprise Fund* – This fund accounts for the capital outlay, operation and maintenance of the County's recycling program and the County's landfill, providing solid waste disposal service to County residents through commercial haulers.

NOTES TO FINANCIAL STATEMENTS (Continued)

Nonmajor proprietary funds include the following enterprise funds:

- *Citizens Nursing Home Fund* accounts for operations of Citizens Nursing Home of Frederick County.
- *Montevue Home Fund* accounts for operations of an assisted living facility.
- *Bell Court Apartments Fund* accounts for the operation of the Bell Court low income, elderly housing rental project.
- *Permitting and Development Review Fund* accounts for the operations related to the issuing and administration of building and other permits and for the approval process for contractor development plans.

Additionally, the County reports the following fund types:

The Internal Service Fund accounts for motor pool services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Agency Funds – These funds are used to account for monies received and held by the County as an agent for such activities as sales of property for delinquent tax bills, deposits for subdivisions, work release, and servicing tax increment financing bonds.

The Pension Trust Fund accounts for the activities of the Frederick County Employee Retirement Plan, which accumulates resources for pension benefit payments to qualified employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. 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 County has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges from the Statement of Activities would distort the direct costs and program revenues reported for the various functions concerned.

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 assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund, the Solid Waste Management Enterprise Fund, and the government's Internal Service Fund are charges to customers for sales and services. Operating expenses for enterprise funds and the Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities and Net Assets or Equity

1. Pooled Cash and Investments

The County operates a centralized cash receipt and disbursement function for all funds except the Pension Trust Fund, Tax Agency Fund, Work Release Fund and the Tax Incremental Financing Board Fund; which maintain their own cash accounts. Individual fund equity in pooled cash and investments is reported as an asset on the balance sheets of those funds participating in the centralized cash receipt and disbursement function. Investment earnings accrue to those funds reporting equity in pooled cash and investments.

"Cash and Cash Equivalents" includes currency on hand, demand deposits, and investments with original maturities of three months or less at the time of purchase.

Investments other than those of the County's Pension Trust Fund with original maturities of one year or less are stated at cost or amortized cost, which approximates fair value; remaining investments are recorded at fair value. The investments in the County's Pension Trust Fund are recorded at fair value.

2. Property Taxes Receivable

The County's property taxes are levied each July 1 at rates enacted by the Board of County Commissioners on the total assessed value as determined by the Maryland State Department of Assessments and Taxation. Although the rates of levy are not legally limited, State law stipulates that the Constant Yield Tax Rate, which is furnished by the Maryland State Department of Assessments and Taxation, cannot be exceeded without public notice and public hearings regarding the intent to exceed. As a result of State legislation passed in 1979, the assessment of real property returned to a triennial system beginning in fiscal year 1981. Under the provisions of this legislation, the increase in established market value of the one-third of the properties reassessed each year is phased in over a three-year period.

Property taxes are levied as of July 1 and become delinquent on October 1. Interest accrues at 1 percent monthly for delinquent property taxes. Tax liens on real property are sold at public auction the second Monday in May on taxes delinquent since October 1 of the current fiscal year.

The County bills and collects its own property taxes and those of the State. County property tax revenues are recognized when levied to the extent that they result in current receivables. State property taxes collected are accounted for in the General Fund of the County.

Total assessed value on which levies were made for the year ended June 30, 2004, was \$15,054,966,309. The Countywide property tax rate was \$1.00 per \$100 of assessed value. In addition, taxes were levied in two fire tax districts and three lighting tax districts. The County collected 99.6% of taxes levied in the current year. Total property tax collections were 99.9% of current taxes levied. The receivable portion of the current year property tax levy, including fire and lighting tax districts, is \$588,295 and is included in total property taxes receivable (\$841,842) on the Statement of Net Assets. This compares to the current portion of the prior year levy of \$584,985 included in the total property taxes of \$781,481 as of June 30, 2003.

3. Inventories

Inventory is valued at cost (first-in, first-out), which approximates market except for the Water and Sewer Enterprise Fund, which uses specific identification to value its inventory of supplies, which also approximates market. Inventory consists of expendable supplies held for consumption. The cost, other than in the proprietary funds, is recorded as an expenditure when items are purchased. The fund balance of the General Fund is restored for the value of the inventory on hand at year end and fund balance is reserved by an equal amount to indicate it is unavailable for appropriation.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items) are recorded at historical costs or at estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their fair market value at the date of donation.

Most capital assets used in operations are depreciated using the straight-line method over their estimated useful lives. The County defines capital assets, other than infrastructure, as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year. Infrastructure is defined as capital assets with an initial cost of \$100,000 or more, and an estimated useful life in excess of one year. The County has included infrastructure acquired prior to fiscal years ended after June 30, 1980 in capital assets. The estimated useful lives for assets depreciated using the straight-line method are as follows:

Bridges	50	years
Buildings	30 - 50	years
Improvements	10 - 30	years
Machinery and Equipment	5 - 30	years
Vehicles	5 - 15	years
Water and Sewer Lines	25 - 75	years
Roads	30	years
Misc. Infrastructure	10 - 20	years

Certain solid waste assets are depreciated using the activity method. Depreciation is based on capacity used of the new Site B landfill in order to match depreciation expense with the landfill usage and revenues. The basis for calculating landfill capacity used is 2,419,980 tons for Site B.

The accounting policies for BOE, FCPL, and FCC are the same as the County. The following useful lives are used for depreciation purposes for the assets of these component units:

	In Years		
	BOE	FCPL	FCC
Buildings and Improvements	20 - 40	20 - 40	10 - 40
Site Improvements	n/a	15	15
Library Collection	n/a	5	3
Furniture and equipment	5 - 15	5 - 15	5 or 10

5. Compensated Absences

Frederick County personnel policies allow employees to accumulate a limited amount of earned but unused annual leave, which will be paid to employees upon separation from County service. In the government-wide financial statements and proprietary fund and fiduciary fund financial statements, all annual, holiday, and compensatory leave are accrued when incurred. A liability for these amounts is only reported in governmental funds for the portion estimated to be payable at year-end from resources of that year.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, non-current obligations are reported as liabilities in either governmental activities or business-type activities in the statement of net assets. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Bond issue costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

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 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, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

7. Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets, net of related debt, restricted net assets and unrestricted net assets. Invested in capital assets, net of related debt, represents all capital assets, including infrastructure, reduced by accumulated depreciation and the outstanding debt directly attributable to the acquisition, construction or improvements of these assets. Restricted net assets represent external restrictions by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. In the Water & Sewer Enterprise Fund, a portion of the unrestricted net assets are reserved to represent the intent of the County's administration to use the unrestricted net assets for specific purposes in the future. Data specific to these reserves is available in Note 3.G.4.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are not legally required segregations, but rather represent the intent of the County's administration to use fund balances for specific purposes in the future.

8. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The budget document is a comprehensive financial plan showing all revenues and expenditures for the operating budget, the capital budget and the Capital Improvements Program. The Capital Improvements Program sets forth clearly the plan for proposed capital projects to be undertaken in the ensuing fiscal year and the next five years. Budgets are adopted on an annual cycle for all governmental funds except the Capital Projects Fund, which adopts a project-length budget.

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

- (1) Prior to January 15, the Budget Officer 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 Budget Office and, after making departmental reviews of the request, a recommended budget is presented to the Board of County Commissioners for review and appeal.
- (3) Public hearings are required by law to be scheduled by the Budget Officer with approval of the Board of County Commissioners.
- (4) Prior to the commencement of the fiscal year, the property tax rate is set and the budget is legally enacted through the passage of an ordinance.
- (5) The Board of County Commissioners adopts the budget at the departmental level of budgetary control.
- (6) Supplemental appropriations are allowed only to provide for the award of federal and state grants and other restricted revenues during the year. Supplemental appropriations were not material in relation to the budget originally appropriated.
- (7) Appropriations lapse at the end of the fiscal year for all funds, except the Capital Projects Fund and certain federal and state grants that do not have a year-end date of June 30.
- (8) Formal budgetary integration is employed as a management control device for all funds for which a budget is legally adopted, namely, the General, Special Revenue (except the Fire/Rescue Loan and Non-Profit Organizations Loan), Capital Projects, Enterprise, Internal Service, and Pension Trust Funds. For budgetary purposes, total expenditures per department should not exceed the total budget for that department.
- (9) During the operating year, inter-departmental budget transfers must be approved by the Board of County Commissioners.

The policy established by the County with respect to the Budget is at variance with GAAP. The County's budget basis of accounting differs from GAAP as follows:

- Encumbrances are treated as expenditures for budgetary accounting purposes. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
- Inventories are recorded as expenditures at the time of purchase.

NOTES TO FINANCIAL STATEMENTS
(Continued)

- Bond premiums, net of underwriting expenses, are reported as deferred revenue until used for the stated purposes as identified in the debt documents.
- The use of prior years' fund balance is reported as a miscellaneous revenue.

B. Reconciliation of Budgetary Basis to GAAP Basis

Of the Governmental Funds, the General Fund and the Grants Fund have legally adopted annual budgets. Exhibit II-A-7 and Exhibit II-A-8, the "Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual" are prepared on a basis consistent with these budgets. The budgets are prepared using encumbrance accounting where encumbrances are treated as expenditures of the current period. The reconciliation of Budget to GAAP, as presented on the "Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual" reflects adjustments as described below.

The "Statement of Revenues, Expenditures and Changes in Fund Balance" for all major governmental funds is prepared on a basis consistent with GAAP where encumbrances are treated as a reservation of fund balance.

	General Fund		Grants Fund	
	Expenditures	Other Financing Sources (Uses)	Expenditures	Net change in Fund Balance
Budgetary Basis	\$ 292,031,663	\$ (4,586,923)	\$ 32,835,782	\$ (125,335)
Basis Adjustments:				
Encumbrance adjustment	(160,075)	-	(396,464)	396,464
FY2003 bond premium/underwriting expenses	527,110	-		
Use of prior year fund balance to balance FY2004 budget		(26,107,302)		
Inventory adjustment	(108,645)	-		
Payroll accrual	808,379	-		
Net affect of basis adjustments	1,066,769	(26,107,302)	(396,464)	396,464
GAAP Basis	\$ 293,098,432	\$ (30,694,225)	\$ 32,439,318	\$ 271,129

The following departments over expended their FY2004 budgets:

	Amended Budget	Actual	Variance
States Attorney	\$ 3,667,333	\$ 3,697,493	\$ 30,160
Internal Audit	395,537	433,219	37,682
Health Administration	111,359	115,376	4,017

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Cash, Investments and Equity in Pooled Invested Cash

1. Deposits

Primary Government

At year end, Frederick County's carrying amount of deposits was \$7,721,024 and the bank balance was \$9,142,959. The County's deposits are categorized below to give an indication of the level of risk assumed by the County at year-end. The bank's balances were collateralized as follows:

Federal Deposit Insurance Corporation (FDIC)	\$ 1,574,962
National Credit Union Administration (NCUA)	2,196
Held by the government's agent, in the government's name	4,976,271
Funds held by a New Jersey bank and covered by the Governmental Unit Deposit Protection Act	71,644
Unspent lease proceeds held in escrow	<u>2,517,886</u>
Total Bank Balance	<u><u>\$ 9,142,959</u></u>

Certain lease proceeds of the County's general and fire/rescue tax district funds are classified as restricted cash and cash equivalents on the balance sheet because their use is limited and they are maintained in a separate bank account.

The County's cash and investments as of June 30, 2004, totaled \$278,256,957 as presented in the Statement of Net Assets. The following table reconciles the County's deposits and investments to the Statement of Net Assets:

Total Primary Government - Exhibit II-A-1	
Cash	\$ 5,397,675
Equity in Pooled Invested Cash	233,413,517
Investments	27,796,138
Restricted Cash and Cash Equivalents	11,649,627
Total	<u><u>\$ 278,256,957</u></u>
Deposit & Investment Summary:	
Investments	\$ 273,453,012
Cash on Hand	18,190
Deposits	7,721,024
Bell Court Escrow	176,346
Less: Equity in Pooled Cash - Agency Funds	<u>(3,111,615)</u>
Total	<u><u>\$ 278,256,957</u></u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Trust Fund

At the year-end, the carrying amount and the bank balance of the Pension Trust Fund's deposits were \$300,743. The entire amount is considered a Category 1 deposit.

Component Units

Deposits and investments of the BOE, FCC, and FCPL are governed by the same law governing the County's investments. At June 30, 2004, the carrying amount of the BOE's cash deposits was \$9,191,815 including amounts in the fiduciary funds, not reported in these statements, and the bank balance was \$14,056,569. Of the bank balance \$575,367 was covered by the Federal Depository Insurance, and \$13,481,202 was covered by collateral held by the pledging bank.

The carrying amount of the FCC bank balance was \$282,569 and the Frederick Community College Foundation bank balance was \$32,660. Both amounts are Category 1 deposits.

The carrying amount and the bank balance of Frederick County Public Library cash deposits were \$345. This amount is a Category 1 deposit.

2. Investments

Primary Government

The County's investments are categorized into three categories of credit risk:

Category 1 - Insured or registered, or securities held by the government or its agent in the government's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

At year end, the government's investment balances were as follows:

Investment Type	Category			Fair Value
	1	2	3	
U. S. Government Securities	\$ 20,554,631	\$ -	\$ -	\$ 22,016,890
U. S. Treasury ZCB Strips	3,885,590	-	-	3,634,575
Repurchase Agreements	5,698,759	-	-	5,698,759
Certificates of Deposit	50,000	-	-	50,000
Total	<u>\$ 30,188,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,400,224</u>
Investments not Subject to Categorization:				
Maryland Local Government Investment Pool (MLGIP)				221,461,572
Money Market Funds				<u>20,591,216</u>
Total Investments - Primary Government				<u>\$ 273,453,012</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

The fair value of the position in the MLGIP is the same as the value of the MLGIP shares. Investments of the MLGIP comply with Article 95 of the Annotated Code of Maryland, which requires collateralization of certain investments. All required collateral of the MLGIP is held in Mercantile Safe Deposit and Trust Company's account at the Federal Reserve, in the name of the Maryland Local Government Investment Pool.

Certain invested unspent debt proceeds of the County's proprietary, general and impact fee funds are classified as restricted cash and cash equivalents on the Statement of Net Assets.

Pension Trust Fund

The Pension Trust Fund owns investments in corporate bonds and notes, common stocks, and equity mutual funds.

	Category			Fair Value
	1	2	3	
U.S. Government Securities	\$ 23,984,076	-	-	\$ 23,984,076
Corporate Bonds and Notes	13,892,025	-	-	13,892,025
Common Stocks	12,895,866	-	-	12,895,866
	<u>\$ 50,771,967</u>	<u>-</u>	<u>\$ -</u>	<u>50,771,967</u>
Investment in Money Market Mutual Funds				38,656,738
Investment in Equity Mutual Funds				27,752,581
				<u>\$ 117,181,286</u>

Component Units

The Board of Education's investments are categorized in the following table:

	Category			Fair Value
	1	2	3	
Certificates of Deposit	\$ 115,146	-	-	\$ 115,146
Investment in Maryland Local Government Investment Pool (MLGIP)				2,732,376
Total Investments - Board of Education				<u>\$ 2,847,522</u>

The investment type and level of risk assumed relating to cash and investments as of June 30, 2004 is consistent with the Board's cash and investments throughout the year. The above investments are stated at cost which equals fair value due to their short-term nature. There were no repurchase agreements entered into during fiscal year 2004.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Frederick Community College had \$6,578,486 invested in the Maryland Local Government Investment Pool (MLGIP) at June 30, 2004.

The Frederick Community College Foundation investments at June 30, 2004 are:

Investment Type	Market Value at June 30, 2004	% of Total	Annualized Income Projection	Projected Yield as a % of Market Value
Cash Equivalents	\$ 466,707	12%	\$ 3,771	0.81%
Bond Funds	1,219,497	31%	66,950	5.49%
Equity funds	2,281,095	57%	14,371	0.63%
Total	\$ 3,967,299	100%	85,092	2.14%
Less: Estimated Annual Management Fee				
Estimated Net Annual Yield			(18,646)	-0.47%
			\$ 66,446	1.67%

*Annualized estimates based on amounts and rates as of June 30, 2004.

All debt securities are considered held-to-maturity and equity securities are considered available for sale. Investments are carried at cost and marked for financial statement presentation.

	June 30, 2004		June 30, 2003	
	Cost	Market	Cost	Market
U.S. Treasury Note & Bonds	\$ 119,052	\$ 126,278	\$ 218,125	\$ 235,569
U.S. Agencies	245,720	251,267	101,507	120,914
Corporate Bonds	798,216	841,952	660,136	736,986
Total Debt Securities	1,162,988	1,219,497	979,768	1,093,469
Equity Securities	2,475,879	2,281,095	2,544,396	1,941,036
Total Investments	\$ 3,638,867	\$ 3,500,592	\$ 3,524,164	\$ 3,034,505

The FCPL has certificates of deposit of \$20,000, which are Category 1 deposits. The FCPL also invested \$262,459 in the MLGIP. The investments are stated at cost, which equals fair value.

NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Receivables and Payables

1. *Accounts and Other Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The associated allowance for doubtful accounts has been established in the following governmental and business-type funds:

Fire/Rescue Tax Districts	\$157,034
Water and Sewer	1,092
Solid Waste	188,067
Citizen's Nursing Home	37,941
Montevue Home	44,048

2. *Due To/From Primary Government and Component Units*

The receivable and payable balances between the primary government and its component units at June 30, 2004, are reconciled as follows:

	BOE	FCC	FCPL	TOTAL
Due from component units per Primary Government	\$ 3,815,168	\$ 39,899	\$ -	\$ 3,855,067
Less: Receivables recorded by Primary Government in FY04	(3,815,168)	(39,899)	-	(3,855,067)
Due to primary government per Component Units	\$ -	\$ -	\$ -	\$ -
Due to component units per Primary Government	\$ 8,981,581	\$ -	\$ 876,486	\$ 9,858,067
Less: Receivables recorded by component unit in FY04	-	-	-	-
Due from primary government per Component Units	\$ 8,981,581	\$ -	\$ 876,486	\$ 9,858,067

C. Capital Assets

With the implementation of GASB 34 for the year ended June 30, 2002, infrastructure assets were valued for the first time. This valuation was performed by a third party. Subsequent to the finalization of the third party's report, a miscalculation was detected, identifying an understatement in the cost and accumulated depreciation amounts previously reported. Adjustment for this misstatement as well as other misstatements identified are presented below in the column labeled "Prior Period Adjustments".

NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Asset activity for the year ended June 30, 2004 is as follows:

	Primary Government					
	Beginning Balance (As Previously Reported)	Prior Period Adjustments	Beginning Balance (As Restated)	Additions*	Retirements*	Ending Balance
Governmental activities:						
Capital assets not being depreciated:						
Land	\$ 17,381,765	-	\$ 17,381,765	\$ 8,140,263	\$ (4,642,924)	\$ 20,879,104
Construction in progress	52,788,120	(11,928,128)	40,859,992	10,159,969	(34,794,049)	16,225,912
Total capital assets at historical cost not being depreciated	<u>70,169,885</u>	<u>(11,928,128)</u>	<u>58,241,757</u>	<u>18,300,232</u>	<u>(39,436,973)</u>	<u>37,105,016</u>
Capital assets being depreciated:						
Buildings and improvements	86,443,840	(3,173,000)	83,270,840	24,773,396	-	108,044,236
Equipment	39,924,358	1,766,974	41,691,332	23,170,299	(10,012,304)	54,849,327
Infrastructure	262,175,585	7,265,124	269,440,709	2,795,609	(163,089)	272,073,229
Total capital assets at historical cost being depreciated	<u>388,543,783</u>	<u>5,859,098</u>	<u>394,402,881</u>	<u>50,739,304</u>	<u>(10,175,393)</u>	<u>434,966,792</u>
Less accumulated depreciation for:						
Buildings and improvements	29,681,123	(31,730)	29,649,393	3,425,265	-	33,074,658
Equipment	17,573,170	107,917	17,681,087	4,751,391	(1,770,675)	20,661,803
Infrastructure	113,471,553	353,363	113,824,916	8,081,428	(274,257)	121,632,087
Total accumulated depreciation	<u>160,725,846</u>	<u>429,550</u>	<u>161,155,396</u>	<u>16,258,084</u>	<u>(2,044,932)</u>	<u>175,368,548</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>227,817,937</u>	<u>5,429,548</u>	<u>233,247,485</u>	<u>34,481,220</u>	<u>(8,130,461)</u>	<u>259,598,244</u>
Governmental activities capital assets, net	<u>\$ 297,987,822</u>	<u>\$ (6,498,580)</u>	<u>\$ 291,489,242</u>	<u>\$ 52,781,452</u>	<u>\$ (47,567,434)</u>	<u>\$ 296,703,260</u>
Depreciation expense was charged to governmental functions as follows:						
General government						\$ 1,666,360
Public works						749,589
Social services						712,291
Health						246,797
Rec and culture						2,032,351
Economic Development and Opportunity						-
Public safety						2,769,248
Infrastructure						8,081,428
Total depreciation expense						<u>\$ 16,258,084</u>

*Includes transfers between functions totaling \$1,304,545 reflected as changes in use of the respective assets and reclassification of completed construction in progress.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government

	Beginning Balance (As Previously Reported)	Prior Period Adjustments	Beginning Balance (As Restated)	Additions	Retirements	Ending Balance
Business-type activities:						
Capital assets not being depreciated:						
Land	\$ 7,059,358	\$ -	\$ 7,059,358	\$ -	\$ -	\$ 7,059,358
Construction in progress	23,157,138	-	23,157,138	14,853,495	(12,676,650)	25,333,983
Totals capital assets at historical cost not being depreciated	30,216,496	-	30,216,496	14,853,495	(12,676,650)	32,393,341
Capital assets being depreciated:						
Buildings and improvements	77,147,279	-	77,147,279	4,857,345	(641,468)	81,363,156
Equipment	29,022,705	-	29,022,705	998,769	(1,896,271)	28,125,203
Infrastructure	170,228,130	-	170,228,130	7,345,263	(29,000)	177,544,393
Total capital assets at historical cost being depreciated	276,398,114	-	276,398,114	13,201,377	(2,566,739)	287,032,752
Less accumulated depreciation for:						
Buildings and equipment	48,415,981	-	48,415,981	6,676,480	(1,821,583)	53,270,878
Infrastructure	21,679,377	-	21,679,377	2,334,839	-	24,014,216
Total accumulated depreciation	70,095,358	-	70,095,358	9,011,319	(1,821,583)	77,285,094
Total capital assets being depreciated, net of accumulated depreciation	206,302,756	-	206,302,756	4,190,058	(745,156)	209,747,658
Business-type activities capital assets, net of accumulated depreciation	\$ 236,519,252	\$ -	\$ 236,519,252	\$ 19,043,553	\$ (13,421,806)	\$ 242,140,999

Depreciation expense was charged to business-type functions as follows:

Citizens Nursing Home	\$ 119,626
Montevue Home	43,694
Bell Court	62,596
Solid Waste	4,164,064
Water & Sewer	4,621,339
Total depreciation expense	\$ 9,011,319

NOTES TO FINANCIAL STATEMENTS
(Continued)

Component units' capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets not being depreciated:				
Land	\$ 31,288,994	\$ 3,630,302	-	\$ 34,919,296
Construction in progress	147,627,450	43,392,500	(68,387,402)	122,632,548
	<u>178,916,444</u>	<u>47,022,802</u>	<u>(68,387,402)</u>	<u>157,551,844</u>
Totals capital assets at historical cost not being depreciated				
Capital assets being depreciated:				
Library collection	12,800,860	1,195,089	(3,559,573)	10,436,376
Building and improvements	364,322,286	57,719,296	(1,784,357)	420,257,225
Furniture and equipment	55,492,707	8,151,250	(3,103,380)	60,540,577
Totals capital assets at historical cost being depreciated	<u>432,615,853</u>	<u>67,065,635</u>	<u>(8,447,310)</u>	<u>491,234,178</u>
Less accumulated depreciation for:				
Library collection	9,251,689	1,289,260	(3,046,557)	7,494,392
Building and improvements	131,384,168	10,696,469	(1,784,357)	140,296,280
Furniture and equipment	34,686,205	7,183,841	(3,032,127)	38,837,919
Total accumulated depreciation	<u>175,322,062</u>	<u>19,169,570</u>	<u>(7,863,041)</u>	<u>186,628,591</u>
	<u>257,293,791</u>	<u>47,896,065</u>	<u>(584,269)</u>	<u>304,605,587</u>
Total capital assets being depreciated, net of accumulated depreciation				
Component units' capital assets, net of accumulated depreciation	<u>\$ 436,210,235</u>	<u>\$ 94,918,867</u>	<u>\$ (68,971,671)</u>	<u>\$ 462,157,431</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Interfund Receivables, Payables and Transfers

1. Primary Government Interfund Receivables and Payable Balances

Receivable Fund	Payable Fund					Total Due from Other Funds
	General	Solid Waste Management	Nonmajor Proprietary	Pension Trust	Agency Funds	
General Fund	\$ -	\$ 124,736	\$ 1,214,707	\$ 2,250,941	\$ 431,805	\$ 4,022,189
Grants Fund	107,187	-	-	-	-	107,187
Capital Project	41,715,071	-	-	-	-	41,715,071
Internal Service	937,626	-	-	-	-	937,626
Total Due to Other Funds	\$ 42,759,884	\$ 124,736	\$ 1,214,707	\$ 2,250,941	\$ 431,805	\$ 46,782,073

Interfund balances due to the Capital Projects Fund from the General Fund are unspent bond proceeds and transfers from other funds used to fund capital projects. This balance will decrease as project expenditures are incurred. The Nonmajor Enterprise Funds amount due to the General Fund is primarily the additional cash amounts needed during the year ended June 30, 2004 to fund the operations of the Citizens Nursing Home. The Citizens Nursing Home incurred a loss of \$68,790 for the year ended June 30, 2004 and required cash to fund outstanding account receivable balances. This amount due will be repaid to the General Fund through improved operating results of Citizens Nursing Home expected in subsequent years. All other due to and from balances result from the timing of cash flows and clear themselves through normal operations.

2. Interfund Transfers – Primary Government

Interfund transfers for the year ended June 30, 2004, consists of the following:

	Transfers In							Total Transfers to Other Funds
	General Fund	Grants	Capital Projects	Nonmajor Governmental	Solid Waste Management	Nonmajor Proprietary	Internal Service Fund	
Transfers Out:								
General Fund	\$ -	\$ 5,331,967	\$ 19,725,275	\$ 530,134	\$ 3,442,732	\$ 3,463,598	\$ 220,000	\$ 32,713,706
Grants Fund	29,936	-	-	-	-	-	-	29,936
Nonmajor governmental	154,545	-	6,233,650	-	-	-	-	6,388,195
Total transfers in	\$ 184,481	\$ 5,331,967	\$ 25,958,925	\$ 530,134	\$ 3,442,732	\$ 3,463,598	\$ 220,000	\$ 39,131,837

NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary activities include:

- Transfers of pay-go funding from the General Fund and various non-major governmental funds to the Capital Projects Fund;
- Transfers of matching County grants funding from the General Fund to the Grants Fund and;
- Transfers to the enterprise funds of the Citizen's Nursing Home and Montevue Home for operating purposes from the General Fund.

E. Operating Leases

Frederick County is committed under various leases for building and office space, the majority of which are cancelable. These leases are considered for accounting purposes to be operating leases. Operating lease expenditures for fiscal year 2004 were approximately \$860,000.

The future minimum lease payments for these leases are as follows:

	Fiscal Year	Total Payment
2005		\$ 664,939
2006		544,114
2007		534,543
2008		161,092
2009		62,220
2010-2027 (57,600 per year)		979,200
Total		\$ 2,946,108

F. Non-Current Liabilities

1. Changes in Non-Current Liabilities

Primary Government:

Governmental Activities:

	Balance July 1, 2003	Additions	Principal Repayments & Reductions	Balance June 30, 2004	Due Within One Year
Bonds Payable	\$ 225,822,602	\$ 41,792,400	\$ (23,815,496)	\$ 243,799,506	\$ 13,369,324
Unamortized Premium on Bonds	1,297,909	654,580	(101,000)	1,851,489	130,092
Installment Purchase Agreements	1,147,228	7,825,442	(198,000)	8,774,670	-
Bond Anticipation Notes Payable	11,130,000	-	(2,980,000)	8,150,000	4,140,000
Notes Payable	8,586,170	-	(613,105)	7,973,065	650,891
Capital Lease Obligations	3,941,770	2,515,000	(918,435)	5,538,335	1,410,145
Compensated Absences	5,355,002	5,521,246	(5,184,395)	5,691,853	227,362
Deferred Loss on Bond Refunding	(842,443)	(504,207)	221,561	(1,125,089)	(240,231)
Total Governmental Activity- Long Term Liabilities	\$ 256,438,238	\$ 57,804,461	\$ (33,588,870)	\$ 280,653,829	\$ 19,687,563

NOTES TO FINANCIAL STATEMENTS
(Continued)

Payments on the bonds and notes payable, that pertain to the County's governmental activities are made by the General, Fire/Rescue Tax Districts, Agricultural Preservation, and Impact Fee Funds. A portion of the notes payable are repaid to the County by private users, as discussed in this section under Note 3.F.4 (Notes Payable). The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. In the past, approximately 76% has been paid by the General Fund and the remainder by various other governmental and internal service funds. The additions to the unamortized premium on bonds payable for governmental activities is recorded in the Capital Project Fund's bond proceeds.

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities related to the Internal Service Fund are included as part of the above totals for governmental activities. At June 30, 2004, Internal Service Fund compensated absences totaling \$82,065 are included in the above amounts.

	Balance July 1, 2003 (Restated)	Additions	Principal Repayments & Reductions	Balance June 30, 2004	Due Within One Year
Business-type Activities:					
Bonds Payable	\$ 81,447,398	\$ 7,212,600	\$ (12,074,503)	\$ 76,585,495	\$ 5,150,676
Unamortized Premium on Bonds	839,809	112,968	(64,057)	888,720	65,312
Notes Payable	31,406,693	1,731,729	(2,075,979)	31,062,443	2,145,149
Landfill Closure Costs	9,043,666	2,471,258	(210,619)	11,304,305	290,002
Compensated Absences	878,388	238,640	(50,041)	1,066,987	115,826
Deferred Loss on Bond Refundings	(820,379)	(308,413)	257,472	(871,320)	(240,058)
Total Business-type Activities - Long Term Liabilities	<u>\$ 122,795,575</u>	<u>\$ 11,458,782</u>	<u>\$ (14,217,727)</u>	<u>\$ 120,036,630</u>	<u>\$ 7,526,907</u>

The County is not subject to any general debt limitations with regard to its issuance of general obligation bonds other than water, sewer, drainage system and solid waste bonds and other specific types of bonds which are authorized to be issued under certain provisions of the Maryland Code, but any debt limitation which would be applicable to a particular issue of bonds would be contained within the enabling legislation enacted by the General Assembly of the State.

The debt limit for the primary government's business-type activities at June 30, 2004 was \$2,501,402,838 and the legal debt margin was \$2,393,754,900.

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

COMPONENT UNITS

	Balance July 1, 2003	Net Changes	Balance June 30, 2004	Due Within One Year
Board of Education				
Capital lease obligations	\$ 2,467,861	\$ 361,354	\$ 2,829,215	\$ 1,640,176
Compensated absences	4,343,322	356,593	4,699,915	3,897,285
Termination benefits payable	13,212,479	1,633,427	14,845,906	1,524,746
Board of Education - Long-term Liabilities	<u>\$ 20,023,662</u>	<u>\$ 2,351,374</u>	<u>\$ 22,375,036</u>	<u>\$ 7,062,207</u>
Frederick Community College				
Notes payable	\$ 187,905	\$ (91,939)	\$ 95,966	\$ 95,966
Compensated absences	1,063,347	84,030	1,147,377	-
Post retirement benefits	4,326	(4,326)	-	-
Frederick Community College - Long-term Liabilities	<u>\$ 1,255,578</u>	<u>\$ (12,235)</u>	<u>\$ 1,243,343</u>	<u>\$ 95,966</u>
Frederick County Public Libraries				
Compensated absences	\$ 228,113	\$ 31,314	\$ 259,427	\$ 5,981

2. General Obligation Bonds and Installment Purchase Agreements

Primary Government

The County may not issue general obligation bonds and installment purchase agreements unless specific enabling legislation is passed by the Maryland General Assembly. In addition to the Bonds, the County has been authorized by the General Assembly to, among other things, (i) issue temporary notes during any single year in an amount up to \$100,000 to pay debt service on bonded indebtedness and \$5,000,000 to pay any expenses or obligations of the County, (ii) incur debt for the purpose of providing funds for the construction of water, sewerage, drainage systems and solid waste systems, as long as the amount issued, less any sinking funds or reserves to pay such bonds, does not exceed 6% of the valuation of all legally assessable property within Frederick County subject to unlimited County taxation, and (iii) issue bonds in an amount up to \$72,409,840 which is the remaining authorization under Chapter 37 of the Laws of Maryland of 2003, as of June 30, 2004.

The County acquires development rights on a parcel of agricultural property by entering into an installment purchase agreement with the property owner. Under the terms of the agreement, the County pays the property owner annual interest payments for the term of the agreement, which range in length from 10 to 20 years. At the time the agreement is made, the County purchases securities with maturities that coincide with the principal payment due to the property owner at the end of the agreement. The interest rate of the investment is the interest rate paid on the installment purchase agreement.

Any indebtedness authorized by the General Assembly may not be issued until a resolution authorizing the same has been adopted by the Board of County Commissioners.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental Activities	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Range of Interest Rates	Amount of	
					Original Issue	Outstanding 6/30/2004
<u>Public Facilities Bonds</u>						
Public Facilities Bonds of 1995	General	03/15/95	due serially to 07/01/2005	5.00 - 5.75%	\$ 27,162,400	\$ 2,464,988
Public Facilities Refunding Bonds of 1998	General	10/15/98	due serially to 07/01/2015	3.30 - 5.00%	19,346,419	18,860,891
Public Facilities Bonds of 1999	General	08/15/99	due serially to 07/01/2019	5.22 - 5.75%	59,116,000	51,304,755
Public Facilities Bonds of 1999	Impact Fee	08/15/99	due serially to 07/01/2019	5.22 - 5.75%	30,515,000	26,482,925
Public Facilities Bonds of 2000	General	11/15/00	due serially to 12/01/2020	5.00 - 5.25%	36,161,520	32,663,350
Public Facilities Bonds of 2000	Impact Fee	11/15/00	due serially to 12/01/2020	5.00 - 5.25%	16,653,480	15,037,861
Public Facilities Bonds of 2001	General	07/15/01	due serially to 07/01/2008	3.00 - 3.79%	6,579,486	5,731,603
Public Facilities Bonds of 2002, Series A	General	04/01/02	due serially to 07/01/2016	5.00 - 5.25%	13,999,267	12,635,903
Public Facilities Bonds of 2002	General	11/01/02	due serially to 11/01/2022	2.00 - 5.00%	38,200,000	36,834,830
Public Facilities Refunding Bonds of 2003	General	09/01/03	due serially to 08/01/2018	2.00 - 4.25%	32,975,400	32,975,400
Public Facilities Refunding Bonds of 2003	Fire Tax	09/01/03	due serially to 08/01/2018	2.00 - 4.25%	2,517,000	2,517,000
Public Facilities Refunding Bonds of 2003	Impact Fee	09/01/03	due serially to 08/01/2018	2.00 - 4.25%	6,300,000	6,300,000
					<u>289,525,972</u>	<u>243,799,506</u>
<u>Installment Purchase Agreements</u>						
Installment Purchase Agreement #02-04	Ag Pres	05/15/03	05/15/23	4.95%	484,567	484,567
Installment Purchase Agreement #02-08	Ag Pres	05/15/03	05/15/13	3.82%	181,052	171,052
Installment Purchase Agreement #02-07 (a)	Ag Pres	05/15/03	05/15/15	4.16%	236,504	224,695
Installment Purchase Agreement #02-07 (b)	Ag Pres	05/15/03	05/15/15	4.16%	281,104	266,914
Installment Purchase Agreement #02-19	Ag Pres	07/14/03	05/15/13	3.84%	706,048	656,048
Installment Purchase Agreement #02-03	Ag Pres	07/14/03	05/15/23	5.03%	1,273,527	1,273,527
Installment Purchase Agreement #02-10	Ag Pres	10/08/03	05/15/23	5.52%	696,992	696,992
Installment Purchase Agreement #02-24	Ag Pres	12/11/03	05/15/23	5.46%	793,565	763,565
Installment Purchase Agreement #02-28	Ag Pres	12/11/03	05/15/15	4.76%	405,748	385,748
Installment Purchase Agreement #02-22	Ag Pres	12/11/03	05/15/23	5.46%	1,320,273	1,320,273
Installment Purchase Agreement #02-01	Ag Pres	02/25/04	05/15/24	5.20%	174,701	174,701
Installment Purchase Agreement #02-11	Ag Pres	02/25/04	05/15/24	5.20%	695,412	695,412
Installment Purchase Agreement #02-21	Ag Pres	05/04/04	05/15/14	4.76%	221,896	221,896
Installment Purchase Agreement #02-18	Ag Pres	06/15/04	05/15/24	5.73%	99,717	99,717
Installment Purchase Agreement #04-10	Ag Pres	06/15/04	05/15/24	5.73%	388,192	388,192
Installment Purchase Agreement #04-15	Ag Pres	06/18/04	05/15/14	4.87%	497,207	447,207
Installment Purchase Agreement #04-06	Ag Pres	06/29/04	05/15/24	5.61%	252,395	252,395
Installment Purchase Agreement #02-13	Ag Pres	06/29/04	05/15/24	5.61%	299,769	261,769
					<u>9,018,669</u>	<u>8,774,670</u>
Total Governmental Activities					<u>\$ 298,544,641</u>	<u>\$ 252,574,176</u>

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

The annual requirements to amortize general obligation bond debt and installment purchase agreement debt outstanding as of June 30, 2004 are as follows:

Fiscal Year Ending June 30,	Public Facilities Bonds		Installment Purchase Agreements		Range of Interest Rates	Date of Debt Maturity	Amount of Original Issue	Amount Outstanding 6/30/2004
	Principal	Interest	Principal	Interest				
2005	\$ 13,369,324	\$ 10,880,877	\$ -	\$ 336,720	5.00 - 5.75%	due serially to 07/01/2005	\$ 4,000,000	\$ 363,000
2006	13,936,612	10,338,098	-	444,568	5.00 - 5.75%	due serially to 07/01/2005	8,837,600	802,012
2007	14,053,622	9,776,585	-	444,568	3.30 - 5.00%	due serially to 07/01/2015	2,849,000	2,777,500
2008	14,471,975	9,200,461	-	444,568	3.30 - 5.00%	due serially to 07/01/2015	6,294,581	6,136,609
2009	14,779,852	8,587,006	-	444,568	5.22 - 5.75%	due serially to 07/01/2019	5,159,000	4,477,320
2010-2014	75,635,806	32,772,706	1,496,203	2,230,983	5.00 - 5.25%	due serially to 12/01/2020	14,185,000	12,808,858
2015-2019	72,332,499	15,477,657	877,357	1,771,443	3.00 - 4.00%	due serially to 12/01/2008	5,000,000	4,514,931
2020-2024	25,219,816	1,689,499	6,401,110	1,681,372	3.00 - 4.00%	due serially to 07/01/2008	6,125,514	7,078,397
	<u>\$ 243,799,506</u>	<u>\$ 98,722,889</u>	<u>\$ 8,774,670</u>	<u>\$ 7,798,790</u>	5.00 - 5.25%	due serially to 07/01/2016	8,590,733	7,754,097
					2.00 - 5.00%	due serially to 11/01/2022	16,680,000	16,093,900
					2.00 - 5.00%	due serially to 11/01/2022	6,820,000	6,576,271
					2.00 - 4.25%	due serially to 08/01/2018	7,212,600	7,212,600
							<u>\$ 93,754,028</u>	<u>\$ 76,585,495</u>

Business Type Activities

Business Type Activities	Paying Fund	Date of Debt Issue	Range of Interest Rates	Amount of Original Issue	Amount Outstanding 6/30/2004
Public Facilities Bonds of 1995	Solid Waste	03/15/95	5.00 - 5.75%	8,837,600	802,012
Public Facilities Ref Bonds of 1998	Water & Sewer	10/15/98	3.30 - 5.00%	2,849,000	2,777,500
Public Facilities Ref Bonds of 1998	Solid Waste	10/15/98	3.30 - 5.00%	6,294,581	6,136,609
Public Facilities Bonds of 1999	Water & Sewer	08/15/99	5.22 - 5.75%	5,159,000	4,477,320
Public Facilities Bonds of 2000	Water & Sewer	11/15/00	5.00 - 5.25%	14,185,000	12,808,858
Public Facilities Bonds of 2000	Solid Waste	11/15/00	3.00 - 4.00%	5,000,000	4,514,931
Public Facilities Bonds of 2001	Water & Sewer	07/15/01	3.00 - 4.00%	6,125,514	7,078,397
Water & Sewer Refunding Bonds of 2002, Series A	Water & Sewer	04/01/02	5.00 - 5.25%	8,590,733	7,754,097
Public Facilities Bonds of 2002	Water & Sewer	11/01/02	2.00 - 5.00%	16,680,000	16,093,900
Public Facilities Bonds of 2002	Solid Waste	11/01/02	2.00 - 5.00%	6,820,000	6,576,271
Public Facilities Refunding Bonds of 2003	Water & Sewer	09/01/03	2.00 - 4.25%	7,212,600	7,212,600
Total Business Type Activities				<u>\$ 93,754,028</u>	<u>\$ 76,585,495</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

The annual requirements to amortize business-type bond debt as of June 30, 2004 are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 5,150,676	\$ 3,245,266
2006	5,308,385	3,045,921
2007	5,416,381	2,838,633
2008	5,568,024	2,625,194
2009	5,705,148	2,397,701
2010-2014	20,859,194	9,148,403
2015-2019	18,907,500	4,601,169
2020-2024	9,670,187	822,487
	<u>\$76,585,495</u>	<u>\$ 28,724,774</u>

3. Capital Lease Obligations

Primary Government

The County has entered into various lease agreements as lessee for financing the acquisition of numerous pieces of telecommunications, highway, and fire and rescue equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of their inception dates.

The assets acquired through capital leases are as follows:

Asset:	
Equipment	\$ 4,850,359
Less: Accumulated depreciation	(866,617)
Total:	<u>\$ 3,983,742</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Fiscal Year Ending June 30,	Total Payment
2005	\$ 1,569,041
2006	1,392,883
2007	1,392,882
2008	1,015,947
2009	538,026
	<u>5,908,779</u>
	Less: amount representing interest
	Present value-net minimum lease payments
	<u>\$ 5,538,335</u>

Component Unit

The BOE has various capital lease agreements for the purchase of telecommunications equipment, buses and food service equipment. Payments, including interest, during fiscal year 2004 were \$1,187,446 for the telecommunications equipment and \$50,677 for the food service equipment, and \$500,000 for the buses.

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-Type Activities
Machinery and equipment	\$ 8,662,424	\$ 326,016
Less: Accumulated depreciation	<u>(2,774,994)</u>	<u>(253,212)</u>
Total	<u>\$ 5,887,430</u>	<u>\$ 72,804</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

As of June 30, 2004, the minimum obligation under capital leases were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 1,714,598	\$ 50,677
2006	570,643	50,677
2007	515,381	50,677
2008	27,152	24,976
2009	-	28,389
2010	-	-
Total Obligations	<u>2,827,774</u>	<u>205,396</u>
Less: Portion representing interest	<u>(178,917)</u>	<u>(25,038)</u>
Present value of lease obligation	<u>\$ 2,648,857</u>	<u>\$ 180,358</u>

4. Notes Payable

Primary Government

Governmental Activity:

Maryland Industrial Land Act Loans

The County has an outstanding loan from the Department of Business and Economic Development of the State (DBED) in the original amounts of \$630,000 under the Maryland Industrial Land Act, Article 83A, Section 5-401 et. seq. of the Maryland Code. The outstanding balance of this loan at June 30, 2004 was \$503,584. The proceeds of this loan have been reallocated by the County to Dan Jay LLC to assist in the financing of the acquisition of certain industrial land and shell buildings in Frederick County. It is anticipated that the repayment of this loan by the private user will generate sufficient moneys for the County to repay DBED, however, the loan is a full faith and credit obligation of the County. A loan in the amount of \$181,058 has also been received under the program and granted to State Farm Insurance to assist in the financing of certain street and site improvements in the County. The loan is a full faith and credit obligation of the County. The outstanding balance of this loan at June 30, 2004 was \$148,626.

Maryland Industrial and Commercial Redevelopment Fund Loans

The County has received a State loan in the amounts of \$1,436,502 from the Maryland Industrial and Commercial Redevelopment Fund (MICRF) pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Maryland Code, which loans have been approved by DBED. The outstanding balance of this loan at June 30, 2004 was \$1,025,025. The proceeds of this loan have been reallocated to MedImmune, Inc. to assist in the financing of the acquisition of certain redevelopment projects in Frederick County. Although it is expected that said loan will be repaid by payments made by the private user, the loan is a full faith and credit obligation of the County.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The County has also received a MICRF loan in the amount of \$113,637. The outstanding balance of this loan at June 30, 2004 was \$21,455. The proceeds of this loan were realigned by the County to the Frederick Sports Arena Limited Partnership (the "Partnership") in financing a commercial development project. The loan is a full faith and credit obligation of the County.

United States Environmental Protection Agency

On April 17, 1992, the County entered into a loan agreement with the United States Environmental Protection Agency. These funds were provided in accordance with the provisions of the Asbestos School Hazard Abatement Reauthorization Act of 1990, 20 U.S.C. 4011 et. seq, for the purpose of removing asbestos from Frederick County Public Schools. The original amount of this loan was \$1,370,471, and the balance due as of June 30, 2004, is \$571,030. This is a non-interest bearing note. Semi-annual principal payments of \$38,069 are required, with a final payment due on November 30, 2011.

Maryland State Retirement System

Effective June 30, 1993, the County withdrew from the Maryland State Retirement System for all hires after June 30, 1993. The State calculated a net unfunded amount due from the County, which is further explained in Note 4.D.

	Amount of Original Issue	Date of Debt Issue	Date of Debt Maturity	Annual Rate/ Payment Frequency	Amount Outstanding 06/30/04
Governmental Activity:					
MD Industrial Land Act Loan - Dan Jay LLC	\$ 630,000	02/11/94	02/11/21	5.23%/Quarterly	\$ 503,584
MD Industrial Land Act Loan - State Farm	181,058	06/23/95	06/23/22	5.93%/Quarterly	148,626
MICRF - MedImmune	1,436,502	12/31/96	12/31/16	3.00%/Quarterly	1,025,025
MICRF - Sport and Ice Arena	113,637	04/01/96	01/01/06	5.50%/Quarterly	21,455
EPA Asbestos School Hazard Abatement	1,370,471	8/5/1992	11/30/11	0.00%/Semi-annually	571,030
Maryland State Retirement System	7,036,995	06/30/93	12/31/13	7.5%/Annually	5,703,345
Total Notes Payable	<u>\$10,768,663</u>				<u>\$ 7,973,065</u>

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

The annual debt service requirements to maturity for the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 650,891	\$ 461,523
2006	682,882	422,340
2007	716,590	380,975
2008	760,761	336,804
2009	808,115	289,450
2010-2014	3,795,223	639,919
2015-2019	457,006	70,710
2020-2022	101,597	5,783
	<u>\$ 7,973,065</u>	<u>\$ 2,607,504</u>

Business Type Activities:

Maryland Department of the Environment Loans

The Department of the Environment of the State of Maryland (MDE) through the Maryland Water Quality Financing Administration, makes funds available to local governments at below market interest rates for certain water quality and drinking water projects. Proceeds of the loans are dispersed to the County as draws according to construction payments.

The County has been a participant in the MDE's loan program since fiscal year 1992. As of June 30, 2004, the County has authorized and approved borrowings in an aggregate principal amount of \$28,600,297 for eight water and sewer loans. The County has also authorized and approved borrowings in an aggregate principal amount of \$15,987,386 for two solid waste loans. As of June 30, 2004, \$28,469,543 of the water and sewer loan proceeds and \$15,987,386 of the solid waste loan proceeds have been drawn. The remaining funds are anticipated to be drawn by the end of fiscal year 2005. The outstanding principal balance on these loans as of June 30, 2004 is \$31,062,443. These loans have interest rates of 2.00 -- 4.56%.

Component Units

Frederick Community College has a note payable to a bank included in current liabilities. The note bears interest at a fixed rate of 4.25% and matures on June 30, 2005. The following is a schedule of payments due for the next year.

<u>Years</u>	<u>Amount Due</u>
2005	<u>\$ 95,966</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. *Bond Anticipation Notes*

The County issued Bond Anticipation Notes (BANs) on October 29, 1997 and redeemed them through proceeds of General Obligation Public Facility Bonds of 2002 issued November 1, 2002. A second series of BANs (1997 Series, Second Issue) totaling \$11,130,000 was issued on July 31, 2002. These BANs mature on October 1, 2007. The interest rate changes based on market conditions and is set on Wednesday of each week. During FY2004 the rate of interest varied from 0.73% to 1.25%. The interest rate at June 30, 2004 was 1.06%. The outstanding principal on these BANs as of June 30, 2004 was \$8,150,000.

Below is an amortization schedule for the BANs:

Fiscal Year Ending June 30th	Principal	Interest
2005	\$ 4,140,000	\$ 79,954
2006	-	42,506
2007	-	42,506
2008	4,010,000	10,830
	<u>\$ 8,150,000</u>	<u>\$ 175,796</u>

- Notes:
- 1.) Interest paid subsequent to June 30, 2004 (through January 31, 2005) reflects the rates in effect during the periods in which interest has been paid.
 - 2.) Interest not yet paid reflects the rate in effect at June 30, 2004.

6. *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*

The Solid Waste Enterprise Fund recorded a liability for the costs of closing and post closure monitoring and care for thirty years of both sanitary landfills (Site A and B) as mandated by state and federal regulations. The liability recognized to date is based on the percentage to total landfill capacity multiplied by the total estimated current costs of closure and post closure care. The liability is reduced as the estimated costs are incurred.

As of June 30, 2004, the Site A landfill was 100% to capacity. Total capacity of Site A is 3,228,000 tons. In fiscal year 2004, \$210,619 of operating activities such as leachate treatment and well testing related to Site A were incurred. The liability for Site A closure was increased by \$913,121 to reflect the variance between estimated and actual costs. This increase is recognized in the \$2,471,258 of additions to landfill closure costs for fiscal year 2004 as previously noted in Note 3.F.1. The total remaining estimated costs for closure and post closure care of Site A is \$4,875,002 as of June 30, 2004. This entire amount is reported as a liability for Site A.

NOTES TO FINANCIAL STATEMENTS
(Continued)

As of June 30, 2004, the Site B landfill had capacity used of 1,342,316 tons which is 55.5% of total capacity of 2,419,980 tons. The total estimated costs for closure and post closure care of Site B is \$11,591,000, and the resulting liability is \$6,429,303, with \$5,161,697 remaining to be recognized. The current operating strategy includes the utilization of a transfer station scheduled to become operational July 2005. Under this strategy, Site B has an estimated remaining life of 43 years.

The Solid Waste Enterprise Fund has a total liability for closure and post closure care of \$11,304,305 as of June 30, 2004. No assets are restricted for payment of the closure and post closure care costs. The costs are based on estimates and actual costs may differ due to inflation, changes in technology, or changes in regulations.

7. Current Year Defeasance of Debt

On September 23, 2003, the County issued the General Obligation Public Facilities and Refunding Bonds of 2003 in the amount of \$49,005,000. These bonds carry an average interest rate of 3.478 percent. The net proceeds of \$49.7 million (including premium, accrued interest and underwriting fees) were used to currently refund certain maturities in the amount of \$8.9 million of the 1993 Public Facilities Bonds, Series B and \$10.6 million of the 1993 Public Facilities Bonds, Series C. This issue was also used to finance current capital projects in the amount of \$29.1 million. As a result, the 1993 Public Facilities bonds (series B and C) have been removed from the government-wide statement of net assets.

This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$ 425,320 (series B) and \$387,299 (series C). These differences are reported in the accompanying financial statements, as a deduction from bonds payable, is being charged to operations through the years 2013 (series B), and 2011 (series C). The County uses the effective interest method to amortize this loss. The County completed the refunding to reduce its total debt service payments over the next nine years by \$1.8 million and to obtain an economic gain of \$1.6 million.

8. Prior-Year Defeasance of Debt

In fiscal year 1999, the County defeased the Public Facilities bonds of 1995 by placing the proceeds of the new bonds, Public Facilities Refunding Bonds of 1998, Series A, in an irrevocable trust to provide for debt service payments on the old bonds, due in the year 2006 and later subject to a call provision and call premium of 1%. Accordingly, the trust account assets and liability for the defeased bonds are not included in the County's financial statements. As of June 30, 2004, there remains \$25,745,000 of outstanding defeased debt.

G. Fund Balances/Net Assets

1. Governmental Activities with Reservation of Fund Balance

Reservations of fund balance segregate a portion of the balance to indicate that these resources are for a specific purpose and are not available for appropriation for other purposes.

NOTES TO FINANCIAL STATEMENTS
(Continued)

As of June 30, 2004, fund balances were reserved as follows:

	General Fund	Grants Funds	Capital Projects	Other Governmental Funds
Reserved				
For encumbrances	\$ 2,638,238	\$ 440,103	\$ 13,486,611	\$ 45,420
For inventories	478,320	-	-	-
For long-term receivables	274,325	567,833	-	-
For future loans	-	223,930	-	-
For drug investigations	-	-	-	73,527
For Agricultural Preservation Compliance monitoring	-	-	-	150,033
For prepaids	-	-	-	5,575
Total reserved fund balances	\$ 3,390,883	\$ 1,231,866	\$ 13,486,611	\$ 274,555

The MILA and MICRF loans receivable are not offset by a reservation of fund balance on the statement of net assets. These loans receivable are offset by deferred revenue. Deferred revenue represents amounts due from private users to repay the State. Therefore, the loans receivable do not represent fund balance to the County.

2. Governmental Activities with Unreserved Fund Balances Designated for Other Purposes

As of June 30, 2004, Unreserved Fund Balance designations are as follows:

	General Fund	Grants Fund	Nonmajor Governmental Funds
Unreserved - Fund Balances Designated for:			
Subsequent years' expenditures	\$ 21,460,120	\$ 516,201	\$ -
Bond rating enhancement	2,000,000	-	-
Capital Projects	-	-	20,003,454
Loans	-	-	985,370
Equipment purchases under capital leases	1,835,000	-	680,000
Inmates purchases	-	-	175,114
Rural Legacy	-	-	2,046,187
IPA debt service	-	-	464,451
Total designated fund balances	\$ 25,295,120	\$ 516,201	\$ 24,354,576

NOTES TO FINANCIAL STATEMENTS
(Continued)

The General Fund balance - unreserved-designated for subsequent years' expenditures includes the following designations:

Designated for use in FY05 budget	\$ 18,758,339
Designated for retiree health plan benefits	2,169,231
Designated for LOSAP (Length of Service Award Program)	<u>532,550</u>
Total General Fund Balance - Unreserved-designated for subsequent years' expenditures	<u>\$ 21,460,120</u>

3. Governmental Activities with Unreserved, Undesignated Fund Balances

The General Fund has unreserved, undesignated fund balance at June 30, 2004 totaling \$41,013,374. Section 2-7-1(a) (2) of the Frederick County Code provides for the County to maintain an unappropriated undesignated General Fund balance equal to 5% of General Fund expenditures and transfers to its component units on a budgetary basis for the prior fiscal year. At June 30, 2004 the required balance is \$14,601,583. The actual balance exceeds the required 5% set-aside, as described above, in the amount of \$26,411,791 and is available as funding source in the County's FY06 budget.

4. Business-type Activities with Unrestricted Net Assets

On February 19, 2002 the Board of County Commissioners adopted a Water and Sewer rate study which recommended the establishment of several reserves to promote the financial stability of the Water and Sewer Enterprise Fund. As of June 30, 2004, the balance of these reserves are \$74,923,227 (detailed below). These reserves are a part of the \$78,002,442 unrestricted Net Asset balance.

Reserved for:	
Operating Reserves	\$ 1,143,284
3 R Reserves	20,951,305
Tap Credits	3,232,062
Working Capital	11,442,751
Cash Funding of Capital Projects	7,841,553
System Development	<u>30,312,272</u>
Total Water and Sewer Reserves	<u>\$ 74,923,227</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Revenues

For fiscal year ended June 30, 2004, the Local Income Taxes revenue as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance includes \$3,374,040 of a one-time distribution of a projected accelerated portion of unallocated withholding and estimated tax receipts from tax years 2001, 2002 and 2003 as required by the Maryland State Budget Reconciliation and Financing Act (BRFA) of 2004 (chapter 430).

Also the Local Income Taxes revenue as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance includes \$7,997,941 received July 30, 2004 for the projected June 2004 withholdings. This \$8 million increase in Income Tax was the result of the Maryland State Comptroller expediting the submittal of withholding by employers. Previous to the change, the Comptroller received employers' withholdings on the fifteenth day of the subsequent month. The new procedure requires many employers to submit their withholdings within three business days. As a result, the Comptroller accelerated the August distribution to the month of July, and therefore, due to the County's 31 day revenue availability period for the General Fund, the distribution was included in FY04 instead of the subsequent fiscal year.

NOTE 4. OTHER INFORMATION

A. Commitments and Contingencies

1. *Construction Commitments*

As of June 30, 2004, the County had the following commitments with respect to unfinished capital projects:

	Total Project Budget	Total Expenditures	Amount Funded	Required Future Funding
General government	\$ 44,926,805	\$ 15,981,601	\$ 20,318,204	\$ 24,608,601
Roads and bridges	36,869,840	22,247,326	30,009,538	6,860,302
Water and sewer	585,822	591,086	679,784	(93,962)
Technical support	21,925	-	21,925	-
Parks and recreation	17,438,845	3,780,831	13,461,050	3,977,795
Municipal	5,425,500	755,506	1,125,500	4,300,000
Board of Education	115,606,370	88,901,227	94,106,056	21,500,314
Frederick Community College	6,808,120	6,144,383	5,247,490	1,560,630
	<u>\$ 227,683,227</u>	<u>\$ 138,401,960</u>	<u>\$ 164,969,547</u>	<u>\$ 62,713,680</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. *Federal Financial Assistance*

The County participates in a number of federally assisted programs, principal of which are the Aging, Child Support Enforcement, Transportation, Section 8 Housing, Head start, COPS, and Workforce Investment Act programs. Audits of these programs are conducted pursuant to the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, and the Federal Office of Management and Budget Circular A-133 (Revised) and OMB Circular A-133 Compliance supplement (2001 revision). The Single Audit Report for the year ended June 30, 2004 is issued under separate cover.

The County also participates in a number of state assisted grant programs. The audits of these programs are in process for the year ended June 30, 2004. The amount, if any, of expenditures that may be disallowed by the federal and state granting agencies, subsequent to the audits, cannot be determined at this time, although it is believed by management that such disallowances, if any, will not be material.

3. *Pending Litigation*

There are several pending lawsuits in which the County is involved. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County at June 30, 2004.

4. *Economic Dependency*

There are several major and non-major enterprise funds that are financially dependent upon certain major revenue sources that contribute more than 10% of the fund's total operating revenues.

Citizens Nursing Home, a non-major enterprise fund, has three payor types that individually exceed 10% of total operating revenues for this fund. They are Medicaid (58.27%), Private Pay Residents (19.24%) and Medicare (14.31%).

Montevue Home, a non-major enterprise fund, is dependent upon Social Security revenue amounting to \$382,951, or 57.14% of total operating revenues.

The Solid Waste Enterprise Fund has three customers which account for 39.0% of total operating revenues. Two commercial haulers accounted for \$3,448,048, or 30.1%, of the fiscal year 2004 operating revenues. A single municipality accounted for \$1,031,458, or 9.0%, of the fiscal year 2004 operating revenues. Should the revenues from any of these customers decrease significantly, certain variable operating expenses, such as closure and post closure care costs, would decrease.

The Water and Sewer Enterprise Fund has one commercial customer that accounted for \$2,394,227 or 12.7% of the fiscal year 2004 operating revenues.

5. *Risk Management*

The County is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance. The County retains no risk for claims up to the maximum amount of the policy except for deductible amounts.

There were no instances of claims exceeding insurance coverage in the past three years.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Contingent Liability

The County is using the Bell Court Apartment project as residential rental units for lower income households. The deed of trust deferred all principal and interest payments to the Department of Housing and Community Development of the State of Maryland (DHCD), which loaned funds for the construction project, in perpetuity, provided contractual responsibilities were followed. Should the County cease to use the project for this purpose or refinance, sell, transfer or convey the project, the County would be obligated to DHCD for the principal and interest amount of the loan and other specified costs. The principal, interest and associated costs would also become immediately due if any encumbrance is placed upon the project without the prior written consent of DHCD or in the event of default as defined in the deed of trust. The principal amount of the loan is \$1,813,056.

B. Arbitrage Rebate Requirements

Arbitrage rebate requirements under Internal Revenue Code Section 1.148-3 apply to the County's investment of the proceeds of certain bond issues.

The law requires the computation and payment of arbitrage profits on unspent proceeds of a bond issue if the current investment of these funds yields a higher rate of return than the original bond issue.

The filing of this computation and payment to the Internal Revenue Service is required at the end of the fifth year of the bond issuance date and every 5 years subsequently; however, computations and filings can be made for annual periods. There is no rebatable arbitrage to report at June 30, 2004.

C. Conduit Debt

From time to time, the County has issued Maryland Industrial Development Revenue Bonds, Maryland Economic Development Revenue Bonds, and Maryland Mortgage Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities and provision of housing 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. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The County also received a loan in the amount of \$960,000 from the federal Community Development Block Grant (CDBG) program through the Maryland Department of Housing and Community Development (DHCD). These funds were loaned to Trans Tech, Inc. The purpose of this loan was to assist Trans Tech, Inc. with planning and executing certain commercial projects. During fiscal year 2004, Trans Tech paid off the balance of this loan. The County has no further liability to DHCD or to federal CDBG program on the Trans Tech, Inc. loan.

Frederick County has issued taxable 8.16%, \$1,890,094, and 7.20%, \$1,090,000 Tax Increment Financing Bonds, due serially through 2018 and 2007, respectively, to finance part of the infrastructure needed in the Dudrow Industrial Park and Center Park Development Districts. The debt is a special obligation of the County. The County surrenders its tax revenues on the incremental increase in property taxes within the districts to pay the debt service on bonds. Cash and the related liability to bondholders are accounted for in an Agency Fund.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Frederick County has issued special obligation bonds on November 6, 1998 and April 1, 2004 for the Urbana Community Development Authority in the amount of \$30,000,000 and \$32,974,000, respectively; and January 18, 2001 for the Villages of Lake Langanore Community Development Authority in the amount of \$6,730,000. The bonds were for infrastructure costs within the boundaries of the respective Authorities. Neither the full faith and credit nor the general taxing power of the County is pledged to the payment of these special obligation bonds. The bonds are secured by special taxes levied on the property within the respective Authority.

D. Retirement Plans

Frederick County employees participate in a single-employer pension plan that is administered by the County in a separate trust fund and in two cost-sharing multiple-employer pension plans administered by the State. These plans are as follows:

1. Single-Employer Pension Plan

Plan Description

The Frederick County Employees Retirement Plan was established on July 1, 1993, under authority created by State Legislation and Section 2-2-2 of the County Code. Benefit provisions of the plan were adopted by resolution after a public hearing.

Employees of the County hired on or after July 1, 1993, and current employees electing transfer into the plan on that date are members of the plan. Effective July 1, 2000, to be eligible for benefits, an employee must work 700 hours per year. Participation classification is based on the employee's status as either "uniformed" or "non-uniformed".

The type and number of employees covered as of June 30, 2004, was as follows:

	<u>Uniformed</u>	<u>Non-Uniformed</u>	<u>Non-Vested Terminations</u>
Retirees and beneficiaries currently receiving benefits	42	173	-
Terminated employees entitled to benefits	-	-	84
Active employees	445	1,638	-

Effective July 1, 2000, a uniformed employee may retire at the earlier of age 50 or 20 years of eligibility service. Vesting begins after 5 years of service. Retirement benefits are calculated by formula and provide approximately 50% of average pay after 20 years or 66% after 28 years of service. Early retirement benefits are not available. A non-uniformed employee may retire at the earlier of age 60 or 25 years of eligibility service. Vesting begins after 5 years of service (4 years for elected officials and appointees). Retirement benefits are calculated by formula and provide approximately 50% of average pay after 25 years or 60% after 30 years of service. An employee may also take early retirement with reduced benefits at age 55 with 15 years of service.

The plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or another entity.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Summary of Significant Accounting Policies

The plan follows the accrual basis of accounting. Contributions are recognized in amounts determined by actuarial valuations. Plan member contributions are recognized in the period in which the contributions are due. The government's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The fair value of investments is determined by market price.

Funding Policy

Obligations to contribute to the plan were established by local resolution after a public hearing.

Funding policy for the plan provides for periodic contributions based upon actuarial valuations. Required contributions under the plan that are not funded by employee contributions are funded entirely by the County. Costs of administering the plan are financed on a current funding basis.

As of July 1, 2000, uniformed employees contribute 8% of their base pay under the plan, and non-uniformed employees contribute 4%. The County's required payroll contribution in FY2004 was 13.1%. In addition, the County made a supplemental payment of \$1,750,000 on July 24, 2003 to pay off remaining balance of the original unfunded liability.

Annual Pension Cost

The County started to contribute to the plan based on new actuarial assumptions during FY 2004. There was an actuarial loss during FY2003, caused primarily by investment performance, which was less than the assumption for the last four fiscal years.

New significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases from 4.00% to 10.00% per year compounded annually, including 3.00% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase.

Prior assumptions included a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) projected salary increases from 4.00% to 6.50% per year compounded annually, including 3.50% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase.

The annual pension cost, the percentage of that amount contributed, and the net pension obligation for the past three years are as follows:

Fiscal Year	Annual Pension Cost	Percentage Contributed	Net Pension Obligation	
2004	\$ 8,459,701	100%	\$	0
2003	7,388,514	100		0
2002	6,830,579	100		0

NOTES TO FINANCIAL STATEMENTS
(Continued)

At June 30, 2004, the plan's reserve for employees' retirement system was \$115,569,770, which was fully funded.

2. Cost-Sharing Multiple-Employer Pension Plan

Plan Description

The Employees' Retirement System of the State of Maryland (Retirement System) covers most employees hired prior to January 1, 1980, who did not elect to transfer into the County Plan. The Pension System for Employees of the State of Maryland (Pension System) covers employees hired between December 31, 1979, and June 30, 1993, plus Retirement System participants who have voluntarily joined the Pension System, less employees who elected to transfer into the County Plan. New provisions of the Pension System were adopted by State legislation effective July 1, 1999, and by local resolution after a public hearing effective July 1, 2000.

Under the terms of the Retirement System, a member may retire after 30 years of service regardless of age, or at age 60 or over, with at least 5 years of service. A member is eligible for vesting after 5 years of service; however, the contribution must be left in the Retirement System in order to qualify for benefits at age 60. Under the terms of the Pension System, a member may retire after 30 years of service regardless of age, at age 65 with two years of service, at age 64 with three years of service, at age 63 with four years of service, or at age 62 with at least five years of service. An employee may also take early retirement with reduced benefits at age 55 with 15 years of service. A member is eligible for vesting after 5 years of service; however, the contribution must be left in the Pension System in order to qualify for benefits at age 62.

Benefits under the Retirement System and the Pension System are established under Titles 22 and 23, respectively, of the State Personnel and Pensions Article of the Annotated Code of Maryland.

The Maryland State Retirement and Pension System issues a comprehensive annual financial report. The report can be obtained from the agency's offices.

Maryland State Retirement and Pension Systems
301 West Preston Street
Baltimore, Maryland 21201

Funding Policy

Obligations to contribute to the plans were established under Titles 22 and 23 of the State Personnel and Pensions Article of the Maryland Code.

Members of the Retirement System and the Pension System contribute 7 percent and 2 percent of their gross employee compensation, respectively.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Required contributions under the plans, which are not funded by employee contributions are funded entirely by the County. Due to the withdrawal of the County from the State Systems for all hires after June 30, 1993, the State calculated a net unfunded amount due from the County. The principal balance outstanding as of June 30, 2004 was \$5,703,345. Interest and principal payments due to maturity as of June 30, 2004, are \$7,761,096. The County has chosen to make 9 remaining payments of \$862,344 to amortize and pay interest on the liability. The required contributions and the percentage of that amount contributed for the past three years is as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
2004	\$862,344	\$862,344	100.00%
2003	862,344	862,344	100.00
2002	862,344	862,344	100.00

Required contributions to the Retirement System and the Pension System are not separately available.

3. Component Units

Substantially all employees of the FCPL are covered under the Maryland State Teacher's Retirement System or the Maryland State Teachers' Pension System. Plan members on December 31, 1979, are members of the Teachers' Retirement System unless they elected to join the Pension System. No new Retirement System members were accepted after December 31, 1979.

A member of the Teachers' Retirement System may retire with full benefits at age 60 or with 30 years of service. A member of the Teachers' Pension System may retire with full benefits with 30 years of service or at age 62 or older with specified years of service. For both systems, vesting starts after 5 years of service. Benefits under both plans are established under Titles 22 and 23 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

Obligations to contribute to the plans were established under the above-referenced article of the Maryland Code. Members of the Retirement System and the Pension System contribute 7 percent and 2 percent of their gross employee compensation, respectively. The FCPL's share of contributions for its employees is primarily the responsibility of the State. During the fiscal year ended June 30, 2004, the State paid \$265,727 in retirement costs on its behalf. This amount has been shown as grant revenue and current expenditures for the FCPL.

The employees of the BOE (other than part-time employees not eligible for participation in the plans) are covered under one of four defined benefit retirement plans that are administered by the Maryland State Retirement and Pension Systems. The BOE's share of contributions for teachers and administrative employees is primarily the responsibility of the State. Total contributions were \$14,853,227 in fiscal year 2004. This contribution was recognized as both revenue and expenditures for the BOE.

Substantially all permanent employees of the FCC are covered under one of three pension/retirement plans. Two of these plans are provided directly by the State, and the employer funding for eligible FCC employees is provided directly by the State. The other retirement plan, provided through TIAA/CREF, is an option for certain professional employees, and is also provided for those FCC employees for which the State does not provide employer share funding of retirement benefits. The TIAA/CREF plan is a noncontributory defined contribution plan requiring an employer contribution of 7.25% of employees' base salary. The FCC received State contributions toward retirement for the fiscal year of \$889,556. This amount has been recorded as a revenue and expenditure in the financial statements.

NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Post-employment Benefits Plans

In 1985, the County created the Length of Service Awards Program (LOSAP). In fiscal year 2004, LOSAP provided 86 annuities to former volunteer members of the County's fire companies or rescue squads who met certain age and service criteria. Benefits and life insurance premiums totaling \$224,227 in fiscal year 2004 also include survivor annuities and lump-sum death benefits and are reported in the Primary Government's General Fund on a "pay-as-you-go" basis.

In addition to the retirement benefits described in Note 4D, the County provides post-employment health care benefits, in accordance with County policy, to all employees (and their dependents) who are eligible to and retire from the County and who meet certain requirements. Benefits are based on when an employee was hired. For employees hired on or before July 1, 1992, the County pays 83% to 84% of the cost of premiums for medical and hospitalization costs. Employees hired after July 1, 1992, also must have worked for the County for a minimum of ten years; these employees pay 50% of the cost of premiums. If a retiree elects to discontinue coverage, at the time of retirement or later, they have the option of re-enrolling in the County plan. Therefore, the number of retirees participating in the plan varies throughout the year. Currently, 368 retirees are receiving post-employment health care benefits. It is estimated that less than 10 retirees currently do not receive these benefits.

Upon the attainment of age 65, Medicare coverage becomes primary, although the County continues to pay its share of premium costs for the insurance coverage selected by its retirees. Expenses for post-employment health care benefits are recognized as incurred. During the year, expenses of \$1,662,786 were recognized for post-employment health care.

F. Deferred Compensation

Employees of Frederick County may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all full-time and permanent part-time employees of the County. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. During the fiscal year 2004 approximately 28.8 percent of the County's eligible employees elected to participate in the plan.

The deferred compensation plan is administered by an unrelated compensation and benefit consulting organization. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the compensation and benefit consulting organization are held in trust for the exclusive benefit of the participants and their beneficiaries, and accordingly, are not included in the County's financial statements.

As part of its fiduciary role, the County has an obligation of due care in selecting the third party administrator. In the opinion of the County's legal counsel the County has acted in a prudent manner and it is unlikely that the County will be liable for any losses that may arise from its selection of the third party administrator.

G. Component Unit Self-Insurance Fund Deficit

At June 30, 2004, the Self-Insurance Fund of the Board of Education has a deficit in total net assets of \$847,614. This deficit is expected to be eliminated during fiscal year 2005 since funds have been budgeted to exceed anticipated expenses by \$850,000. This \$850,000 will be funded through increased premiums shared by Board employees and the Board and a contribution by the Board of County Commissioners.

NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Subsequent Events

The County issued BANs (1997 Series, Second Issue) on July 31, 2002. The BANs mature in their entirety on October 1, 2007. The County made voluntary redemption payments totaling \$4,140,000 (\$75,000, 8/25/2004; \$3,675,000, 11/29/2004; \$390,000, 12/13/2004) because the State of Maryland reimbursed construction costs for which these BANs were issued.

I. New Governmental Accounting Standards Board (GASB) Standard

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, is effective for the County for the fiscal year ending June 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as a component unit based on the nature and significance of their relationship with the primary government. In accordance with the implementation of GASB Statement No. 39, the Frederick Community College Foundation, Inc. has been incorporated into these financial statements.

Required Supplementary Information

The information provided in this section is required supplementary disclosures.

**FREDERICK COUNTY EMPLOYEES RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
LAST SIX FISCAL YEARS**

Actuarial Valuation Date	Actuarial Value of Plan Assets as a Percentage of the Actuarial Accrued Liability		Actuarial Value of Plan Assets as a Percentage of the Actuarial Accrued Liability		Annual Covered Payroll	Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Actuarial Value of Plan Assets as a Percentage of the Actuarial Accrued Liability	Unfunded Actuarial Liability		
07/01/98	\$ 48,066,723	\$ 53,343,129	90.1 %	\$ 5,276,406	\$ 35,126,681	15.0 %
07/01/99	60,012,213	61,819,803	97.1	1,807,590	39,418,141	4.6
07/01/00	72,204,187	83,609,579	86.4	11,405,392	45,981,373	24.8
07/01/01	85,259,793	98,341,644	86.7	13,081,851	51,966,538	25.2
07/01/02	96,842,861	112,665,292	86.0	15,822,431	58,253,351	27.2
07/01/03	106,019,071	134,659,038	78.7	28,639,967	63,581,281	45.0

Analysis of the dollar amounts of the actuarial value of plan assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the actuarial value of plan assets as a percentage of the actuarial accrued liability provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of Frederick County's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the plan.

**FREDERICK COUNTY EMPLOYEES RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
LAST SIX FISCAL YEARS**

Fiscal Year	Annual Required Contribution (ARC)	ARC Recognized in Plan Financial Statements	Percentage Recognized
1999	\$ 3,492,537	\$ 3,492,537	100 %
2000	4,106,355	4,106,355	100
2001	5,640,938	5,640,938	100
2002	6,830,579	6,830,579	100
2003	7,388,514	7,388,514	100
2004	8,459,701	10,209,701 *	121

*Includes a one-time discretionary payment of \$1,750,000

**Frederick County Employees Retirement Plan
Required Supplementary Information
Notes to the Required Schedules**

Note 1. Actuarial Methods and Assumptions

The projected unit credit cost method is the actuarial cost method used to determine the plan's normal cost and the actuarial accrued liability. The actuarial value of assets is determined by adjusting the market value of assets as of the actuarial valuation date for any actuarial gains and losses. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed period of the next 2.5 years.

The County started to contribute to the plan based on new actuarial assumptions during FY 2004. There was an actuarial loss during FY2003, caused primarily by investment performance, which was less than the assumption for the last four fiscal years.

New significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases from 4.00% to 10.00% per year compounded annually, including 3.00% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase.

Prior assumptions included a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) projected salary increases from 4.00% to 6.50% per year compounded annually, including 3.50% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase

_____, 2005

County Commissioners of Frederick County
Winchester Hall
12 East Church Street
Frederick, Maryland 21701

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by County Commissioners of Frederick County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, of its Frederick County, Maryland, General Obligation Public Facilities Refunding Bonds of 2005, in an aggregate principal amount of \$ _____ (the "Bonds") dated May 1, 2005.

In such capacity, we have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

We are qualified to practice law in the State of Maryland, and we do not purport to be experts on, or to express any opinion herein concerning, any law other than the law of the State of Maryland and the federal law of the United States of America.

Based upon the foregoing, we are of the opinion that, under existing Maryland and federal law and as of the date hereof:

1. The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland (the "State"), possessing authority under the Acts (as hereafter defined) to issue the Bonds.

2. The Bonds are issued for valid public purposes as provided in Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1997) as amended (the "Water and Sewer Act"), and Article 31, Section 33 of the Annotated Code of Maryland (2003 Replacement Volume) as amended ("Section 33") (together, the "Acts"), Section 24 of Article 31 of the Annotated Code of Maryland (2003 Replacement Volume), as amended, Resolution No. - of the County adopted on _____, 2005 and Resolution No. - of the County adopted on _____, 2005 (together, the "Resolution"), and the issuance thereof is within every debt and other similar legal limit applicable to the County.

3. The Resolution has been validly adopted.

4. All actions for the authorization, approval, sale, execution and delivery of the Bonds have been taken in full compliance with the Constitution and laws of the State, the laws of the County, the Acts and the Resolution.

5. The Bonds are valid and binding general obligations of the County to the payment of which the County has pledged its full faith and credit and unlimited taxing power, and are payable as to principal, premium, if any, and interest from ad valorem property taxes upon all the legally assessable property within the corporate limits of Frederick County, and the County is required by law to levy and collect such taxes in rate and amount sufficient to provide for such payments when due.

6. By the terms of the Acts, the Bonds, their transfer, the interest payable on them, and any income derived therefrom, including any profit made in their sale shall be exempt from State, county, municipal or other taxation of every kind and nature whatsoever within the State, but no opinion is expressed as to estate or inheritance taxes or to any other taxes not levied or assessed directly on the Bonds or the income therefrom.

7. Interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is excluded from gross income for federal income tax purposes, and interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes). The opinion set forth in the preceding sentence is subject

to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The County has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. In addition interest on the Bonds may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

Other than as set forth in the preceding paragraphs 6 and 7, we express no opinion regarding the federal or state income tax consequences arising with respect to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein as the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the County and other certifications by public officials.

The rights of the holders of the Bonds and the enforceability of the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity).

Very truly yours,

NOTICE OF SALE

\$107,585,000*
FREDERICK COUNTY, MARYLAND
General Obligation Bonds
Public Facilities Refunding Bonds of 2005
Dated May 1, 2005

Sealed proposals or electronic bids via *PARITY*
will be received until 11 o'clock A.M., local Frederick, Maryland Time, on
Thursday, May 5, 2005
Winchester Hall, 12 East Church Street, 3rd Floor Hearing Room
Frederick, Maryland 21701

Sealed proposals or electronic bids via *PARITY* will be received at the offices of the County for the purchase of the \$107,585,000* General Obligation Public Facilities Refunding Bonds of 2005 (the "Bonds"). The Bonds will be dated May 1, 2005, and bear interest payable semi-annually beginning on August 1, 2005 and thereafter on the first days of February and August until maturity or redemption.

The Bonds are issued pursuant to the authority of Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1979) as amended (the "Water and Sewer Act") and Article 31, Section 33 of the Annotated Code of Maryland, as amended ("Section 33") (together, the "Acts"), Section 24 of Article 31 of the Annotated Code of Maryland (2003 Replacement Volume), as amended, and in accordance with Resolution No. 05-11 adopted by the Board on, April 19, 2005

The Bonds will mature, subject to prior redemption as herein stated, on the first days of August in the following years and aggregate amounts:

<u>Year of Maturity</u>	<u>Annual Amount</u> <u>Maturing</u>	<u>Year of Maturity</u>	<u>Annual Amount</u> <u>Maturing</u>
2005	\$455,000	2013	\$9,580,000
2006	180,000	2014	10,060,000
2007	185,000	2015	10,560,000
2008	195,000	2016	11,095,000
2009	200,000	2017	11,665,000
2010	4,545,000	2018	12,265,000
2011	8,710,000	2019	12,880,000
2012	9,135,000	2020	5,875,000

The proceeds are being used to refund some or all of the callable maturities of the County's General Obligation Public Facilities Bonds of 1999 and 2000 and to redeem the outstanding balance of the County's Consolidated Public Improvement Variable Demand Bond Anticipation Notes, 1997 Series.

General Provisions for the Bonds

The Bonds shall be issued only in fully registered form without coupons. One Bond representing each maturity will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds and each such Bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the Bonds purchased. The winning bidder, as a condition to delivery of the Bonds, will be required to deposit the bond certificates representing each maturity with DTC. The Bonds will bear interest payable semiannually on the first days of

* Preliminary, subject to change.

February and August, commencing August 1, 2005, until maturity or redemption. Interest will be paid to the persons in whose names the Bonds are registered on the registration books maintained by the Bond Registrar on the Regular Record Date, which is the fifteenth day of the month immediately preceding the month in which each such interest payment date occurs, by check mailed to each such person's address as it appears on such bond registration books.

Bonds which mature on or before July 1, 2015, are not subject to redemption prior to their maturities. Bonds which mature on or after July 1, 2016, are subject to redemption on or after July 1, 2015, in whole at any time or in part on any interest payment date in any order of maturities, at par, at the option of the County, at par, together with interest accrued to the date fixed for redemption.

If less than all of the Bonds of any maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Bond Registrar and Paying Agent in such manner as in its discretion, it shall determine.

The Board will not accept and will reject any bid for less than all of the above described Bonds. The right is reserved to reject any and all bids.

Electronic Bids

Electronic bids will be received via **PARITY**, in the manner described below, until 11:00 A.M. local Frederick, Maryland time, on Thursday May 5, 2005.

Bids may be submitted electronically via **PARITY** pursuant to this Notice until 11:00 A.M., local Frederick, Maryland time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this notice, the terms of this Notice shall control. For further information about **PARITY**, potential bidders may contact **PARITY** at Dalcomp (212) 849-5021.

Disclaimer

Each prospective electronic bidder shall be solely responsible to register to bid via **PARITY** as described above. Each qualified prospective electronic bidder shall be solely responsible to make necessary arrangements to access **PARITY** for the purposes of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the County nor **PARITY**, shall have any duty or obligation to provide or assure access to **PARITY** to any prospective bidder, and neither the County nor **PARITY** shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, **PARITY**. The County is using **PARITY** as a communication mechanism, and not as the County's agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of **PARITY** to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via **PARITY** are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying or withdrawing a bid for the Bonds, he should telephone **PARITY** at Dalcomp (212) 849-5021 and notify the County's Financial Advisor, A. Samuel Ketterman, at Davenport & Company LLC by facsimile at (410) 296-8517.

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of the Bonds (all or none) via **PARITY**. Bids will be communicated electronically to the County at 11:00 a.m., local Frederick, Maryland time, on Thursday, May 5, 2005. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via **PARITY**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **PARITY** to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on **PARITY** shall constitute the official time.

Written Sealed Bids

Written bids will also be accepted in written form on the form of Proposal for Bonds attached to this Notice until 11:00 a.m. local Frederick, Maryland time at the place specified above. Written bids must be submitted on the prescribed form provided for that purpose by the Director of Finance and must be enclosed in a sealed envelope marked "Proposal for Bonds" and addressed to County Commissioners, 3rd Floor Hearing Room, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701.

Bid Specifications

Bidders shall state in their proposals the rate or rates of interest to be paid of the Bonds in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%), and each proposal shall be based and submitted on the rate or rates stated therein. Bidders may specify more than one rate of interest to be borne by the Bonds but difference between the lowest rate and the highest rate may not exceed 3%. The highest rate of interest permitted may not exceed 5.75% in any year. Bidders may not specify more than one rate of interest for the Bonds of any single maturity. A zero rate may not be named for any maturity. The Bonds will be awarded to the bidder naming the lowest true interest cost for all of the Bonds in any legally acceptable proposal and offering to pay not less than 100% of par or more than 110% and accrued interest. The lowest true interest cost will be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the amount bid, not including interest accrued to the date of delivery. Where the proposals of two or more bidders result in the same lowest true interest cost for the Bonds, the Bonds may be apportioned between such bidders, but if this shall not be acceptable, the County shall have the right to award all of the Bonds to one bidder. The right is reserved to the County to reject any or all proposals and to waive any irregularity or informality in any proposal. The County's judgment shall be final and binding upon all bidders with respect to the form and adequacy of any proposal received and as to its conformity to the terms of this Notice of Sale. Any award of the Bonds may be made as late as 5:00 P.M. on the sale date. All bids remain firm until an award is made.

Each bid for the Bonds, whether submitted as a sealed bid or electronically, shall be accompanied by a good faith deposit in the form of a certified check upon, or a cashier's, treasurer's or official check of, a responsible banking institution, payable to the order of "Treasurer of Frederick County" or a financial surety bond (a "Surety Bond") from an insurance company acceptable to the County and licensed to issue such a bond in the State of Maryland, in the amount of \$1,000,000 for the Bonds (the "Deposit"). If a Surety Bond is used, it must be submitted to the County prior to the opening of the bids and must be in form and substance acceptable to the County, including (without limitation) identifying the bidder whose Deposit is guaranteed by such Surety Bond. If the Bonds are awarded to a bidder utilizing a Surety Bond, then such successful bidder is required to submit its Deposit to the County in the form of a wire transfer not later than 12:00 p.m. local Frederick, Maryland time on the next business day following the award. If such Deposit is not received by that time, the Surety Bond may be drawn by the County to satisfy the Deposit requirement. The Deposit of the successful bidder will be collected and the proceeds thereof retained by the County to be applied in part payment for the Bonds, and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of his bid, the proceeds thereof will be retained as and for full liquidated damages. The checks of the unsuccessful bidders will be returned promptly after the Bonds are awarded. THE SUCCESSFUL BIDDER OF BONDS SHALL MAKE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT THE INITIAL OFFERING PRICES AND SHALL PROVIDE THE RELATED CERTIFICATION DESCRIBED BELOW.

Adjustments of Principal Amounts

The aggregate principal amount and the principal amount of each maturity of the Bonds are subject to adjustment by the County, both before and after the receipt of bids for their purchase. Changes to be made prior to the sale will be through TM3 News Service ("TM3") not later than 9:30 a.m. local Frederick, Maryland time on the date of sale (or as soon thereafter as is reasonably practical) and will be used to compare bids and select a winning bidder. Changes to be made after the sale and the maturity amounts for the Bonds will be communicated to the successful bidder by 5:00 p.m. local Frederick, Maryland time on the date of the sale, will be made only as necessary to effect the refundings, will not reduce or increase the aggregate principal amount of the Bonds by more than 10% from the amount bid upon and in addition, the final maturity schedule for the Bonds will be communicated to the successful bidder by 5:00 p.m. local Frederick, Maryland time on the date of the sale. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering prices. The interest rate specified by the successful bidder for each maturity and the initial reoffering prices will not change. The successful bidder may not withdraw its bid as a result of any changes made within these limits.

All Bonds herein described will constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County.

The Bonds will be issued and sold subject to approval as to legality by Venable LLP, Baltimore, Maryland, Bond Counsel, whose approving opinion substantially in the forms included in the Preliminary Official Statement referred to below will be delivered, upon request, to the purchaser or purchasers of the Bonds, without charge.

In order to assist bidders in complying with SEC Rule 15c2-12(b)(5), the County will execute and deliver a continuing disclosure agreement on or before the date of issuance of the Bonds pursuant to which it will undertake to provide certain information annually and notices of certain events. A form of this agreement is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

When delivered, the Bonds shall be duly executed and authenticated and registered in the name of Cede & Co., as nominee of DTC, as registered owner of the Bonds.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale.

Not later than seven (7) business days after the award of the Bonds to the successful bidder on the day of sale, the County will authorize an Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. If so requested by the purchaser or purchasers at or before the close of business on the date of the sale, the County will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the Bonds by the successful bidder ("Reoffering Information"), if any, as may be specified and furnished in writing by such bidder. If no Reoffering Information is specified and furnished by the successful bidder, the Official Statement will include the interest rates on the Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder for the Bonds shall be responsible to the County and its officials for the Reoffering Information, and for all decisions made by such bidder with respect to the use or omission of the Reoffering Information in any reoffering of the Bonds, including the presentation or exclusion of any Reoffering Information in any documents, including the Official Statement. The successful bidder will also be furnished, without cost, with up to 600 copies of the Official Statement (and any amendments or supplements thereto).

Delivery of the Bonds, without expense, will be made by the County to the purchaser or purchasers on or about May 19, 2005, or as soon as practicable thereafter, in New York, New York or at such other location as shall be mutually acceptable to the County and the purchasers, and, thereupon, said purchaser or purchasers will be required to accept delivery of the Bonds purchased and pay, in Federal funds, the balance of the purchase price due. The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending affecting the validity of any of the Bonds. It shall be a condition to the obligation of said purchaser or purchasers to accept delivery of and pay for the Bonds that, simultaneously with or before delivery and payment for the Bonds, said purchaser or purchasers shall be furnished a certificate or certificates of the President or Vice President of the Board of County Commissioners of Frederick County and the Director of Finance to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information provided by the purchaser and information regarding DTC and DTC's book-entry system provided by DTC, as to which no view will be expressed) as of the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement (and any amendment or supplement thereto).

SIMULTANEOUS WITH OR BEFORE DELIVERY OF THE BONDS, THE SUCCESSFUL BIDDER OF THE BONDS SHALL FURNISH TO THE COUNTY A CERTIFICATE ACCEPTABLE TO BOND COUNSEL TO THE EFFECT THAT (i) THE SUCCESSFUL BIDDER HAS MADE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT THE INITIAL REOFFERING PRICES; AND (ii) A SUBSTANTIAL AMOUNT OF THE BONDS WAS SOLD TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT SUCH INITIAL REOFFERING PRICES.

Bond Counsel advises that (i) such certificate must be made on the best knowledge, information and belief of the successful bidder; (ii) the sale to the public of 10% or more in par amount of the Bonds of each maturity at (or below) the Reoffering Prices would be sufficient to certify as to the sale of a substantial amount of the Bonds; and (iii) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the Bonds.

NOTE: The County may revise this Notice of Sale by written notice available to prospective bidders at the place of sale at the time for submission of bids or by publishing notice of any revisions on TM3 at or before the time for submission of bids. Any bid submitted shall be in accordance with, and incorporate by reference, this Notice of Sale including any revisions made

pursuant to this paragraph.

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by TM3 by notice given not later than 1:00 p.m., local Frederick, Maryland time, on the last business day prior to any announced date for receipt of bids. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any Alternative Sale Date will be announced via TM3 at least 48 hours prior to such Alternative Sale Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids and establish a subsequent Alternative Sale Date. If all bids are rejected and an Alternative Sale Date for receipt of bids established, notice of the Alternative Sale Date will be announced via TM3 not less than 48 hours prior to such Alternative Sale Date. On any such Alternative Sale Date, any bidder may submit a bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale except for the date of sale and except for the changes announced by TM3 at the time the sale date and time are announced.

The Preliminary Official Statement, together with this Notice of Sale and the required form of proposal, may be obtained from the Director of Finance, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701, or from Davenport & Company LLC, 8600 LaSalle Road, Suite 324, Towson, Maryland 21286, (410) 296-9426. Such Preliminary Official Statement is deemed final by the County as of its date for purposes of SEC Rule 15c2-12 but is subject to revision, amendment and completion in the Official Statement referred to above.

By order of COUNTY COMMISSIONERS OF FREDERICK COUNTY

[Form of Proposal]
BIDDERS MUST SUBMIT PROPOSAL FOR THE BONDS

**PROPOSAL FOR
GENERAL OBLIGATION PUBLIC FACILITIES REFUNDING BONDS OF 2005**

May 5, 2005

County Commissioners of Frederick County
3rd Floor, Hearing Room
Winchester Hall
12 East Church Street
Frederick, Maryland 21701

Commissioners:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale, which is made a part of this Proposal, we offer to purchase the Public Facilities Refunding Bonds of 2005 (the "Bonds") of County Commissioners of Frederick County, described in such Notice of Sale, such Bonds dated May 1, 2005, to mature in the several years shown in the table below (subject to prior redemption as provided in the Notice of Sale), and to bear interest at the rate per annum set opposite such years, respectively.

<u>Annual Amount</u> <u>Maturing August 1</u>	<u>Interest</u> <u>Rate</u>	<u>Annual Amount</u> <u>Maturing August 1</u>	<u>Interest</u> <u>Rate</u>
2005	___%	2013	___%
2006	___%	2014	___%
2007	___%	2015	___%
2008	___%	2016	___%
2009	___%	2017	___%
2010	___%	2018	___%
2011	___%	2019	___%
2012	___%	2020	___%

We will pay an amount equal to the par value of the Bonds \$ _____
plus a dollar premium in the amount of + \$ _____

We will pay accrued interest on the Bonds from May 1, 2005 to the date of delivery in accordance with the Notice of Sale.

We submit the following form of good faith deposit (check one):

_____ We enclose herewith a certified check drawn upon, or a bank cashier's, treasurer's or official check of, a responsible banking institution, payable to the order of "Treasurer of Frederick County" in the amount of \$1,000,000 which check is to be returned to us if this proposal is not accepted.

_____ We have enclosed herewith a surety bond in the amount of \$1,000,000 in accordance with the Official Notice of Sale.

If this proposal is accepted, said good faith deposit is to be held as security for the performance of this proposal, and is to be applied to the purchase price of the Bonds when the Bonds are delivered and paid for under the terms of this proposal, or is to be retained as and for full liquidated damages in case we fail so to take up and pay for the Bonds.

(NOTE: Not part of proposal. The following information is requested to expedite and facilitate prompt determination of the best bid. The omission or inaccuracy of these figures will not affect the validity of the proposal. The aggregate amount of interest from the date of the Bonds to final maturity is \$_____. The true interest cost calculated in accordance with the Notice of Sale is _____ %.)

WE UNDERSTAND THAT (A) WE ARE TO PROVIDE A CERTIFICATION REGARDING THE PUBLIC SALE OF THE BONDS AS DESCRIBED IN THE NOTICE OF SALE ON OR PRIOR TO THE CLOSING DATE AND (B), IF NOTIFIED THAT WE ARE THE SUCCESSFUL BIDDER FOR THE BONDS, WE WILL BE REQUIRED TO ADVISE THE COUNTY OF THE INITIAL REOFFERING PRICES (AS DESCRIBED IN THE NOTICE OF SALE) FOR EACH MATURITY OF THE BONDS AT THE TIME OF SUCH NOTIFICATION. In this regard, you may contact and rely on the information provided by _____ whose telephone number is _____.

Bidder

By: _____

Title: _____

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by **COUNTY COMMISSIONERS OF FREDERICK COUNTY** (the “Issuer”) in connection with the issuance of \$_____ Frederick County, Maryland General Obligation Public Facilities Refunding Bonds of 2005 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. - adopted on _____, 2005, as supplemented by Resolution No. - __ adopted on _____, 2005 (the “Resolution”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the holders and the beneficial owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The County’s obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 of this Disclosure Agreement.

“Listed Events” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

BLOOMBERG MUNICIPAL REPOSITORY
100 Business Park Drive
Skillman, New Jersey 08558
Ph: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
E-Mail: munis@bloomberg.com

DPC DATA, INC.
One Executive Drive
Fort Lee, NJ 07024
Ph: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
E-Mail: nrmsir@dpcdata.com

STANDARD & POOR’s J.J. KENNY REPOSITORY
55 Water Street - 45th Floor
New York, NY 10041
Ph: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-Mail: nrmsir_repository@sandp.com

FT INTERACTIVE DATA
Attn: NRMSIR
100 William Street
New York, NY 10038
Ph: (212) 771-6899
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
<http://www.interactivedata.com>
E-Mail: nrmsir@FTID.com

“Official Statement” shall mean the Official Statement dated _____, 2005 relating to the Issuer’s \$_____ Frederick County, Maryland General Obligation Public Facilities Refunding Bonds of 2005.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

SECTION 3. *Provision of Annual Financial Information, Operating Data, and Audited Information.*

(a) The Issuer shall provide to each Repository annual financial information and operating data generally consistent with the information contained under the headings “Revenues and Expenditures” and “Certain Debt Information” in the Official Statement, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2005.

(b) The Issuer shall provide to each Repository annual audited combined financial statements for the Issuer, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2005, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the Official Statement, *provided*, that the Issuer may modify the accounting principles utilized in the presentation of financial information by amending this Disclosure Agreement pursuant to the provisions of Section 8 hereof. Changes in Generally Accepted Accounting Principles, where applicable to financial information to be provided by the Issuer, shall not require the Issuer to amend this Disclosure Agreement.

(d) If the Issuer is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the Issuer shall send in a timely manner a notice of such failure to each Repository or to the Municipal Securities Rulemaking Board and the State Repository, if any.

(e) The Issuer has not failed to comply with any prior undertakings under the Rule.

(f) Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 4. *Reporting of Significant Events.*

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of owners of the Bonds;
- (viii) Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible

determine if such event would constitute material information for owners of Bonds. If the Listed Event constitutes material information for owners of Bonds, the Issuer shall promptly file a notice of such occurrence with each Repository or the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. In addition, the Issuer may terminate its obligations under this Disclosure Agreement if and when the Issuer no longer remains an obligated person with respect to the Bonds within the meaning of the Rule.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel, expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event. The Issuer has not failed to comply with any prior undertakings pursuant to the Rule.

SECTION 9. Limitation of Remedies. The Issuer shall be given written notice at the address set forth below of any claimed failure by the Issuer to perform its obligations under the Disclosure Agreement, and the Issuer shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the Issuer shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the Issuer shall be given to the Director of Finance, Winchester Hall, 12 E. Church Street, Frederick, MD 21701, or at such alternate address as shall be specified by the Issuer with disclosures made pursuant to Section 4(a) or 4(b) hereof or a notice of occurrence of a Listed Event.

SECTION 10. Relationship to Bonds. The Disclosure Agreement constitutes an undertaking by the Issuer that is independent of the Issuer's obligations with respect to the Bonds; any breach or default by the Issuer under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

SECTION 11. Law of Maryland. This Disclosure Agreement, and any claim made with respect to the performance by the Issuer of its obligations hereunder, shall be governed by, subject to, and construed according to the laws of the State of Maryland.

SECTION 12. Limitation of Forum. Any suit or other proceeding seeking redress with regard to any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Frederick County, Maryland.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Owners, including beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2005

ATTEST:

Douglas D. Browning, County Manager

COUNTY COMMISSIONERS OF
FREDERICK COUNTY

By: _____
John L. Thompson, Jr., President
Board of County Commissioners
of Frederick County

Refunded Bonds Outstanding as of May 1, 2005

General Obligation Public Facilities Bonds of 1999

<u>Date of Maturity July 1</u>	<u>CUSIP No.</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Principal Amount Payable Stated as Percentage of Principal(1)</u>
2010.....	355694YC8	\$4,635,000	5.25%	101%
2011.....	355694YD6	4,860,000	5.25	101
2012.....	355694YE4	5,105,000	5.25	101
2013.....	355694YF1	5,360,000	5.25	101
2014.....	355694YG9	5,635,000	5.25	101
2015.....	355694YH7	5,925,000	5.25	101
2016.....	355694YJ3	6,235,000	5.25	101
2017.....	355694YK0	6,560,000	5.25	101
2018.....	355694YL8	6,910,000	5.25	101
2019.....	355694YM6	7,280,000	5.75	101

(1) Bonds redeemable on July 1, 2009 at principal amount thereof, plus a premium of 1% of such principal amount and accrued interest.

General Obligation Public Facilities Bonds of 2000

<u>Date of Maturity December 1</u>	<u>CUSIP No.</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Principal Amount Payable Stated as Percentage of Principal(1)</u>
2011.....	355694YY0	\$3,510,000	5.00%	101%
2012.....	355694YZ7	3,685,000	5.00	101
2013.....	355694ZA1	3,870,000	5.00	101
2014.....	355694ZB9	4,070,000	5.00	101
2015.....	355694ZC7	4,280,000	5.00	101
2016.....	355694ZD5	4,505,000	5.05	101
2017.....	355694ZE3	4,750,000	5.10	101
2018.....	355694ZF0	5,005,000	5.15	101
2019.....	355694ZG8	5,280,000	5.20	101
2020.....	355694ZH6	5,575,000	5.25	101

(1) Bonds redeemable on December 1, 2010 at principal amount thereof, plus a premium of 1% of such principal amount and accrued interest.

Consolidated Public Improvement Variable
Rate Demand Bond Anticipation Note, 1997 Series (1)

<u>Date of Maturity August 1</u>	<u>CUSIP No.</u>	<u>Principal Amount</u>	<u>Principal Amount Payable Stated as Percentage of Principal(1)</u>
2005.....	355694WZ9	\$3,610,000	100 %

(1) BANs redeemable on or about June 1, 2005 at principal amount thereof, plus accrued interest.