

OFFICIAL STATEMENT DATED FEBRUARY 14, 2006

**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 (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".*

**\$20,365,000**  
**FREDERICK COUNTY, MARYLAND**  
**GENERAL OBLIGATION**  
**PUBLIC FACILITIES REFUNDING BONDS OF 2006**

**Dated February 1, 2006**

**Due: November 1, as shown below**

Bond Ratings	Fitch: AA+ Moody's: Aa2 Standard & Poor's: AA
Redemption	The Bonds are non-callable prior to their stated maturities.
Security	General obligations of County Commissioners of Frederick County
Purpose	The proceeds are being used to refund certain callable maturities of the County's Public Facilities Bonds of 2002 issues. - Page - 5
Interest Payment Dates	May 1 and November 1, beginning May 1, 2006
Closing/Settlement	On or about February 28, 2006
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 Acting Director of Finance: (301) 694-1118

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

<u>Maturing</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate*</u>	<u>Price or</u> <u>Yield*</u>	<u>CUSIP</u>
2018 .....	\$3,505,000	5.25%	3.89 %	355694J43
2019 .....	3,910,000	5.25	3.93	355694J50
2020 .....	4,110,000	5.00	4.01	355694J68
2021 .....	4,320,000	5.25	4.02	355694J76
2022 .....	4,520,000	4.00	4.10	355694J84

**(Accrued interest from February 1, 2006 to be added)**

\* The interest rates shown above are the interest rates payable by the County resulting from the sale of the Bonds on February 14, 2006, by Citigroup Global Markets, Inc. The prices or yields shown above were furnished by the successful bidder. 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 February 14, 2006 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**

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**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

Jan H. Gardner  
Commissioner

Bruce L. Reeder  
Commissioner

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**CERTAIN APPOINTED OFFICIALS**

Douglas D. Browning, CPA  
County Manager

John S. Mathias  
County Attorney

Richard J. Duthoy, CPA  
Acting Director, Finance Division

Alan J. Hudak  
Director, Public Works Division

J. Steven Kaii-Ziegler, AICP  
Director, Planning Division

Marie S. Keegin  
Director, Economic Development Division

Michael G. Marschner  
Director, Utilities and Solid Waste Management Division

**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 DEPOSIT 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.

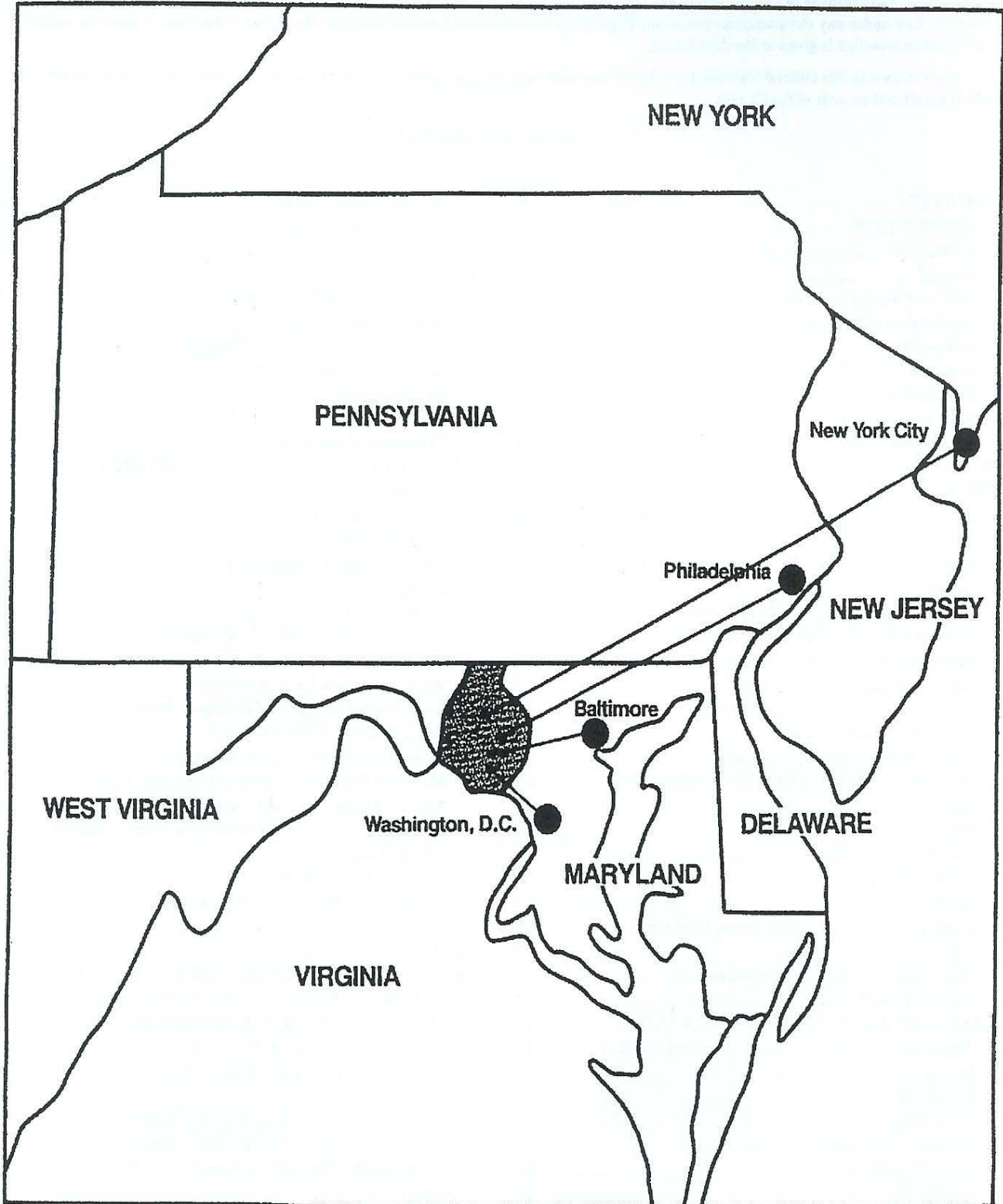
Figures used in this Official Statement relating to tax collections, assessed value of property and the financial position of the County have been taken from official records of the County.

**TABLE OF CONTENTS**

	<u>Page</u>		<u>Page</u>
LOCATION.....	ii	Construction Activity.....	30
INTRODUCTION.....	1	Housing.....	30
THE BONDS.....	1	Land Use.....	31
General.....	1	<b>BUDGET AND ACCOUNTING.....</b>	<b>31</b>
DTC and Book-Entry Only System.....	2	General Fund Budget.....	31
Application of Proceeds.....	4	Operating and Capital Budgets and Capital Program.....	31
Authorization.....	4	Accounting System.....	31
Refunding Program.....	4	Fund Structure.....	32
Registration and Transfer.....	4	Basis of Accounting.....	32
Redemption.....	5	Certificate of Achievement.....	32
Security for the Bonds.....	5	<b>CERTAIN REVENUES AND EXPENDITURES.....</b>	<b>33</b>
Bondholders' Remedies.....	5	General.....	33
<b>RATINGS.....</b>	<b>6</b>	Taxes.....	36
<b>LEGAL MATTERS.....</b>	<b>6</b>	Property Taxes.....	36
Approval of Legal Proceedings.....	6	Tax Levies and Collections.....	38
Tax Exemptions.....	6	Income Tax.....	39
<b>COUNTY GOVERNMENT AND ADMINISTRATION.....</b>	<b>8</b>	Other Local Taxes.....	39
General.....	8	State and Federal Financial Assistance.....	39
Certain Elected and Appointed Officials.....	10	Water and Sewer Enterprise Fund.....	39
Remuneration of Certain County Officials.....	12	Solid Waste Management Enterprise Fund.....	41
Retirement and Pension Programs.....	12	<b>CERTAIN DEBT INFORMATION.....</b>	<b>43</b>
Labor Relations.....	14	Bonded Indebtedness of the County.....	43
Insurance.....	15	Maryland Department of the Environment Loans.....	45
Leases and Other Contracts.....	15	Maryland Industrial Land Act Loans.....	45
Independent Agencies.....	15	Maryland Industrial and Commercial Redevelopment	
<b>CERTAIN SERVICES AND RESPONSIBILITIES.....</b>	<b>15</b>	Fund Loans.....	45
Education.....	15	United States Environmental Protection Agency.....	45
Police and Fire.....	16	Maryland State Pension.....	46
Planning and Zoning.....	17	Other Loans and Bonds.....	46
Roads and Highways.....	17	Summary of Debt Service Requirements.....	47
Health.....	18	Future Plans to Issue Debt.....	50
Nursing Home and Assisted Living Facilities.....	18	<b>COUNTY LITIGATION.....</b>	<b>51</b>
Solid Waste.....	18	<b>INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT.....</b>	<b>51</b>
Water Supply and Sewage Facilities.....	20	<b>FINANCIAL ADVISOR.....</b>	<b>51</b>
Parks and Recreation.....	22	<b>VERIFICATION OF MATHEMATICAL</b>	
<b>ECONOMIC AND DEMOGRAPHIC FACTORS.....</b>	<b>22</b>	<b>COMPUTATION.....</b>	<b>51</b>
Population of Frederick County, Municipalities		<b>CERTIFICATE OF COUNTY OFFICIALS.....</b>	<b>51</b>
and the State of Maryland.....	22	<b>CONTINUING DISCLOSURE UNDERTAKING.....</b>	<b>51</b>
Income.....	24	<b>SALE AT COMPETITIVE BIDDING.....</b>	<b>52</b>
Education.....	25	<b>MISCELLANEOUS.....</b>	<b>52</b>
Retail Sales.....	26	<b>APPENDIX A – Comprehensive Annual Financial</b>	
Business, Employment and Labor.....	27	Report for the Fiscal Year Ended June 30, 2005.....	A-1
Commuting Patterns.....	28	<b>APPENDIX B – Form of Bond Counsel Opinion.....</b>	<b>B-1</b>
Agriculture.....	28	<b>APPENDIX C – Notice of Sale and Form of Proposal for</b>	
Economic Development.....	29	Bonds.....	C-1
Transportation.....	29	<b>APPENDIX D – Form of Continuing Disclosure</b>	
Utilities.....	29	Agreement.....	D-1
Health Care.....	29	<b>APPENDIX E – Refunded Bonds Outstanding as of</b>	
Recreation and Leisure.....	30	February 1, 2006.....	E-1

## 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**

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**\$20,365,000**  
**FREDERICK COUNTY, MARYLAND**  
**GENERAL OBLIGATION**  
**PUBLIC FACILITIES REFUNDING BONDS OF 2006**

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**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 \$20,365,000 Frederick County, Maryland, General Obligation Public Facilities Refunding Bonds of 2006 (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. The estimated population of Frederick County as of June 30, 2005 is 223,000.

There are 12 incorporated towns within Frederick County. The County seat and largest city is the City of Frederick, which has an estimated population of 59,000 as of June 30, 2005. 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 the Acting Director of Finance, Frederick County, Maryland, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701, telephone no. (301) 694-1118. The County’s Internet address is [www.co.frederick.md.us](http://www.co.frederick.md.us).

**THE BONDS**

**General**

The Bonds will be dated February 1, will be issued in an aggregate principal amount of \$20,365,000 and will mature each November 1, in annual installments beginning with the year 2018 and ending with the year 2022 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 May 1, 2006 and semiannually thereafter on the first days of May 1 and November 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, or such other name as may be requested by an authorized representative of DTC, 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income 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](http://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 Issuer or 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 Issuer 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**

The proceeds of the Bonds will be used to refund on November 1, 2012 the callable maturities for the years 2018-2022, inclusive, (the "Refunded Bonds"), of Frederick County, Maryland, General Obligation Public Facilities Bonds of 2002 dated November 1, 2002 (the "2002 Bonds").

## **Refunding Program**

The County anticipates that the Bonds will be issued and delivered on February 28, 2006 and the proceeds of the Bonds will be escrowed and invested until applied on November 1, 2012, to refund the 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 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 (i) interest on the Refunded Bonds accruing to and including their redemption date and (ii) the redemption price of the Refunded Bonds. 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 redemption date. 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.

## **Authorization**

The proposed bonds are issued pursuant to the authority of Chapter 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 208 of the Laws of Maryland of 2001, as amended (the "2001 Act"), Chapter 2-13 of the Code of Public Legal Laws of Frederick County (1979), as amended (the "Water and Sewer Act"), Article 31, Section 24 of the Annotated Code of Maryland, as amended, (together the "Acts") and in accordance with Resolution No. 06-03 adopted by the Board on January 31, 2006.

## **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**

The Bonds are non-callable prior to their stated maturities.

### **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

Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Credit Market Services 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 (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 (Code of Public Local Laws of Frederick County, 1979) of the Frederick County Code, 2004, as amended (the “County Code”).

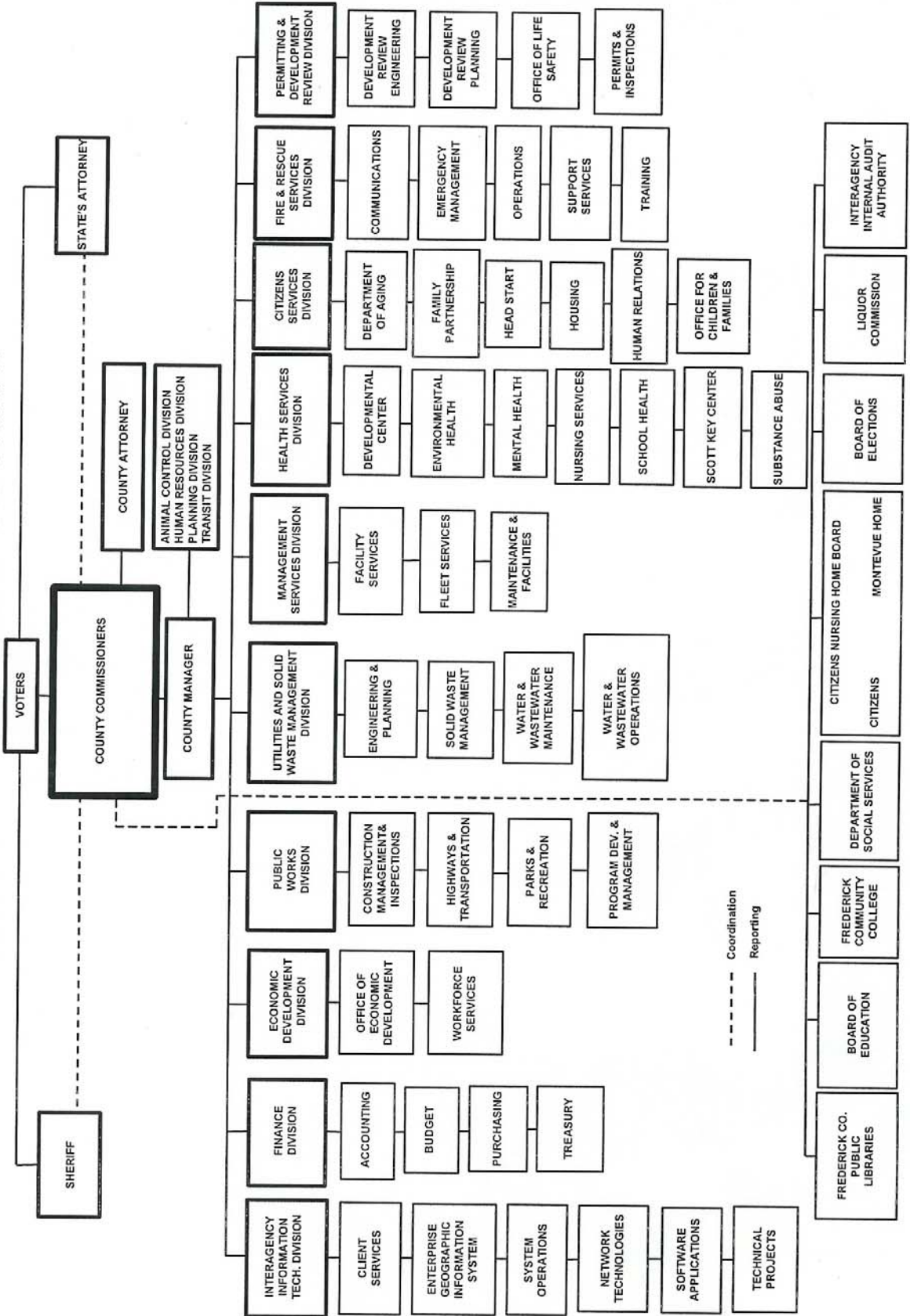
Section 1 of Article 25 of the Maryland Code empowers the Board to appoint a clerk to the Board, and all other officers, agents and employees required for County purposes not otherwise provided by law. The County Code empowers the Board to appoint an attorney to provide it with legal services and a county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

The organization of County government is shown on the following chart.

# FREDERICK COUNTY, MARYLAND GOVERNMENT ORGANIZATION CHART

Revised: 07/2018  
 GIS Mapping and Data Services



## **Certain Elected and Appointed Officials**

*John L. "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 master of business administration degree 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. 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 and children. 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*, a former Marine, Commissioner Cady began his professional career with Blue Cross and Blue Shield of the National Capital Area, advancing to the position of Director of Dental Relations. He has served as the director of finance of The George Washington University Medical Center and as the executive director of two dental associations. A member of the USA Weightlifting Masters' Hall of Fame, Commissioner Cady has devoted much of his time promoting healthier lifestyles for children. In 1978, Kiwanis International named Commissioner Cady Man of the Year for his work in combating drug use among youth. Commissioner Cady is a member of the Rotary Club of Frederick and was a member of the Frederick County Chamber of Commerce before taking office where he chaired its Regional Sports Commission Task Force and the Inaugural Frederick Annual Marathon Race Committee. As a County Commissioner, in addition to his normal duties, he serves as liaison to 11 boards and commissions: Board of Education; Planning Commission; Companion Animal Welfare Advisory Committee; Substance Abuse Council; Adult Public Guardianship Review Board; Child Advocacy Center; Commission on Disabilities; EMS Ambulance Billing Committee; Frederick County Coalition for the Homeless; Tourism Council of Frederick County, Inc.; and the Weinberg Center for the Arts, Inc. Currently, Commissioner Cady owns and operates two businesses. 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, Maryland. His community involvement includes: six years with the Frederick County Board of Zoning Appeals (chair two years); Advisory Committee on School Construction and Attendance; PTA officer of 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; Parks and Recreation Commission; Frederick County Cancer Coalition; Agricultural Business Council; Frederick County Sheriff's Office; Forestry Board; Fort Detrick Alliance; and the Metropolitan Washington Council of Governments (MWCOG) Board of Directors and chairperson of the MWCOG Chesapeake Bay Policy Committee. 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 master of business administration degree 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 Frederick County Zoning Ordinance Update Committee. Commissioner Gardner served on a statewide public school facilities task force working to defining adequate school facilities and making recommendations for the implementation of full day kindergarten. Commissioner Gardner has worked on transportation solutions and has served as the liaison to the Metropolitan Washington Council of Governments Transportation Planning Board, the Frederick Area Committee on Transportation, and the Frederick County Planning Commission. Commissioner Gardner is a member of the Interagency Internal Audit Authority and also serves on the Local Emergency Planning Committee. Commissioner Gardner represents Frederick 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; Eastalco Citizens Advisory Committee; Frederick Arts Council; Frederick Community Action Agency; and the Historical Society for Frederick County, Inc. Additionally, she serves on the National Museum of Civil War Medicine Board; 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, and served as chair from 1982-1990. He has been a member of the Maryland Heritage Areas Authority since its inception in 1996 having been reappointed in 2003 and 2005 by Maryland Governor Robert L. Ehrlich Jr. 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 where he served as president in 1997. 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.

*Douglas D. Browning, CPA, County Manager*, was appointed director of the Finance Division 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 as director of the Finance Division. Before becoming the director, 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 Frederick County Employees' Retirement Plan. Mr. Browning was appointed acting County Manager effective June 3, 2002, and was appointed County Manager in December 2002.

*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.

*Richard J. Duthoy, CPA, Acting Director of Finance Division*, was appointed to his position in August 2005. Before becoming acting director of the Finance Division, he was serving as the assistant director since November 2004. Prior to that, he held progressively responsible positions in the Departments of Finance and Liquor Control for Montgomery County, Maryland from 1977 until his retirement in 2004. Previously, he held financial management positions with May Department Stores, Inc. and served in the US Army with a tour in Vietnam as an infantry officer. Mr. Duthoy received a bachelor of arts degree in economics from St. John's University Collegeville, Minnesota in 1968, a bachelor of science in business management from the University of Maryland University College in 1977 and a master of business degree administration from Frostburg State University in 1981. He is a certified public accountant and a certified internal auditor. 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.

*Alan J. Hudak, PE, Director of Public Work Division*, 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 the Department of Transportation Engineering, and bureau chief of the Department of Highways and Transportation. Mr. Hudak was appointed director of the Public Works Division in May 2000.

*J. Steven Kaii-Ziegler, AICP, Director of Planning Division*, was appointed to his position in August 2005. Prior to his appointment in Frederick County, Mr. Kaii-Ziegler had served as the director of the Department of Planning and Zoning for Harford County since May 2003. Prior to serving in that capacity, he worked for the Queen Anne’s County Department of Planning and Zoning for over 14 years serving as the planning director from 1993 thru 2002. Mr. Kaii-Ziegler received a bachelor of science degree, with a dual major in political service and land use analysis in 1987 from Eastern Michigan University. He also obtained a master of science degree in human resource management in 1992 and a second master degree in public administration in 1994 from Wilmington College. He holds memberships in the American Institute of Certified Planners (AICP) and the American Planning Association and is currently enrolled in the 2005 Leadership Maryland class.

*Marie S. Keegin, Director of Economic Development Division*, was appointed in April 2001. Between 1996 and 2001, Ms. Keegin managed the Suburban Maryland Regional Office of the Maryland Department of Business and Economic Development, which included Prince George’s, Howard, Montgomery and Frederick Counties. Prior to that, she 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. She 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. Ms. Keegin was recognized as one of Maryland’s Top 100 Women in 2004 and currently serves as the president of the Maryland Economic Development Association.

*Michael G. Marschner, Director of Utilities and Solid Waste Management Division*, was appointed as the director of the Utilities and Solid Waste Management Division in February 2000 (the County’s water and sewer utility and solid waste operations were previously administered by the Public Works Division). Prior to his appointment as director, Mr. Marschner served in several other utility management positions in the County’s Public Works Division including bureau chief of the water and sewer operations from July 1997 to February 2000 and division chief of operations from July 1990 to June 1997. Mr. Marschner has been employed by Frederick County since July 1983. 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 Solid Waste Association of North America. Mr. Marschner was appointed and commissioned a member of the Northeast Maryland Waste Disposal Authority on November 4, 2004, by Maryland Governor Robert L. Ehrlich, Jr.

**Remuneration of Certain County Officials**

The following table presents the annual remuneration for certain County officials as of December 31, 2005:

<u>Official Title</u>	
Commissioner.....	\$ 30,000
County Manager .....	146,635
Acting Director of Finance .....	112,368
Director of Public Works.....	115,519
County Attorney .....	129,410
Director of Economic Development .....	105,861
Director of Utilities and Solid Waste.....	122,703
Director of Planning .....	104,000

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."

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 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.....	\$110,831,968
Vested terminated participants .....	3,700,407
Retired participants, beneficiaries and disabled participants .....	<u>37,077,685</u>
Total actuarial accrued liability.....	151,610,060
Actuarial value of plan assets .....	<u>(118,979,144)</u>
Unfunded actuarial liability .....	<u>\$ 32,630,916</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 plan's unfunded liability of \$32,630,916 is attributable to two sources, plan changes and cumulative gains/losses and assumption changes. Plan changes are amortized over a closed 30-year period and the cumulative gains/losses and assumption changes are amortized over an open 15-year period. As of July 1, 2005 there are two plan change bases which are currently outstanding – the COLA plan change (23 years remaining) and the July 1, 2000 plan improvements for all employees (25 years remaining). All amortization payments are calculated as a level percent of payroll which is assumed to increase 3% each year.

The County's actual contributions to the plan for fiscal year 2005 of \$9,785,642 were made in accordance with an actuarial valuation made at July 1, 2004.

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, 2005 was \$5,236,999. Interest and principal payments due at maturity as of June 30, 2005, are \$6,898,752. The County paid the scheduled annual amount of \$862,344 to amortize and pay interest on the liability on December 30, 2004, thus meeting its required contribution to the State Systems for fiscal year 2005.

**Labor Relations**

As of June 30, 2005, the County employed 2,054 regular employees. The County has a merit system including a formal appeal and grievance process. Some County employees are members of the Maryland Classified Employees Association or the American Federation of State, County and Municipal Employees but do not have the right to collective bargaining. The County has not experienced a work stoppage due to labor relation's disputes and considers its relationships with employees to be satisfactory. Effective July 1, 2005, State law allowed the County to enact an ordinance to allow voluntary collective bargaining concerning wages and benefits between the County and an organization that represents employees of the County's Fire & Rescue Services Division. No such ordinance has been enacted at this time, although it is anticipated that an ordinance will be introduced for adoption during fiscal year 2006. The State also authorized the representatives of certain full time deputy sheriffs in the Frederick County Sheriff's Office to collectively bargain with the Sheriff concerning wages and benefits. Strikes on the part of the employees of the Fire and Rescue Services Division and deputy sheriffs in the Frederick County Sheriff's Office are not permitted.

The Frederick County Teachers Association represents the certificated employees (teachers), employed by the Board of Education of Frederick County. The Teachers Association negotiates employment agreements which include rates of compensation with the Board of Education. Such negotiated agreements are not binding on the County. The County approves 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, by fiscal year, of the projected future minimum lease payments as of June 30, 2005, for all lease-purchase agreements:

<u>Fiscal Year</u>	<u>Total Payment</u>
2006.....	\$1,531,781
2007.....	1,578,080
2008.....	1,201,146
2009.....	723,224
2010.....	185,198
2011.....	<u>46,300</u>
Subtotal.....	5,265,729
Less amount representing interest.....	<u>(285,440)</u>
Present value-net minimum lease payments.....	<u>\$4,980,289</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 2005 were approximately \$960,000.

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 Board; the Frederick County 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 Frederick County Board of Education and Frederick Community College, whose board members are elected or appointed by the Governor of Maryland, respectively 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 39,825 students, an increase of 261 from the previous year.

During the 2005-2006 school years the teacher/student ratio was approximately 1 to 16. In June 2005, 2,695 students received high school diplomas.

The County's largest General Fund appropriation in its adopted fiscal year 2006 budget is \$189,508,307 for operating expenditures for public education. County appropriations for operating expenditures constituted an 8.04% increase over approved operating expenditures by the County for public education in fiscal year 2005. 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 \$20,952,930 in fiscal year 2006. The County expects to receive State aid of \$184,469,346 (including Federal funds pass through of \$16,981,629) and \$11,910,000 for operating and capital expenditures, respectively, for public education in Frederick County during fiscal year 2006.

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 2005, 4,822 students enrolled in the academic programs of the College. Additionally, 12,239 students enrolled in non-credit continuing education programs during the 2004-2005 college years an increase of 3.1% over the year before.

The fiscal year 2006 operating budget for Frederick Community College is \$29,742,180. Of this amount, 39% 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 2006 capital budget is \$2,268,380. Fiscal year 2005 funding totaled \$950,000.

Hood College and Mount St. Mary's University, 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 is a full-service law enforcement agency, providing law enforcement services, correctional services and judicial support services to the citizens of Frederick County. The Sheriff's Office serves the community by protecting life and property, preventing crime, and preserving peace, order and safety.

The Sheriff's Office is comprised of two bureaus, the Law Enforcement Bureau and the Corrections Bureau. The Law Enforcement Bureau consists of the Administrative Services Division and the Operations Division and is staffed with 224 personnel. The Corrections Bureau consists of Administrative Services, Community Services, Inmate Services and Security Operations and is staffed with 171 personnel. The Frederick County Sheriff's Office is an accredited agency through the Commission on Accreditation for Law Enforcement Agencies, the National Commission on Correctional Health Care, Maryland Commission on Correctional Standards, and the American Correctional Association.

In addition to traditional law enforcement services, Law Enforcement Bureau offers a wide variety of support services to the citizens of Frederick County, including: victim services, domestic violence follow-up, school resource officer program, crime prevention programs, youth services programs, child safety programs, senior safety programs and child support enforcement.

The Corrections Bureau operates the Frederick County Adult Detention Center which is a full service correctional facility offering not only traditional incarceration, but all available alternatives to incarceration including: pretrial release (supervised release), home detention (electronic monitoring), alternative sentencing (community service hours) and work release. The Corrections Bureau also staffs a full service central booking facility, which processes all offenders arrested within Frederick County so that police officers can return to their patrol duties faster. At any given time, the Corrections Bureau supervises over 1,000 offenders/incarcerants a day.

The Frederick County Fire & Rescue Services Division ("DFRS") provides fire, rescue and emergency medical services in conjunction with 26 volunteer fire/rescue companies operating from 30 stations. The DFRS is comprised of 234 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 DFRS 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 DFRS Bureau of Emergency Communications (“BEC”) is comprised of 40 personnel who operate a centralized 911 center and dispatch the County’s police agencies and fire/rescue services. In 2002, the BEC relocated, along with the Sheriff’s Department and Maryland State Police to the new Law Enforcement Center adjacent to the Frederick Municipal Airport. The Bureau of Emergency management is also part of the DFRS.

## **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 27 (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 September 2003) 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 Plan was recently updated in 2004. The New Market Plan and Walkersville Plan are currently being updated as they were last adopted in 1993 and 1995 respectively. The other regions were last adopted as follows: Thurmont Plan 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 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 1,257 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 \$18,478,150 and \$11,359,239, respectively, for the County's road system in fiscal year 2006. State Highway User Revenues to the County for highway maintenance through State-shared taxes is expected to be \$12,213,785 in fiscal year 2006

## **Health**

The County provides various health services to its citizens through the Health Services Division ("HSD"). HSD, 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 HSD also provides services in the areas of nutrition, nursing, maternal and child health, family planning, dental health for children, school health, communicable disease, emergency response, developmental disabilities, mental health services, substance abuse treatment and prevention, geriatrics, food service facility inspections, and well and septic inspections. Funding for the HSD is shared among County funds both matching and non-matching, State and Federal funds, and client fee collections.

## **Nursing Home and Assisted Living Facilities**

The County operates a licensed 170-bed intermediate and skilled-care nursing home, Citizens Care & Rehabilitation Center, in the City of Frederick. The occupancy rate is approximately 88.01%. The primary third-party reimbursement is through Medicaid. Budgeted expenses for fiscal years 2005 and 2006 were \$11,745,965 and \$12,319,941, respectively. The nursing home employs 138 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 2005 and 2006 were \$1,941,081 and \$2,251,084, respectively.

## **Solid Waste**

The Division of Utilities and Solid Waste Management (DUSWM) is responsible for the operations of the County-owned landfill. The 529 acre Reich's Ford Road Landfill property includes the 72 acre Site A, the 58 acre Site B landfill, and a 17 acre rubblefill. The Site A landfill 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 solid waste. Rubblefill closure construction is underway and is anticipated to be complete in fiscal year 2006. 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. All of the disposal cells within Site B are constructed with a double composite liner system. Cell 1 construction was completed and operational by January 1997. Cell 1 reached its interim capacity prematurely in August 2000, resulting in the immediate need to temporarily transfer waste to an out of state landfill. This temporary waste transfer operation lasted until the construction of the first half of Cell 2 was completed and operational in August 2001. Construction of the second half of Cell 2 was completed and operational by November 2003. Cell 2 reached approximately 95% of its capacity in December 2005, at which time waste transfer operations were initiated. The construction of the third and last currently approved disposal cell, Cell 3, is in progress and is expected to be completed in July 2006. Due to a winter construction shutdown, Cell 3, Phase 1 is now expected to be completed by May 2006, with Cell 3, Phase 2 programmed to be operational by July 2006.

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. The proposed Cell 3 Construction and Rubblefill Closure Project have been granted approval for funding from the Maryland Department of the Environment ("MDE") Revolving Loan Program.

Leachate from both Site A and B landfills is processed at an onsite Leachate Treatment Plant located between Site A and Site B. This plant collects and treats leachate and discharges the treated effluent into Bush Creek. The County also operates a comprehensive Groundwater and Gas Monitoring Program for Sites A, B and the rubblefill. The DUSWM is presently executing a project that will extend a sewer interceptor along Bush Creek to a point where the Leachate Treatment plant discharge could be connected, eliminating the Leachate plant's direct discharge into Bush Creek.

Other than through its curb side collection recycling program and bulk trash collection program, the County does not provide or fund waste collection services. Municipal or private waste haulers collect trash in the County and use the County's Reich's Ford Road Landfill as their primary disposal facility for municipal solid waste generated in Frederick County.

The County's Recycling Program includes curbside collection for approximately 45,000 homes, 12 satellite drop-off locations and 3 yard waste drop-off sites with mulching operation. Under these programs per capita recycling rates have been increasing steadily since 2001. The increase from 2003 to 2004 was 7.4 percent.

#### *Solid Waste Initiatives*

The County is pursuing two specific initiatives to extend the operational life of the Reich's Ford Road Landfill. These initiatives are focused on two principle objectives. First, conserve air space in Cell 3 by using out of state landfill capacity. Second, pursue a major permit modification for the Site B landfill to increase its height by 105 feet. This permit modification could result in the provision of 2 million cubic yards of additional disposal airspace without the need to construct additional lined disposal cells. The design of the permanent transfer station has been completed. However, the County has not yet received the operating permit for the proposed facility. On January 13, 2005, a local citizens group, including residents that live near the Reich's Ford Road Landfill, petitioned the court to stop the transfer station permitting. On June 21, 2005, the Baltimore City Circuit Court issued an injunction preventing MDE from issuing the transfer station operating permit until after a scheduled December 8, 2005 hearing. This hearing was postponed until January 13, 2006. Motions filed by Frederick County at that hearing are currently under consideration by the court. In March 2005, the MDE authorized the County to conduct working face transfer operations, should they be deemed necessary until the proposed waste transfer station is permitted and constructed. The temporary waste transfer operation began on December 12, 2005. On March 31, 2003 the County submitted its Phase 1 permit application to MDE to increase the height of the Reich's Ford Road Landfill. Phase 2 and 3 permit submissions were transmitted to MDE in March 2005. The MDE tentatively approved the County's request for a vertical expansion of the landfill. On December 19, 2005 the MDE conducted a public hearing on their tentative approval of the requested expansion. The County expects the new landfill permit, subject to final review and decision by the hearing officer, to be issued in February 2006.

In addition to the projects detailed above the County has pursued other initiatives to address the County's long term waste disposal infrastructure needs. In 2003, the County obtained enabling legislation that would allow it to become a member of the Northeast Maryland Waste Disposal Authority (the "Authority"). The Authority, created in 1980 by the Maryland General Assembly, is a regional quasi-state agency that assists its member jurisdictions to plan and develop efficient and reliable waste management systems. The Authority provides an integrated approach to waste management by combining recycling with combustion and energy recovery, composting and landfilling. The Authority places a special emphasis on waste reduction. An underlying goal, inherent in all Authority projects, is to minimize waste disposal costs. Also in 2003, the County obtained enabling legislation that allows the County to assess a solid waste disposal fee or system benefit charge ("SBC") against developed properties in Frederick County. To assure that the County is able to continue to operate its solid waste management system as an enterprise organization, the County implemented a countywide solid waste SBC. The SBC established by Ordinance on January 26, 2006. County residents, businesses, and institutions will receive the SBC on tax bills issued on July 1, 2006. The revenue generated by the SBC will supplement the revenues collected as tipping fees, allowing the County to set tipping fees at market rates.

To address projected fiscal year 2006 revenue requirements for the solid waste enterprise, the Board, effective July 1, 2005, adopted a revised tipping fee schedule for the County's waste disposal facilities. Since all earlier reduced tipping fee contracts executed in July 1998 expired in June 2005, the following new tipping fees apply to all users of the County's waste disposal facilities:

- Municipal Solid Waste (MSW) \$59 per ton
- Construction and Demolition (C&D) \$68 per ton
- Tires \$160 per ton

R.W. Beck Inc. is presently completing a study of Frederick County's long-term solid waste management options. Although Beck's analysis has not yet been finalized, the report suggests that the construction of a regional 1,500 ton per day waste to energy (WTE) facility would provide the County with the lowest cost long-term waste disposal option. The draft study compared three disposal options including long haul and disposal out of State, composting, and a County only and regional WTE facility. The draft report also provides several recommendations on how the County can provide low cost improvements to its recycling program, including the possible use of single stream recycling instead of the County's current multi-stream based collection. The report also provides alternative strategies for funding solid waste management services some of which will require the County to obtain additional enabling legislation from the General Assembly.

## **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 water and sewer utilities are typically provided in unincorporated areas of Frederick County, although in some cases the County owns and operates 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 being completed through the execution of multiple construction contracts. As of January 2006, 100% of the transmission line has been constructed on Contract 1 of the project, 70% of the transmission line has been installed under Contract 2, and approximately 30% of the line has been installed under Contract 3. Contract 4, which includes a 14 million gallons per day ("MGD") booster pump station and a 3 million dollar tank is approximately 65% complete.

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, 2003 and 2005 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. The callable maturities of the 1999 and 2000 Bonds were refunded in May 2005. A portion of the funding for the Ballenger Creek Wastewater Treatment Plant Expansion, New Market Wastewater Treatment Plant Upgrade, Adamstown Heights (AKA Greenhill Manor) 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 13 water treatment plants. The County's two largest treatment facilities rely on surface water while the other facilities rely on ground water. Approximately 67% of the County's water supply presently comes from the Potomac River, while 20% came from Lake Linganore, with the remaining 13% supplied from deep well sources.

The County is executing a major expansion of its Potomac River surface water supply. The construction of a 42-inch water transmission line is under way that will provide up to 32 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 is programmed to provide the City of Frederick with up to 8 MGD. The total cost of the project(s) is estimated to be \$93.1 million of which the County will pay approximately \$59 million and the City will pay \$34.1 million. The first phases of these complementary projects are expected to be complete and operational by the end of calendar year 2006.



The County owns and operates 14 wastewater treatment plants (WWTP) and leachate treatment facility; all but one have a design capacity less than 0.5 MGD. These smaller, minor treatment facilities provide sewer service to individual subdivisions and small incorporated and unincorporated municipalities within Frederick County. The County's largest wastewater treatment plant 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 a portion of 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 August 31, 2005, 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>
<b>Sewerage <sup>(1)</sup></b>			
Ballenger Creek .....	20,908	5.227	6.000
Crestview .....	140	0.035	0.036
Fountaindale.....	686	0.172	0.200
Jefferson.....	584	0.146	0.300
Kemptown Elementary School .....	4	0.001	0.005
Landfill Leachate <sup>(4)</sup> .....	-	-	0.144
Lewistown Elementary School .....	114	0.029	0.022
Libertytown.....	164	0.041	0.050
Mill Bottom .....	251	0.063	0.100
Monrovia.....	321	0.080	0.200
New Market .....	310	0.078	0.240
Pleasant Branch.....	168	0.042	0.100
Point of Rocks.....	451	0.113	0.230
Urbana High School.....	12	0.003	0.030
White Rock .....	41	0.010	0.050
			7.707
<b>Water <sup>(2)</sup></b>			
Bradford Estates.....	62	0.016	0.050
Cambridge Farms.....	219	0.055	0.060
Cloverhill III .....	280	0.070	0.140
Copperfield .....	121	0.030	0.073
Fountaindale.....	1,029	0.257	0.200
Lake Linganore.....	4,293	1.073	2.000
Liberty East.....	26	0.007	0.008
Liberty West and Liberty Condos.....	11	0.003	0.029
New Design.....	14,523	3.631	6.600
Pleasant Branch.....	224	0.056	0.100
Sam Hill.....	286	0.072	0.100
White Rock .....	117	0.029	0.050
Woodspring.....	246	0.061	0.075
			9.485

<sup>(1)</sup> Average daily value based on monthly flow data between September 2004 and August 2005.

<sup>(2)</sup> Average daily value based on monthly flow data between September 2004 and August 2005.

<sup>(3)</sup> Based on 250 gallons per unit per day.

<sup>(4)</sup> No water/sewer capacity is sold for this facility as it provides wastewater treatment for the leachate from the Landfill, which eventually will provide pretreatment at the Ballenger Creek WWTP after the conveyance system (interceptor) is completed.

## **Parks and Recreation**

At the County level the Parks and Recreation Department provides for acquisition and development of a County-wide park system including community, district and special use parks. The system includes 1,511 acres of parkland of which 771 acres are developed to some degree. The largest site is 247 acres. Additionally, the department develops and manages community recreational programs and maintains County owned grounds.

The twelve municipalities also provide and maintain park systems, which include neighborhood, community and special use parks.

State and Federal parks within Frederick County are primarily utilized for natural and historical resource protection. 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, C&O Canal Park and Catoctin 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>
<b>Maryland</b> .....	<b>5,296,486</b>	<b>4,780,753</b>	<b>10.8%</b>
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
<b>Frederick</b> .....	<b>195,277</b>	<b>150,208</b>	<b>30.0</b>
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 \$52,799 for calendar year 2005. The median household effective buying income for the other counties in the Maryland portion of the Washington MSA and the State are estimated as follows:

**Median Household Effective Buying Income\***

	<u>2005</u>
Calvert County .....	\$56,385
Charles County.....	53,787
<b>Frederick County .....</b>	<b>52,799</b>
Montgomery County .....	60,991
Prince George’s County .....	47,784
State of Maryland.....	47,062

\* Effective buying income is defined as money income less personal tax and non-tax payments.  
 Source: *Sales and Marketing Management, 2005 Survey of Buying Power and Media Markets* (A VNU Publication: October 2005) Copyrighted.

Comparative statistics relating to the distribution of calendar year 2005 effective buying income is presented in the following table:

	<u>Frederick County</u>	<u>Maryland</u>	<u>U.S.</u>
\$ 0–19,999 .....	11.1%	15.9%	21.5%
20,000–34,999 .....	16.0	18.9	22.5
35,000–49,999 .....	19.6	19.1	19.3
50,000 and over.....	53.3	46.1	36.7

Source: *Sales and Marketing Management, 2005 Survey of Buying Power and Media Markets* (A VNU Publication: October 2005) Copyrighted.

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>
2003 .....	\$35,423	2.7%	\$37,446	3.6%	\$31,472	1.2%
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

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, April 2005.

**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>
	2003 .....	\$7,567,226	\$206,411,852	4.8%
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

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, April, 2005.

Personal income levels for Frederick County residents from 2000 to 2004 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.

**Adjusted Gross Income in Excess of \$50,000**

	<u>2004 Number of Returns</u>	<u>2000 Number of Returns</u>	<u>Percent Increase</u>
Calvert County .....	16,768	13,521	24.0%
Charles County .....	24,511	19,450	26.0
<b>Frederick County .....</b>	<b>42,109</b>	<b>34,591</b>	<b>21.7</b>
Montgomery County .....	178,508	168,092	6.2
Prince George's County .....	120,695	101,620	18.8
State of Maryland .....	883,836	871,729	1.4

Source: Comptroller of the Treasury, Income Tax Summary Report, Tax Years 2000 and 2004.

**Education**

Survey results of the number of high school students in the Maryland portion of the Washington MSA 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 .....	84.7%
Charles County .....	79.5
<b>Frederick County .....</b>	<b>89.8</b>
Montgomery County .....	83.2
Prince George's County .....	67.7
State of Maryland .....	74.7

Source: Graduation Statistics and Holding Power: Maryland Public Schools: 2003-2004, 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 MSA and the State.

	<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, 2000.

## Retail Sales

Retail sales (\$000's) by store group as measured by the 2005 Survey of Buying Power and Media Markets are listed below for the counties in the Maryland portion of the Washington MSA and the State:

	<u>Food &amp; Beverage Stores</u>	<u>Food Serv. &amp; Drinking Estab.</u>	<u>General Merch.</u>	<u>Furnit. &amp; Home Furnish. and Electron. &amp; Appliances</u>	<u>Motor Veh. &amp; Parts Dealers</u>	<u>Miscellaneous</u>	<u>Total Retail Sales</u>
Calvert County .....	\$ 231,220	\$ 99,204	\$ 62,843	\$ 26,557	\$ 119,588	\$ 226,562	\$ 761,024
% of Total .....	30.4%	13.0%	8.3%	3.5%	15.7%	29.7%	
Charles County .....	277,295	208,774	370,430	180,107	460,788	834,803	2,332,187
% of Total .....	11.9	8.9	15.8	7.7	19.8	35.8	
<b>Frederick County .....</b>	<b>666,906</b>	<b>299,808</b>	<b>482,154</b>	<b>269,811</b>	<b>1,055,286</b>	<b>1,830,222</b>	<b>4,604,187</b>
<b>% of Total .....</b>	<b>14.5</b>	<b>6.5</b>	<b>10.5</b>	<b>5.9</b>	<b>22.9</b>	<b>39.6</b>	
Montgomery County .....	2,457,757	1,348,888	1,398,564	1,031,619	3,830,813	4,476,693	14,544,334
% of Total .....	16.9	9.3	9.6	7.1	26.3	30.8	
Prince George's County .....	1,749,324	867,798	914,302	735,729	2,087,216	3,009,930	9,364,299
% of Total .....	18.7	9.3	9.8	7.8	22.3	32.1	
State of Maryland .....	13,341,447	7,894,174	8,870,129	4,792,708	17,922,427	28,793,035	82,174,925
% of Total .....	16.9	9.6	10.8	5.8	21.8	35.0	

Source: *Sales and Marketing Management, 2005 Survey of Buying Power and Media Markets* (A VNU Publication: October 2005) 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 MSA and the State.

### 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
<b>Frederick County .....</b>	<b>115,560</b>	<b>102,443</b>	<b>12.8</b>
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 first quarter of 2005. These figures exclude railroad, domestic service, self-employed, agricultural and unpaid family workers:

### Business and Employment Composition

<b>Classification</b>	<b>Number of Reporting Units</b>	<b>Percent of Total*</b>	<b>Quarterly Average Employment</b>	<b>Percent of Total*</b>
Natural Resources and Mining.....	51	0.1%	550	0.6%
Construction.....	1,064	18.5	10,046	11.2
Manufacturing.....	186	3.2	6,550	7.3
Trade/Transportation/Utilities.....	1,107	19.2	16,073	18.0
Information.....	93	1.6	1,535	1.7
Financial Activities.....	508	8.9	7,804	8.7
Professional and Business Services.....	1,128	19.5	11,831	13.2
Education and Health Services.....	543	9.6	10,142	11.3
Leisure and Hospitality.....	419	7.4	7,819	8.7
Other Services.....	475	8.4	3,033	3.4
Unclassified.....	<u>35</u>	<u>0.5</u>	<u>37</u>	<u>0.4</u>
Total – Private Sector.....	5,609	97.7	75,420	84.3
Local Government.....	71	1.3	10,207	11.4
State Government.....	7	0.1	651	0.7
Federal Government.....	<u>56</u>	<u>1.0</u>	<u>3,210</u>	<u>3.6</u>
Total.....	<u>5,743</u>	<u>100.0%</u>	<u>89,488</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, First Quarter 2005."

Listed below are the 10 largest employers as of January 2006, exclusive of the local government located in Frederick County:

### Ten Largest Employers in Frederick County

<b>Employer</b>	<b>Principal Products or Activities</b>	<b>November 2004 Employment</b>
Fort Detrick Campus.....	Research/Telecommunications	7,800*
Frederick Memorial Healthcare System.....	Comprehensive health care	2,300
Bechtel.....	Telecommunications	2,050
Wells Fargo Home Mortgage.....	Mortgage servicing	1,700
Mid-Atlantic Medical Services, Inc. ....	Insurance	1,565
Citi Mortgage.....	Mortgage servicing	1,300
Frederick Community College.....	Two-year college	1,159
State Farm Insurance.....	Insurance, regional headquarters	1,000
NVR Building Products.....	Wood building products	650
JP Morgan Chase.....	Operations Center	610

\* 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 MSA, the State and the United States for the years 2000-2004, as well as the eleventh 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 .....	3.1%	2.7%	3.0%	2.7%	2.5%	2.6%
Charles County .....	3.3	2.9	3.1	2.9	2.5	2.6
<b>Frederick County</b> .....	<b>3.0</b>	<b>2.7</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.2</b>
Montgomery County .....	3.2	2.3	2.6	2.8	2.3	1.9
Prince George's County .....	4.5	4.2	4.3	4.7	4.8	4.0
State of Maryland.....	4.1	4.0	4.5	4.4	4.0	3.8
United States .....	4.8	5.5	6.0	5.8	4.7	4.0

\*January – November 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 119,107 in November 2005 and the total employment for this force was 115,481, resulting in an unemployment rate of 3.0% for this period. Certain comparative unemployment rates are given below for November 2005.

Calvert County .....	3.1%
Charles County .....	3.3
<b>Frederick County</b> .....	<b>3.0</b>
Montgomery County .....	3.2
Prince George's County .....	4.5
State of Maryland.....	4.1
United States .....	4.8

Source: "State of Maryland. Civilian Labor Force, Employment, and Unemployment by Place of Residence, November 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
<b>Frederick County</b> .....	<b>41.1</b>
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 51% of the total land acreage dedicated to farmland. According to the most recent U.S. Census of Agriculture (2002), there are 1,273 farms located in Frederick County with an average size of 154 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 in the number of cattle sold, sheep, goats and their products, cattle and calves, horses and ponies, forage and corn for silage.

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 October 1, 2005, Maryland Agricultural Land Preservation Foundation 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 31,893 acres. The County is now in the fourth year of agricultural land preservation installment purchase program which has purchased easements to protect an additional 7,147 acres. Thirteen new applications have been received for the fiscal year 2006 installment purchase program.

## **Economic Development**

The County is made up of a diverse business community and supports and cultivates the growth of entrepreneurship. The County boasts 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 the State from second quarter 2001 to second quarter 2004. Frederick County had the second highest number of new jobs created for the State. The industries that saw the most growth in employment in the private sector were the financial activities, professional and business services, and the information technology sectors. The average wage per worker was \$675 up 13.45% from second quarter 2001.

The County's first business incubator, the Frederick Innovative Technology Center, Inc. ("FITCI"), was officially opened in January 2005 in Rosenstock Hall on the Hood College campus near Fort Detrick. As of July 31, 2005, FITCI has 7 companies taking advantage of the services offered at the incubator. These companies represent 21 full-time and 8 part-time employees.

The County has experienced growth in the bioscience industry over the past few years. The growth is due in part to the County's access to the Federal labs and other public and private high tech facilities in the region. The location of Fort Detrick in Frederick is also a major contributor to the growth of the life sciences industry in the County. Fort Detrick is home of the National Cancer Institute and the U.S. Army Medical Research Institute of Infectious Diseases, which is the lead medical research laboratory for the nation's biological defense program.

To support local advanced technology and bioscience businesses, the County partnered with the Technology Council of Maryland (TCM) to create a Frederick Network. TCM is a membership organization that supports the advanced technology and life science companies and coordinates various educational and networking events throughout the year.

The manufacturing industry represents approximately 9% of private sector employment in Frederick County and the top four manufacturing sectors are printing and publishing, industrial machinery and equipment, electrical and electronic equipment and the primary metal industries.

## **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 commuter rail services are provided by the Maryland Railroad Administration ("MARC") to Washington, D.C. Frederick now has two MARC train stations, a downtown location and a suburban location just south of the City of Frederick. MARC rail service is also available from Brunswick and Point of Rocks. 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 60 minute drive of Frederick 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 including: the Weinberg Center for the Arts, the Delaplaine Visual Arts Center, Hessian barracks located on the grounds of the Maryland School for the Deaf, the National Museum of Civil War Medicine, the Barbara Fritchie House, the Children’s Museum of Rose Hill Park, Francis Scott Key’s Monument and Grave, Roger Brooke Taney House/Francis Scott Key Museum, the Historical Society of Frederick County, the Seton Shrine Center, the Grotto of Lourdes, Lily Pons Water Gardens, Brunswick Railroad Museum, three covered bridges and antiques shopping.

Frederick County also offers 15 golf courses, a minor league affiliate of the Baltimore Orioles, the Class A Frederick Keys, who play at the Harry Grove Stadium in the City of Frederick, and numerous local, state and national park facilities. 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.

### 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

	2004		2003		2002		2001		2000	
	Issued	Value (000's)	Issued	Value (000's)	Issued	Value (000's)	Issued	Value (000's)	Issued	Value (000's)
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>Year</u>	<u>Single Family</u>	<u>Towns/Duplex</u>	<u>Mobile Home</u>	<u>Multi-Family</u>	<u>Total</u>
2005*.....	925	413	9	757	2104
2004.....	903	490	16	161	1570
2003.....	1079	554	15	276	1924
2002.....	1000	360	13	232	1605
2001.....	1265	567	5	332	2169
2000.....	1849	845	6	218	2918

\* Note 2005 Data is through November 2005 as the December Data was not available as of this revision.

Source: Frederick County Department of Planning and Zoning.

The age of the County’s housing stock was determined by the 2000 Census 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%	<b>28.3%</b>	14.7%	15.6%	16.8%
11-20 years old.....	23.1	25.8	<b>21.3</b>	23.2	14.5	17.2
Over 20 years old .....	39.4	46.5	<b>50.4</b>	62.2	69.9	66.1

Source: Table DP-4. Profile of Selected Housing Characteristics: 2000. U.S. Bureau of the 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" or "Operating 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 that a balanced budget be adopted by the Board.

### 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: fund balance in excess of 5 percent of the prior year's General Fund expenditures and transfers to the Frederick County Board of Education and the Frederick Community College on a budgetary basis, if any; estimates of taxes and other revenues sufficient to balance said budget; recommended appropriations for current expenditures for each department, agency and non-departmental account and transfers to Frederick County Board of Education, Frederick Community College and Frederick County Public Libraries; and amounts sufficient to meet all general obligation debt service requirements, including portions of the Capital Program to be financed out of current revenues during said fiscal year.

### Operating and Capital Budgets and Capital Program

No department or agency of the 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 (personnel, operating and capital outlay) in the budget for such fiscal year. No payment may be made nor any obligation or liability incurred which has not been provided for in the Operating or 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.

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 funds may be included in the Operating Budget.

### 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 revenue, other financing sources, expenditures/expenses, and other financing uses, together with all related assets, 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, purposes, restrictions, or limitations.

## **Fund Structure**

The County reports its financial activity on Government-wide and Fund Financial Statements in conformity with accounting principles generally accepted in the United States of America.

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. The Statement of Net Assets displays the financial position of the County as of the fiscal year end. 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 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 charges to customers who use, purchase or directly benefit from goods, services or privileges provided by a given function or segment, and grants 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.

The Fund Financial Statements are identified in the financial statements of the County included in the County's Comprehensive Annual Financial Report located on the County's website ([www.co.frederick.md.us](http://www.co.frederick.md.us)). The fund types 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 Funds; 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. The revenues and expenditures/expenses of the County are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

## **Basis of Accounting**

As noted above, the Government-wide Financial Statements are reported using the economic resources measurement focus and the full accrual basis of accounting.

Relative to the Fund Financial Statements, the financial operations of the Governmental Funds are reported using the current financial resources measurement focus and 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 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. The Agency funds also use the accrual basis of accounting to recognize assets and liabilities.

## **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 2004. This was the twenty-third year (seventeenth consecutive 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, 2005 to the GFOA.

## CERTAIN REVENUES AND EXPENDITURES

### General

The County's principal source of General Fund revenue is taxes, which comprise \$337.3 million of the total \$360.9 million budgeted revenues in fiscal year 2006.

In conformity with accounting principles generally accepted in the United States as applied to 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.

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The following table indicates the County's General Fund revenues and expenditures for the fiscal years 2001-2005:

**Frederick County, Maryland**  
**General Fund**  
**Revenues & Other Financing Sources**  
**and Expenditures & Other Financing Uses – Budgetary Basis**

	Fiscal Year				
	2005	2004	2003	2002 Restated	2001
<b>Revenues</b>					
Property Taxes .....	\$167,674,701	\$152,677,680	\$144,707,212	\$136,783,793	\$129,149,170
Local Taxes.....	165,322,305	157,755,202	150,574,499	127,432,092	101,013,500
Licenses and Permits .....	979,054	847,080	2,294,473	2,202,833	2,211,075
Grants from Federal Government.....	50,405	17,986	47,909	60,200	40,590
Grants from State Government.....	13,763,781	10,531,860	13,506,458	14,209,962	13,045,873
Service Charges .....	4,224,515	4,441,562	12,171,162	11,374,472	10,031,575
Fines and Forfeitures .....	170,158	330,147	109,664	173,627	130,530
Investment Earnings .....	2,699,479	1,711,865	1,931,265	3,379,001	7,316,350
Miscellaneous .....	1,761,021	1,828,978	1,073,243	1,357,489	1,333,176
Total Revenues .....	<u>356,645,419</u>	<u>330,142,360</u>	<u>326,415,885</u>	<u>296,973,469</u>	<u>264,271,839</u>
Other Financing Sources .....	68,550,296	2,019,481	-	-	-
Total Revenues and Other Financing Sources .....	<u>425,195,715</u>	<u>332,161,841</u>	<u>326,415,885</u>	<u>296,973,469</u>	<u>264,271,839</u>
<b>Expenditures:</b>					
Current					
General Government .....	25,382,745	23,374,028	24,748,896	23,390,829	22,052,027
Public Safety .....	37,513,002	33,519,617	32,206,829	30,711,310	27,844,406
Public Works .....	15,406,946	12,644,580	12,460,331	11,810,948	11,155,183
Public Health .....	2,955,926	2,942,168	5,659,254	5,328,692	4,696,301
Public Welfare.....	5,230,045	4,781,956	2,489,243	2,322,706	2,374,106
Education.....	100,000	200	200	200	200
Recreation and Culture (excluding Library).....	3,188,341	2,934,693	2,796,539	2,714,675	2,446,365
Public Service Enterprises .....	2,938,982	2,991,194	2,709,615	2,722,360	2,855,130
Miscellaneous.....	(697,031)	1,768,774	2,930,385	2,478,406	3,431,184
Intergovernmental					
Tax Equity.....	4,798,018	4,414,069	3,817,236	3,045,698	2,153,756
Property Tax Grants to Municipalities.....	49,273	49,273	49,273	49,273	49,273
Debt Service					
Principal .....	15,511,762	9,600,823	9,088,934	9,186,074	8,296,892
Interest.....	8,142,544	8,541,763	8,073,085	8,181,868	7,939,609
Total Expenditures.....	<u>120,520,553</u>	<u>107,563,138</u>	<u>107,029,820</u>	<u>101,943,039</u>	<u>95,294,432</u>
Other Financing Uses:					
Payment to refunding agent.....	64,545,625	-	-	-	-
Transfer to					
Grants Revenue Fund.....	5,998,324	5,331,967	6,890,825	5,081,635	4,586,664
Agriculture Preservation Fund.....	1,062,359	530,134	1,100,000	1,204,983	1,204,983
Fire Tax Districts.....	170,274	-	-	-	-
Economic Development Loans.....	-	-	-	76,495	86,095
Capital Projects Fund.....	16,425,624	19,725,275	21,275,615	16,603,842	15,943,050
Internal Service Fund-Fleet Services.....	14,804	220,000	-	-	-
Enterprise Fund – Citizens Care & Rehabilitation Center .....	1,818,643	1,843,738	1,279,613	832,499	1,137,281
Enterprise Fund – Montevue Home.....	1,007,892	1,209,551	1,162,046	1,036,269	949,298
Enterprise Fund – Permitting & Development Review.....	867,200	410,309	-	-	-
Enterprise Fund – Solid Waste .....	-	3,442,732	-	-	-
Board of Education .....	174,542,485	168,631,808	156,583,145	148,616,400	134,810,192
Community College.....	10,657,588	10,783,417	9,417,536	8,706,336	7,514,336
Library.....	5,634,939	5,053,300	4,714,379	4,135,059	3,567,771
Total Other Financing Uses .....	<u>282,745,757</u>	<u>217,182,231</u>	<u>202,423,159</u>	<u>186,293,518</u>	<u>169,799,670</u>
Total Expenditures and Other Financing Uses.....	<u>403,266,310</u>	<u>324,745,369</u>	<u>309,452,979</u>	<u>288,236,557</u>	<u>265,094,102</u>
Excess (Deficiency) of Revenues and Other Financing					
Sources Over Expenditures and Other Financial Uses ....	<u>21,929,405</u>	<u>7,416,472</u>	<u>16,962,906</u>	<u>8,736,912</u>	<u>(822,263)</u>
Residual Equity Transfer from other funds .....	-	-	-	-	593,000
Change in Fund Balance .....	<u>\$ 21,929,405</u>	<u>\$ 7,416,472</u>	<u>\$ 16,962,906</u>	<u>\$ 8,736,912</u>	<u>\$ (229,263)</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, and actual operations from July 1, 2004 to June 30, 2005. This information is presented on a budgetary basis.

	<u>Actual Operations Fiscal Year 2004</u>	<u>Amended Budget Fiscal Year 2005</u>	<u>Actual Operations Fiscal Year 2005</u>
<b>Revenues:</b>			
Property Taxes .....	\$152,677,680	\$162,633,000	\$167,674,701
Local Taxes.....	157,755,202	140,778,520	165,322,305
Licenses and Permits.....	847,080	733,000	979,054
Grants from Federal Government .....	17,986	45,000	50,405
Grants from State Government .....	10,531,860	12,943,000	13,763,781
Service Charges .....	4,441,562	3,899,841	4,224,515
Fines and Forfeitures.....	330,147	219,500	170,158
Investment Earnings.....	1,711,865	1,075,000	2,699,479
Miscellaneous .....	<u>1,828,978</u>	<u>1,759,019</u>	<u>1,761,021</u>
Total Revenues .....	330,142,360	324,085,880	356,645,419
Other Financing Sources.....	<u>2,019,481</u>	<u>68,535,000</u>	<u>68,550,296</u>
Total Revenues and Other Financing Sources.....	<u>332,161,841</u>	<u>392,620,880</u>	<u>425,195,715</u>
<b>Expenditures:</b>			
<b>Current:</b>			
General Government.....	23,374,028	27,260,728	25,382,745
Public Safety .....	33,519,617	37,818,807	37,513,002
Public Works.....	12,644,580	15,844,001	15,406,946
Public Health.....	2,942,168	3,423,787	2,955,926
Public Welfare .....	4,781,956	5,477,996	5,230,045
Education .....	200	102,000	100,000
Recreation and Culture (excluding Library).....	2,934,693	3,327,840	3,188,341
Public Service Enterprises .....	2,991,194	3,061,687	2,938,982
Miscellaneous .....	1,768,774	744,244	(697,031)
<b>Intergovernmental</b>			
Tax Equity .....	4,414,069	4,798,018	4,798,018
Property Tax Grants to Municipalities .....	49,273	50,000	49,273
<b>Debt Service</b>			
Principal.....	9,600,823	15,536,521	15,511,762
Interest .....	<u>8,541,763</u>	<u>10,780,340</u>	<u>8,142,544</u>
Total Expenditures.....	107,563,138	128,225,969	120,520,553
<b>Other Finance Uses:</b>			
Payment to Refunding Agent.....	-	6,725,121	64,545,625
<b>Transfers to</b>			
Grants Revenue Fund.....	5,331,967	6,920,287	5,998,324
Agriculture Preservation Fund .....	530,134	1,062,359	1,062,359
Economic Development Loans .....	-	170,274	170,274
Capital Projects Fund.....	19,725,275	16,425,624	16,425,624
Internal Service Fund-Fleet Services .....	220,000	14,804	14,804
Enterprise Fund-Citizens Care Rehabilitation Center .....	1,843,738	1,818,643	1,818,643
Enterprise Fund-Montevue Home.....	1,209,551	1,007,892	1,007,892
Enterprise Fund-Permitting & Development Review .....	410,309	867,200	867,200
Enterprise Fund-Solid Waste .....	3,442,732	-	-
Board of Education .....	168,631,808	175,546,922	174,542,485
Community College.....	10,783,417	10,770,267	10,657,588
Library .....	<u>5,053,300</u>	<u>5,654,144</u>	<u>5,634,939</u>
Total Other Financing Uses .....	<u>217,182,231</u>	<u>284,988,250</u>	<u>282,745,757</u>
Total Expenditures and Other Financing Uses.....	324,745,369	413,214,219	403,266,310
<b>Excess (Deficiency) of Revenues and Other Financing</b>			
Sources over Expenditures and Other Financial Uses.....	<u>7,416,472</u>	<u>(20,593,339)</u>	<u>21,929,405</u>
Use of Fund Balance.....	26,107,302	20,593,339	20,593,339
Change in Fund Balance .....	<u>\$ 33,523,774</u>	<u>\$ -</u>	<u>\$ 42,522,744</u>

Source: Frederick County Finance Division.

## Taxes

Ad valorem property taxes remain the County's most important source of revenues, amounting to 48.9% of total budgeted General Fund revenues and 52.3% of total budgeted local General Fund tax revenues in fiscal year 2006. By comparison, in fiscal year 2001, these percentages were 48.9% and 56.1%, respectively. The increase in property taxes between fiscal years 2001 and 2005 was 29.4% compared to increases in income tax revenues of 54.5% and other local tax revenues of 129.7%.

The following table represents the County's actual principal tax revenues by source for each of the five fiscal years 2001-2005, together with the budgeted revenues for fiscal year 2006:

	<u>Total Local Taxes</u>	<u>General Property Taxes(1)</u>	<u>Income Taxes</u>	<u>Other Local Taxes</u>
2006 Budget.....	\$337,280,950	\$176,445,250	\$141,300,000	\$19,535,700
2005 .....	332,997,006	167,674,701	137,124,133	28,198,172
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

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

(2) In fiscal year 2003, Frederick County received a one-time income tax distribution for capital gains of approximately \$16.0 Million.

(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 2005-2006. The County rate for tax year 2006-2007 will be 105%.

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. This credit can be supplemented at the local level. For fiscal year 2006, the County budgeted \$1,957,000 in tax credits of which approximately \$1,500,000 is reimbursable from the State. The County supplemented this credit by an additional \$3,000,000. Other budgeted tax credits not reimbursed by the state include \$22,000 for historic districts, \$6,600,000 for home ownership, and \$650,000 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 2001-2005 and the County and State tax rates applicable in each of those years. As of July 1, 2004, the assessment of tax exempt property owned by federal, State and county governments, churches, schools, fraternal organizations, cemeteries, disabled and the blind aggregated \$1,736,309,250. 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>2005</u>	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>	<u>2001</u>
Assessments					
Real Property .....	\$15,868,640,547	\$14,713,127,459	\$13,852,072,854	\$12,972,034,400	\$4,889,192,115
Public Utilities .....	<u>365,265,099</u>	<u>341,838,850</u>	<u>365,088,270</u>	<u>382,963,100</u>	<u>374,937,880</u>
Total Base .....	<u>\$16,233,905,646</u>	<u>\$15,054,966,309</u>	<u>\$14,217,161,124</u>	<u>\$13,354,997,500</u>	<u>\$5,264,129,995</u>
County Tax Rate (Per \$100 of Assessment).....	\$1.00**	\$1.00**	\$1.00**	\$1.00**	\$2.50**
State Tax Rate (Per \$100 of Assessment).....	\$ 0.132	\$ 0.132	\$ 0.084	\$ 0.084	\$ 0.21

\* This table of Assessments and Tax Rates of All Property by Class shows assessments and rates in effect for fiscal years 2001-2005. Prior to fiscal year 2002 real property was assessed at 40% of full market value. The full market value assessment is presented for fiscal years 2002 through 2005, 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 2006 are based on full market value assessment of \$18,552,300,481 and are as follows:

	<u>2006</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 2005:

<u>Name of Taxpayer</u>	<u>Assessment</u>	<u>Percentage of Total County Assessments</u>
Potomac Edison Company.....	\$135,232,730	0.83%
Verizon-Maryland.....	99,510,980	0.61
PR Financing Limited Partnership.....	61,825,966	0.38
State Farm Mutual Auto Insurance.....	39,914,266	0.25
Washington Gas Light Company.....	35,774,500	0.22
Fannie Mae.....	33,861,353	0.21
AT&T Communications.....	28,658,249	0.18
First Real Estate Investment Trust.....	27,217,200	0.17
Eastalco Aluminium Company ETAL.....	27,161,300	0.17
Toys R Us, Inc. ....	26,200,433	0.16
ABP MD (Baltimore) LLC.....	23,819,866	0.15
Fredericktowne Mall Associates.....	23,252,200	0.14
Feeley Family F.P. ....	22,280,133	0.14
Frederick Westview Properites LLC.....	21,321,066	0.13
First Nationwide Mortgage Corporation.....	21,073,566	0.13
Buckingham's Choice.....	21,058,233	0.13
Frederick Partners LLP.....	20,671,432	0.13
Brightseat, LLC ETAL.....	20,239,500	0.12
BGE.....	10,975,140	0.07
Dominion Transmission Corp.....	8,433,970	0.05
Total.....	<u>\$708,482,083</u>	<u>4.37%</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 most recent fiscal years 2001-2005:

	<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>Taxes Receivable</u>	<u>Taxes Receivable as a % of Current Year's Tax Levy</u>
		<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>		
2005.....	\$166,952,999	\$166,492,845	99.7%	\$167,050,094	100.0%	\$545,197	0.3%
2004.....	154,483,604	153,934,018	99.6	154,482,618	100.0	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

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% on the taxable income in excess of \$3,000. This rate schedule has been in effect since 2002. 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 is 2.96%, and has been the same since 2002. The County does not levy a local income tax on corporations. Local income tax was budgeted at \$123,999,960 for fiscal year 2005 and the fiscal year income tax was \$137,124,133.

## 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 2006 are \$26,153,850 (including General Fund revenues of \$17,000,000) as compared to actual revenues for fiscal year 2005 of \$39,804,705 (including General Fund revenues of \$25,892,014). Actual revenues were \$33,120,970 (including General Fund revenues of \$23,184,679) in fiscal year 2004.

## 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, and actual operations for fiscal year 2005.

### Selected Grant Awards

	<u>Actual Operations</u> <u>Fiscal Year 2004</u>	<u>Amended Budget</u> <u>Fiscal Year 2005</u>	<u>Actual Operations</u> <u>Fiscal Year 2005</u>
Highway User Revenues.....	\$8,644,549	\$9,931,000	\$10,722,019
Headstart Grants.....	2,063,745	2,127,798	2,109,076
Transit Grants.....	4,221,526	6,963,965	4,049,725
Child Support Enforcement Grants.....	694,457	806,681	795,246
Department of Justice COPS and COPS in School Grants.....	407,832	412,685	485,267
Section 8 Housing Grants.....	2,949,196	3,189,618	3,185,532
Workforce Investment Act Funds.....	832,105	921,043	731,307
Homeland Security Grants.....	16,075	2,885,747	1,207,378

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.

The County's largest water system customer is Eastalco Aluminum, a primary aluminum smelter. The smelting facility purchases approximately 29 million gallons of potable water from the County each month. Monthly revenues from this particular customer average \$158,135. In October 2005, Eastalco notified its workforce that the facility may be shutting down and laying off its employees. Should this occur the County's water and sewer enterprise will lose approximately \$1.9 M per year in water sales revenue. Eastalco's water supply contract with the County expired in October 2000. Since then, water supply and capacity has been provided to the facility on a day to day basis. No long term water supply commitment exists with Eastalco aluminum. Therefore, this water capacity can be resold to other users. The County has been working with two other large water users which may effectively replace the lost water revenues associated with the possible closing of Eastalco Aluminum. The County has an existing water supply agreement with the City of Frederick that anticipates an initial 2 MGD requirement. The County has also been working with Fort Detrick on a water supply alternative that would pipe the County's Potomac River water supply directly to the Fort. The County currently has the ability to supply approximately 1 MGD of water

directly to the City of Frederick. The transmission of this water to Fort Detrick would probably occur through the construction of an interconnecting water line.

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 2005, the Water and Sewer Enterprise Fund reported \$12,810,064 of connection fees and \$9,509,599 in developer contributions for a total capital contribution of \$22,319,663. Overall for fiscal year 2005, net assets increased \$24,049,405 consisting of \$1,729,742 in net income and \$22,319,663 in capital contributions.

Per GASB 34 requirements, the Water and Sewer Enterprise Fund reported total Net Assets of \$251,100,511 for fiscal year 2005. Of this amount, \$174,988,772 was invested in capital assets, net of related debt; and \$76,111,739 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 most recent fiscal years 2001-2005:

<b>Water and Sewer Enterprise Fund Revenues and Expenses</b>					
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002(1)</u>	<u>2001</u>
<b>Revenues:</b>					
Service Charges .....	\$18,754,046	\$18,454,801	\$15,890,183	\$16,442,207	\$950,556
Delinquent Fees Collected .....	36,916	66,273	48,907	9,416	63,452
Other Revenue .....	<u>368,858</u>	<u>359,651</u>	<u>424,375</u>	<u>544,198</u>	<u>1,600,363</u>
Total Operating Revenues .....	<u>19,177,820</u>	<u>18,880,725</u>	<u>16,363,465</u>	<u>16,995,821</u>	<u>11,614,371</u>
<b>Operating Expenses:</b>					
Personnel Services .....	6,377,460	3,821,608	3,290,505	3,325,434	3,881,011
Operating Expenses (Including Administrative Overhead).....	4,425,632	6,338,648	5,794,200	7,291,231	5,664,784
Supplies .....	430,894	392,022	342,650	72,628	77,698
Repairs and Maintenance.....	1,237,206	880,558	697,286	411,767	480,277
Depreciation.....	<u>4,769,263</u>	<u>4,621,339</u>	<u>4,444,809</u>	<u>4,301,110</u>	<u>4,117,017</u>
Total Operating Expenses.....	<u>17,240,455</u>	<u>16,054,175</u>	<u>14,569,450</u>	<u>15,402,170</u>	<u>4,220,787</u>
Operating Income (Loss).....	<u>1,937,365</u>	<u>2,826,550</u>	<u>1,794,015</u>	<u>1,593,651</u>	<u>(2,606,416)</u>
<b>Non-operating Revenues (Expenses):</b>					
Miscellaneous Revenue (Expense).....	446,317	660,657	391,218	507,163	(123,056)
Gain(loss) on disposition of fixed assets.....	-	(701,411)	-	-	-
Interest Earned on Investment.....	2,120,888	363,962	3,731,186	3,822,444	3,843,858
Interest Expense .....	<u>(2,774,828)</u>	<u>(3,044,018)</u>	<u>(3,117,176)</u>	<u>(2,818,797)</u>	<u>(3,059,937)</u>
Non-Operating Revenues (Expenses)	<u>(207,623)</u>	<u>(2,720,810)</u>	<u>1,005,228</u>	<u>1,510,810</u>	<u>660,865</u>
Net Income (Loss).....	<u>\$ 1,729,742</u>	<u>\$ 105,740</u>	<u>\$ 2,799,243</u>	<u>\$ 3,104,461</u>	<u>\$ (1,945,551)</u>

(1) Restated.

Source: Frederick County Finance Division.

Fiscal year 2005 increase in personnel services is due to the inclusion of indirect salaries which were previously reported in operating expenses as overhead.

The following table summarizes Water and Sewer Enterprise Fund revenues and expenses for fiscal year 2004, and amended budget and actual operations for fiscal year 2005.

	<b>Actual Operations</b> <b><u>Fiscal Year 2004</u></b>	<b>Amended</b> <b>Budget</b> <b><u>Fiscal Year 2005</u></b>	<b>Actual</b> <b>Operations</b> <b><u>Fiscal Year 2005</u></b>
<b>Revenues:</b>			
Water and Sewer Service Charges.....	\$ 18,454,801	\$ 19,912,862	\$ 18,754,046
Other Sources .....	<u>425,924</u>	<u>722,833</u>	<u>423,774</u>
Total Operating Revenues .....	<u>18,880,725</u>	<u>20,635,695</u>	<u>19,177,820</u>
<b>Operating Expenses:</b>			
Salaries and Fringes .....	3,821,608	6,248,601	6,377,460
Operating Expenses (Including Administrative Overhead) .....	6,338,648	4,429,888	4,425,632
Operating Supplies .....	392,022	755,473	430,894
Repairs and Maintenance .....	880,558	2,381,074	1,237,206
Depreciation .....	<u>4,621,339</u>	<u>5,140,223</u>	<u>4,769,263</u>
Total Operating Expenses .....	<u>16,054,175</u>	<u>18,955,259</u>	<u>17,240,455</u>
Operating Income (Loss) .....	<u>2,826,550</u>	<u>1,680,436</u>	<u>1,937,365</u>
<b>Non-Operating Revenues (Expenses):</b>			
Interest Earned on Investments .....	363,962	1,805,000	2,120,888
Interest Expense .....	(3,044,018)	(3,133,964)	(2,774,828)
Gain (loss) on disposition of fixed assets .....	(701,411)	-	-
Miscellaneous (Expense) Income .....	<u>660,657</u>	<u>373,183</u>	<u>446,317</u>
Total Non-Operating Revenues (Expenses) .....	<u>(2,720,810)</u>	<u>(955,781)</u>	<u>(207,623)</u>
Income (Loss) Before Capital Contributions .....	<u>\$ 105,740</u>	<u>\$ 724,655</u>	<u>\$ 1,729,742</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 2001-2005:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002(1)</u>	<u>2001</u>
<b>Revenues:</b>					
Tipping Fee Charges .....	\$ 11,253,075	\$ 11,404,532	\$ 8,898,575	\$ 9,462,892	\$ 5,686,260
Annual Charges .....	-	-	449	2,181	33,351
Rubblefill Fees .....	-	-	-	-	2,361,431
Delinquent Fees .....	53,240	50,970	42,407	35,166	24,165
Miscellaneous Charges .....	-	-	-	-	-
Total Operating Revenues .....	<u>11,306,315</u>	<u>11,455,502</u>	<u>8,941,431</u>	<u>9,500,239</u>	<u>8,105,207</u>
<b>Operating Expenses:</b>					
Salaries and Fringes .....	1,343,042	1,235,282	1,166,564	1,081,321	1,140,432
Operating Expenses (Including Administrative Overhead).....	6,340,226	4,914,517	4,016,764	3,583,735	6,707,917
Operating Supplies .....	58,736	68,527	37,735	26,927	24,446
Repairs and Maintenance .....	244,555	93,754	95,173	72,343	55,553
Depreciation .....	<u>3,407,975</u>	<u>4,164,064</u>	<u>3,228,861</u>	<u>3,616,185</u>	<u>1,934,854</u>
Total Operating Expenses.....	<u>11,394,534</u>	<u>10,476,144</u>	<u>8,545,097</u>	<u>8,380,511</u>	<u>9,863,202</u>
Operating Income (Loss) .....	<u>(88,219)</u>	<u>979,358</u>	<u>396,334</u>	<u>1,119,728</u>	<u>-1,757,995</u>
<b>Non-Operating Revenues (Expenses):</b>					
Interest Income .....	696,820	265,080	422,419	674,805	1,209,470
Miscellaneous Revenue (Expense) .....	-	-	248,221	-9,560	712
Gain (loss) on disposition of fixed assets....	(24,971)	14,460	-	-	-
Interest Expense .....	<u>(1,003,595)</u>	<u>(1,146,318)</u>	<u>(1,081,199)</u>	<u>(885,190)</u>	<u>(932,130)</u>
Total Non-Operating Revenues (Expenses).....	<u>(331,746)</u>	<u>866,778</u>	<u>( 410,559)</u>	<u>(219,945)</u>	<u>278,052</u>
Net Income (Loss).....	<u>\$ (419,965)</u>	<u>\$ 112,580</u>	<u>\$ (14,225)</u>	<u>\$ 899,783</u>	<u>\$ (1,479,943)</u>

(1) Restated.

Source: Frederick County Finance Division.

The fiscal year 2005 increase in operating expenses is attributed to an increase in the estimated closure cost of Site B.

The following table summarizes Solid Waste Management Enterprise Fund actual revenues and expenses for fiscal year 2004, and amended budget and actual operations for fiscal year 2005.

	<u>Actual Operations</u> <u>Fiscal Year 2004</u>	<u>Amended Budget</u> <u>Fiscal Year 2005</u>	<u>Actual</u> <u>Operations</u> <u>Fiscal Year 2005</u>
<b>Revenues:</b>			
Landfill Charges .....	\$11,404,532	\$10,502,000	\$11,253,075
Delinquent Fees .....	<u>50,970</u>	<u>20,000</u>	<u>53,240</u>
Total Operating Revenues .....	<u>11,455,502</u>	<u>10,522,000</u>	<u>11,306,315</u>
<b>Operating Expenses:</b>			
Salaries and Fringes .....	1,235,282	1,264,061	1,343,042
Operating Expenses (Including Administrative Overhead) .....	4,914,517	5,168,473	6,340,226
Operating Supplies .....	68,527	53,300	58,736
Repairs and Maintenance .....	93,754	229,000	244,555
Depreciation .....	<u>4,164,064</u>	<u>4,172,965</u>	<u>3,407,975</u>
Total Operating Expenses .....	<u>10,476,144</u>	<u>10,887,799</u>	<u>11,394,534</u>
Operating Income (Loss) .....	<u>979,358</u>	<u>(365,799)</u>	<u>(88,219)</u>
<b>Non-Operating Revenues (Expenses):</b>			
Interest Expense .....	(1,146,318)	(1,149,551)	(1,003,595)
Interest Income .....	265,080	500,000	696,820
Gain (loss) on disposition of fixed assets .....	<u>14,460</u>	<u>-</u>	<u>(24,971)</u>
Total Non-Operating Revenues (Expenses) .....	<u>(866,778)</u>	<u>(649,551)</u>	<u>(331,746)</u>
Net Income (Loss) .....	<u>\$ 112,580</u>	<u>\$ (1,015,350)</u>	<u>\$ (419,965)</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, (iii) incur debt for the purposes of providing funds for the construction and improvement of public schools per Sections 5.601- 5.604 of the Education Volume of the Annotated Code of Maryland (2004 Replacement Volume, 2005 Supp.) as amended, and (iv) issue bonds in an amount up to \$125,527,793. This represents \$59,527,793 remaining authority under Chapter 37 of the Laws of Maryland of 2003 and \$66,000,000 remaining authority under Chapter 145 of the Laws of Maryland of 2005, which is equal to the authorization remaining prior to the issuance of the these proposed bonds. 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, 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 December 31, 2005:

**Schedule of Long-Term Loans and Bonded Indebtedness  
Issued and Outstanding  
As of December 31, 2005**

	<u>Date of Debt Issue</u>	<u>Date of Debt Maturity</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding 12/31/05</u>
<b>General Government Debt</b>				
EPA Asbestos School Hazard Abatement	04/17/92	11/30/11	\$ 1,370,471	\$ 456,824
Maryland State Pension	06/30/93	12/31/13	7,036,995	4,735,677
MD Industrial Land Act Loan - Dan Jay LLC (2)	02/11/94	02/11/21	630,000	474,180
MD Industrial Land Act Loan - Trading Lane (State Farm) (2)	06/23/95	06/23/22	181,058	140,653
MICRF-Sport and Ice Arena (2)	04/01/96	01/01/06	113,637	-
MICRF-MedImmune (2)	12/31/97	01/01/17	1,436,502	920,088
Public Facilities Bonds of 1995 (1)	03/15/95	07/01/05	27,162,400	-
Public Facilities Refunding Bonds of 1998, Series A (1)	10/15/98	07/01/15	19,346,419	18,521,361
Public Facilities Bonds of 1999 (7)	08/15/99	07/01/09	89,631,000	15,625,617
Public Facilities Bonds of 2000 (7)	11/15/00	12/01/10	52,815,000	11,212,184
Public Facilities Refunding Bonds of 2001 (4)	07/15/01	07/01/08	6,579,486	3,557,084
Public Facilities Refunding Bonds of 2002, Series A (5)	04/01/02	07/01/16	13,999,267	9,438,195
Public Facilities Bonds of 2002	11/01/02	11/01/22	38,200,000	34,024,004
Public Facilities and Refunding Bonds of 2003 (6)	09/01/03	08/01/18	41,788,860	36,302,541
Public Facilities Refunding Bonds of 2005 (7)	05/19/05	08/01/20	91,781,973	91,581,973
Public Facilities Bonds of 2005	11/15/05	12/01/20	70,350,000	70,350,000
Installment Purchase Agreements	VARIOUS	VARIOUS	<u>19,184,466</u>	<u>18,525,716</u>
Total General Government Debt			481,607,534	315,866,097
Less: Notes Payable			<u>10,768,663</u>	<u>6,727,422</u>
Total Serial Bond General Government Debt			<u>470,838,871</u>	<u>309,138,675</u>
<b>Proprietary Fund Debt</b>				
MDE 93A - Ballenger WWTP	VAR	2/1/2014	1,804,064	801,336
MDE 93A - Leachate Plant	VAR	2/1/2014	11,888,821	6,417,526
MDE 94A - New Market WWTP	VAR	2/1/2016	1,534,523	1,020,203
MDE 99 - Reichs Ford	VAR	2/1/2019	3,914,206	2,923,849
MDE 99 - Adamstown Pump Station	VAR	2/1/2019	1,457,558	1,092,427
MDE 99 - Lake Linganore Intake	VAR	2/1/2019	2,021,568	1,541,234
MDE 99 - Braddock Hts / Fountaindale WTP	VAR	2/1/2019	1,089,757	830,826
MDE 99B - Brad Hts / Fountaindale - WTP	VAR	2/1/2020	4,592,849	3,506,770
MDE 99C - East County Water Distribution	VAR	2/1/2021	2,924,539	2,578,397
MDE 02 - Buckeystown Sewage Conveyance System	VAR	2/1/2019	2,829,246	2,375,733
MDE 05 - Ballenger WWTP Refunding	8/1/2006	2/1/2014	5,828,992	5,828,992
Public Facilities Bonds of 1995 (1)	03/15/95	07/01/05	12,837,600	(0)
Public Facilities Refunding Bonds of 1998, Series A (1)	10/15/98	07/01/15	9,143,581	8,753,639
Public Facilities Bonds of 1999 (7)	08/15/99	07/01/09	5,159,000	899,383
Public Facilities Bonds of 2000 (7)	11/15/00	12/01/10	19,185,000	4,072,817
Public Facilities Refunding Bonds of 2001 (4)	07/15/01	07/01/08	8,125,514	4,392,916
Water and Sewer Refunding Bonds of 2002, Series A (5)	04/01/02	07/01/16	8,590,733	5,791,805
Public Facilities Bonds of 2002	11/01/02	11/01/16	23,500,000	20,930,998
Public Facilities and Refunding Bonds of 2003 (6)	09/01/03	08/01/18	7,216,140	6,062,459
Public Facilities Refunding Bonds of 2005 (7)	05/19/05	08/01/20	15,233,028	15,233,028
Public Facilities Bonds of 2005	11/15/05	12/01/20	<u>31,970,000</u>	<u>31,970,000</u>
Total Proprietary Debt			180,846,719	127,024,338
Less MDE Loans			<u>39,886,123</u>	<u>28,917,293</u>
Total Serial Bond Proprietary Debt			<u>140,960,596</u>	<u>98,107,045</u>
Total Serial Bond Long-Term Indebtedness			<u>\$ 611,799,467</u>	<u>\$ 407,245,720</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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) The County issued \$107,015,000 Public Facilities Refunding Bonds of 2005 on 5/1/05 to refund callable maturities of the County's Public Facilities Bonds of 1999 and 2000 and 1997 Bond Anticipation Notes, 2<sup>nd</sup> series.

### **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 December 31, 2005, the County has authorized and approved borrowings in an aggregate principal amount of \$28,469,543 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, 2005, all loan proceeds have been drawn. The outstanding principal on these loans as of December 31, 2005 is \$28,917,293. These loans have interest rates of 2.00 – 4.56%.

The County closed on a loan in the amount of \$7.2 million for the Solid Waste Enterprise Fund in January 2006. The loan will fund the construction of the Reichs Ford Landfill Cell 3 and the rubblefill cap projects.

### **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 December 31, 2005 was \$474,180. 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 Frederick County. The loan is a full faith and credit obligation of the County. The outstanding balance of this loan at December 31, 2005 was \$140,653.

### **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 December 31, 2005 was \$920,088. 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. This loan has been paid in full as of December 31, 2005. 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 December 31, 2005, is \$456,824. This is a non-interest bearing note. Semi-annual principal payments of \$38,084 are required with a final payment due on November 30, 2011.

### **Maryland State Pension Plan**

See page 13, 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 2010 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.

The 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 December 31, 2005.

### Summary of Debt Service Requirements for Outstanding Long-Term Loans and Bonds(1)

Fiscal Year	General Government Debt (2)		Proprietary Debt		Total Long-Term Indebtedness		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2006.....	\$ 87,700	\$ 5,618,866	\$ 2,216,747	\$ 2,393,377	\$ 2,304,446	\$ 8,012,244	\$ 10,316,690
2007.....	18,676,756	14,011,815	9,325,687	5,086,869	28,002,444	19,098,684	47,101,128
2008.....	19,257,957	13,251,291	9,595,378	4,745,225	28,853,335	17,996,516	46,849,852
2009.....	19,807,157	12,446,997	9,797,963	4,390,857	29,605,120	16,837,854	46,442,974
2010.....	19,889,500	11,615,567	9,493,626	4,040,189	29,383,126	15,655,756	45,038,882
2011.....	19,573,362	10,777,627	9,539,347	3,680,403	29,112,709	14,458,030	43,570,739
2012.....	20,810,646	9,872,515	9,625,534	3,298,145	30,436,180	13,170,660	43,606,841
2013.....	21,051,991	8,928,572	8,577,111	2,933,833	29,629,103	11,862,405	41,491,508
2014.....	20,057,474	7,984,439	8,710,213	2,595,270	28,767,687	10,579,709	39,347,396
2015.....	24,048,004	7,105,979	7,328,381	2,194,281	31,376,385	9,300,260	40,676,645
2016.....	21,187,720	5,859,712	7,639,450	1,860,410	28,827,170	7,720,122	36,547,293
2017.....	19,723,100	4,878,039	6,723,484	1,531,981	26,446,584	6,410,020	32,856,604
2018.....	20,024,169	3,924,289	6,541,549	1,236,714	26,565,718	5,161,003	31,726,721
2019.....	20,954,190	2,928,926	6,465,807	918,976	27,419,998	3,847,902	31,267,899
2020.....	20,280,377	1,985,094	6,121,873	582,797	26,402,251	2,567,891	28,970,141
2021.....	12,676,270	1,184,991	5,976,197	312,609	18,652,467	1,497,599	20,150,067
2022.....	2,652,950	840,830	1,632,050	126,498	4,285,000	967,328	5,252,328
2023.....	7,314,988	854,004	1,713,939	42,848	9,028,927	896,852	9,925,779
2024.....	3,978,905	529,460	-	-	3,978,905	529,460	4,508,365
2025.....	3,812,880	292,378	-	-	3,812,880	292,378	4,105,258
Total .....	<u>\$315,866,097</u>	<u>\$124,891,391</u>	<u>\$127,024,338</u>	<u>\$41,971,283</u>	<u>\$442,890,435</u>	<u>\$166,862,674</u>	<u>\$609,753,109</u>

(1) For an explanation of this obligation, see "CERTAIN DEBT INFORMATION".

(2) Includes debt supported by impact fees and fire tax revenues. Also includes installment purchase agreements supported by recordation taxes.

Source: Frederick County Finance Division.

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

<u>Fiscal Year</u>	<u>Total Outstanding Debt Service</u>	<u>Less: Refunded Debt Service</u>	<u>Public Facilities Refunding Bonds of 2006</u>		<u>Total Adjusted Debt Service Total(2)</u>
			<u>Principal</u>	<u>Interest(1)</u>	
2006.....	\$10,316,690	\$ 511,625	\$ -	\$250,597	\$10,055,662
2007.....	47,101,128	1,023,250	-	1,002,388	47,080,266
2008.....	46,849,852	1,023,250	-	1,002,388	46,828,990
2009.....	46,442,974	1,023,250	-	1,002,388	46,422,112
2010.....	45,038,882	1,023,250	-	1,002,388	45,018,020
2011.....	43,570,739	1,023,250	-	1,002,388	43,549,877
2012.....	43,606,841	1,023,250	-	1,002,388	43,585,979
2013.....	41,491,508	1,023,250	-	1,002,388	41,470,646
2014.....	39,347,396	1,023,250	-	1,002,388	39,326,534
2015.....	40,676,645	1,023,250	-	1,002,388	40,655,783
2016.....	36,547,293	1,023,250	-	1,002,388	36,526,431
2017.....	32,856,604	1,023,250	-	1,002,388	32,835,742
2018.....	31,726,721	1,023,250	-	1,002,388	31,705,859
2019.....	31,267,899	4,640,500	3,305,000	910,381	31,042,780
2020.....	28,970,141	4,630,500	3,910,000	715,738	28,965,379
2021.....	20,150,067	4,621,250	4,110,000	510,350	20,149,167
2022.....	5,252,328	4,617,125	4,320,000	294,200	5,249,403
2023.....	9,925,779	4,612,500	4,520,000	90,400	9,923,679
2024.....	4,508,365	-	-	-	4,508,365
2025.....	4,105,258	-	-	-	4,105,258
Total.....	<u>\$609,753,109</u>	<u>\$35,912,500</u>	<u>\$20,365,000</u>	<u>\$14,800,316</u>	<u>\$609,005,926</u>

(1) Interest rates range from 4.00% to 5.25%.  
(2) Totals may not add due to rounding.

The following table sets forth the County's General Obligation long-term debt (including installment purchase agreements and debt supported primarily by impact fees and fire tax revenues) per capita and ratios of debt to assessment and debt to estimated actual value for the five most recent fiscal years 2001-2005:

<u>Fiscal Year</u>	<u>General Government Debt</u>	<u>Property Tax Assessment</u>	<u>Estimated Actual Value</u>	<u>Debt to Assessment</u>	<u>Debt to Actual Value</u>	<u>Population</u>	<u>Debt Per Capita</u>
2005.....	\$257,417,883	\$16,233,905,646	\$17,970,214,896	1.58%	1.43%	223,000(2)	\$1,154
2004.....	280,654,099	15,054,966,309	16,676,018,917	1.86	1.68	218,830(2)	1,283
2003.....	246,686,000	14,217,161,124	15,768,166,520	1.74	1.56	213,935(2)	1,153
2002 (3).....	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

(1) Population estimate as per the Maryland Department of Planning.  
(2) Population estimate as per the Frederick County Department of Planning.  
(3) 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 most recent fiscal years 2001-2005:

<u>Fiscal Year</u>	<u>General Fund Revenues</u>	<u>Debt Service Expenditures</u>	<u>Percentage</u>
2005 .....	\$360,650,090	\$23,590,487	6.54%
2004 .....	332,161,841	21,113,512	6.36
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

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, 2005:

<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 .....	\$362,832,494	100.0%	\$362,832,494
Overlapping:			
Brunswick .....	3,788,912	100.0	3,788,912
Emmitsburg .....	1,978,153	100.0	1,978,153
Frederick City .....	77,552,308	100.0	77,552,308
Middletown .....	6,056,717	100.0	6,056,717
Mount Airy .....	5,134,859	44.0	2,259,338
Myersville .....	4,551,909	100.0	4,551,909
Thurmont .....	7,660,058	100.0	7,660,058
Woodsboro .....	<u>1,616,242</u>	100.0	<u>1,616,242</u>
Totals .....	<u>\$471,171,652</u>		<u>\$468,296,131</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 2006 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Government.....	\$ 29,688.40	\$ 50,915.38	\$ 24,135.03	\$ 20,343.25	\$ 30,738.00	\$ 21,212.50
Water & Sewer.....	74,577.34	350.00	13,563.10	2,087.30	1,943.40	1,775.70
Solid Waste.....	2,000.00	500.00	-	-	-	-
Parks and Recreation.....	3,690.77	6,564.82	13,098.26	4,835.67	3,813.68	4,045.73
Watershed Restoration.....	544.87	151.74	263.33	151.74	263.33	151.74
Roads.....	7,095.18	7,077.85	6,317.40	671.00	6,576.00	2,763.00
Bridges.....	2,652.00	3,169.00	742.00	1,204.00	2,280.00	3,631.00
Highways.....	8,730.97	13,596.05	9,914.13	8,414.13	6,730.08	6,730.08
Community College.....	3,825.36	300.00	19,378.88	3,035.19	20,641.88	3,840.19
Board of Education.....	35,335.93	60,372.00	23,040.00	38,475.00	43,320.01	41,255.99
Municipalities.....	222.92	6,840.00	343.65	850.14	10,492.00	500.00
Project Cost Increase Contingency.....	3,000.00	-	-	-	-	-
Total – Projects.....	<u>\$ 171,363.74</u>	<u>\$ 149,836.84</u>	<u>\$ 110,795.78</u>	<u>\$ 80,067.42</u>	<u>\$ 126,798.38</u>	<u>\$ 85,905.93</u>
<b>Sources of Funds</b>						
General Fund.....	\$ 22,642.56	\$ 19,320.58	\$ 20,286.61	\$ 21,300.94	\$ 22,365.99	\$ 23,484.29
General Obligation Bonds.....	31,528.08	51,228.17	28,972.32	37,093.79	55,894.32	34,795.60
Fire Tax District Bonds.....	6,062.49	3,592.23	7,281.00	-	-	2,800.00
Recordation Tax Bonds.....	-	18,453.19	1,429.00	-	-	-
Impact Fee Bonds.....	-	9,000.00	823.00	-	1,000.00	-
Enterprise Fund bonds.....	36,025.40	-	-	-	32.90	527.40
Grants.....	38,464.89	17,455.50	21,546.44	12,319.57	25,264.83	13,487.61
Grants (Thru City).....	901.42	4,549.00	-	-	-	-
Impact Fees.....	5,727.00	11,407.00	5,193.50	2,110.00	9,310.00	4,432.00
Building Excise Taxes.....	1,866.37	100.00	100.00	100.00	100.00	100.00
Recordation Tax – Parks.....	2,962.93	5,286.01	9,359.91	4,390.68	3,215.84	3,830.73
Recordation Tax - Nursing Home.....	-	1,862.16	410.90	-	-	-
Water & Sewer Fees.....	21,870.60	350.00	-	109.14	-	-
Solid Waste Fees.....	1,000.00	500.00	-	-	-	-
Developer Funded.....	500.00	4,500.00	15,063.10	2,087.30	1,910.50	1,248.30
City of Frederick.....	(888.00)	2,233.00	330.00	556.00	7,704.00	-
Private Donations.....	500.00	-	-	-	-	-
Private Grants.....	-	-	-	-	-	1,200.00
Prior Project Balances.....	2,200.00	-	-	-	-	-
Total - Source of Funds.....	<u>\$ 171,363.74</u>	<u>\$ 149,836.84</u>	<u>\$ 110,795.78</u>	<u>\$ 80,067.42</u>	<u>\$ 126,798.38</u>	<u>\$ 85,905.93</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 \$15.9 million for fiscal year 2001; \$16.6 million for fiscal year 2002; and \$21.3 million for fiscal year 2003; \$19.7 million for fiscal year 2004 and \$16.4 million for fiscal year 2005. 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 estimated amount of \$80,000,000 in the spring of 2007.

## **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 fiscal year 2005 financial statements of the County have been audited by Linton Shafer Warfield & Garrett, P.A., independent certified public accountants. The fiscal year 2005 financial statements can be found on the County's web site ([www.co.frederick.md.us](http://www.co.frederick.md.us)).

## **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 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 Acting 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 February 14, 2006 in accordance with the Notice of Sale (the form of which is included herewith as Appendix B). 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.

Linton Shafer Warfield & Garrett P.A. audited the County's financial statements for fiscal year 2005.

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 A 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.

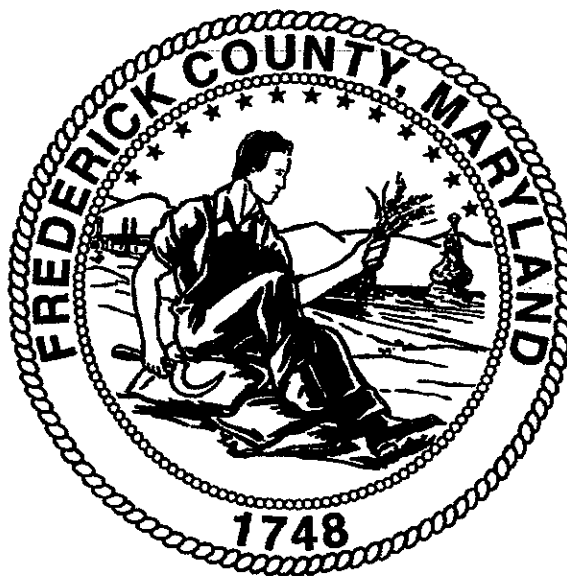
COUNTY COMMISSIONERS OF  
FREDERICK COUNTY

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

BY: /S/ RICHARD J. DUTHOY, CPA  
Richard J. Duthoy, CPA  
Acting Director of Finance



*Frederick County, Maryland*  
*Comprehensive Annual Financial Report*  
*Fiscal Year 2005*  
*July 1, 2004– June 30, 2005*



*Prepared by the Finance Division*

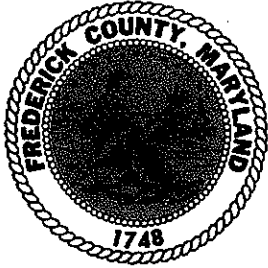
**FREDERICK COUNTY, MARYLAND  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**TABLE OF CONTENTS**

<u>Exhibit</u>	<u>Description</u>	<u>Page</u>
I	<b>INTRODUCTORY SECTION</b>	
	Letter of Transmittal.....	A-4
	GFOA Certificate of Achievement .....	A-11
	Organization Chart .....	A-12
	Summary of Elected and Appointed Officials.....	A-13
II	<b>FINANCIAL SECTION</b>	
	Independent Auditor’s Report.....	A-15
	Management’s Discussion and Analysis .....	A-17
	Basic Financial Statement	
	Government-wide Financial Statements:	
II-A-1	Statement of Net Assets .....	A-31
II-A-2	Statement of Activities .....	A-33
	Fund Financial Statements:	
II-A-3	Balance Sheet – Governmental Funds.....	A-34
II-A-4	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	A-35
II-A-5	Statement of Revenues, Expenditures, and Changes in the Fund Balances of Governmental Funds.....	A-36
II-A-6	Reconciliation of the Statement of Revenues, Expenditures, and Changes Governmental Funds to the Statement of Activities.....	A-37
II-A-7	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	A-39
II-A-8	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – Grants Fund .....	A-47
II-A-9	Statement of Net Assets – Proprietary Funds .....	A-48
II-A-10	Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	A-49
II-A-11	Statement of Cash Flows – Proprietary Funds.....	A-50
II-A-12	Statement of Fiduciary Net Assets – Fiduciary Funds .....	A-52
II-A-13	Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	A-53
II-A-14	Notes to the Financial Statements .....	A-54
	Required Supplementary Information:	
II-A-15	Schedule of Funding Progress – Last Six Fiscal Years – Frederick County Employees Retirement Plan .....	A-107
II-A-16	Schedule of Contributions from the Employer and Other Contributing Entities- Last Six Years – Frederick County Employees Retirement Plan.....	A-108

# 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](http://www.co.frederick.md.us)

November 30, 2005

### 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

### ACTING DIVISION DIRECTOR

Richard J. Duthoy, CPA

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

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of Frederick County, Maryland (the "County") for the fiscal year ended June 30, 2005. 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

### **CHARACTER COUNTS!**



TRUSTWORTHINESS • RESPECT  
RESPONSIBILITY • FAIRNESS  
CARING • CITIZENSHIP

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assurance that the financial statements of Frederick County, Maryland for the fiscal year ended June 30, 2005 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, 2005, 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.

Generally Accepted Accounting Principles 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 an estimated population of 223,000. 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. The County seat and largest city is the City of Frederick, which has an estimated population of 59,000. 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") that 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 County's Internet address is [www.co.frederick.md.us](http://www.co.frederick.md.us).

The Board may exercise only such powers as are expressly conferred on it: (1) by the Maryland General Assembly as codified in the Maryland Code, and (2) by public local laws enacted by the Maryland General Assembly, which apply only to Frederick County and are codified as Part II of the Frederick County Code, 2004, as amended (the "County Code"). Part II of the Frederick County Code is known as the Code of Public Local Laws of Frederick County, 1979.

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: highway and street maintenance, parks and recreation, planning services, 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 (including the Grants Fund), Enterprise and Internal Service Funds. The formulation of the County's budget is the responsibility of the Budget Officer. Public local law requires the budget (1) to be adopted by the Board prior to the beginning of the fiscal year, and (2) maintain a surplus at the end of the fiscal year.

The General Fund Budget is prepared and submitted to the Board by the Budget Officer 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, and Frederick Community College, on a budgetary basis for the prior fiscal year, if any; estimates of taxes and other revenue sources 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 Finance 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. 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 as part of the basic financial statements. Budget-to-actual comparison schedules for other funds with legally adopted budgets are presented in the Supplementary Data Section.

## **Information to Assess Economic 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 223,000 as of July 2005, a 48 percent increase from 1990. The growth rate for the State of Maryland for that same time period was 17 percent. The Department of Planning and Zoning estimates the growth will be steady through the year 2020, when the population will reach an estimated 287,900.

Frederick County had the second highest number of new jobs created in the State of Maryland from the second quarter 2001 to the second quarter 2004, for a total of 28% of all new jobs created in the State. The civilian labor force in the County was estimated at 119,317 in June 2005. Of this number, 115,367 were employed, resulting in an unemployment rate for the County of 3.3 percent. This rate is substantially lower than the statewide unemployment rate of 4.3 percent and the national unemployment rate of 4.8%. (Source: Maryland Department of Labor, Licensing and Regulation)

The County's estimated taxable property value has increased \$3.1 billion since 2001 or 23.4 percent. As of June 30, 2005, taxable assessed value totaled \$16.2 billion. The growth in the taxable assessable base from FY2004 to FY2005 was 7.9 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 FY2005 were predominately in the Capital Budget area. Major general governmental projects approved in the six year Capital Improvements Program (fiscal years 2005-2010) include:

- Thurmont Regional Library
- Scott Key Center Expansion
- Centerville Elementary School
- Middletown Primary School
- Brunswick Middle School Addition
- Urbana Area Middle 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 \$648 million for fiscal years 2005 to 2010.

Frederick County concluded the fiscal year ended June 30, 2005, with a General Fund unreserved and undesignated fund balance of \$56.6 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 \$310.9 million. The required balance of the reserve was \$15.6 million, an increase of \$1.0 million over fiscal year 2004. The actual undesignated fund balance increased \$15.6 million from the undesignated fund balance at June 30, 2004. The major contributing factor to this increase resulted from two primary revenue sources, local income taxes and recordation taxes. These two revenue sources were a combined \$24.6 million in excess of their budgets. The June 30, 2005 unreserved, undesignated fund balance of \$56.6 million provides \$41.0 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 conservative cash management and investment program in order to achieve maximum financial return on available funds without undue risk. 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 FY2005 General Fund earnings from these programs totaled \$2.7 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 \$155,456. 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 \$9.8 million. Employees' contributions were \$3.5 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, 2005 are \$6,898,752. The County has chosen to make 8 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 \$15.5 million in FY2005. 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 FY2005, State contributions toward retirement for College employees were approximately \$965,000.

In 1985, the County created the Length of Service Awards Program (LOSAP). In FY2005, LOSAP provided 96 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 \$217,808 in FY2005 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 85 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, 397 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 \$2,070,641 were recognized for post-employment health care.

## **Awards and Acknowledgements**

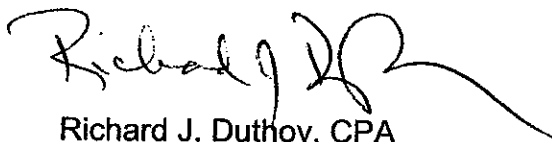
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Frederick County, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement 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 Director of Accounting, Leslie Pellegrino, and the Accounting Team Leaders, Susan Blum, Lori Decker, Regina Howell, and Erin White, along with their staffs.

Respectfully submitted,



Richard J. Duthoy, CPA  
Acting 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, 2004

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. Ziehl*

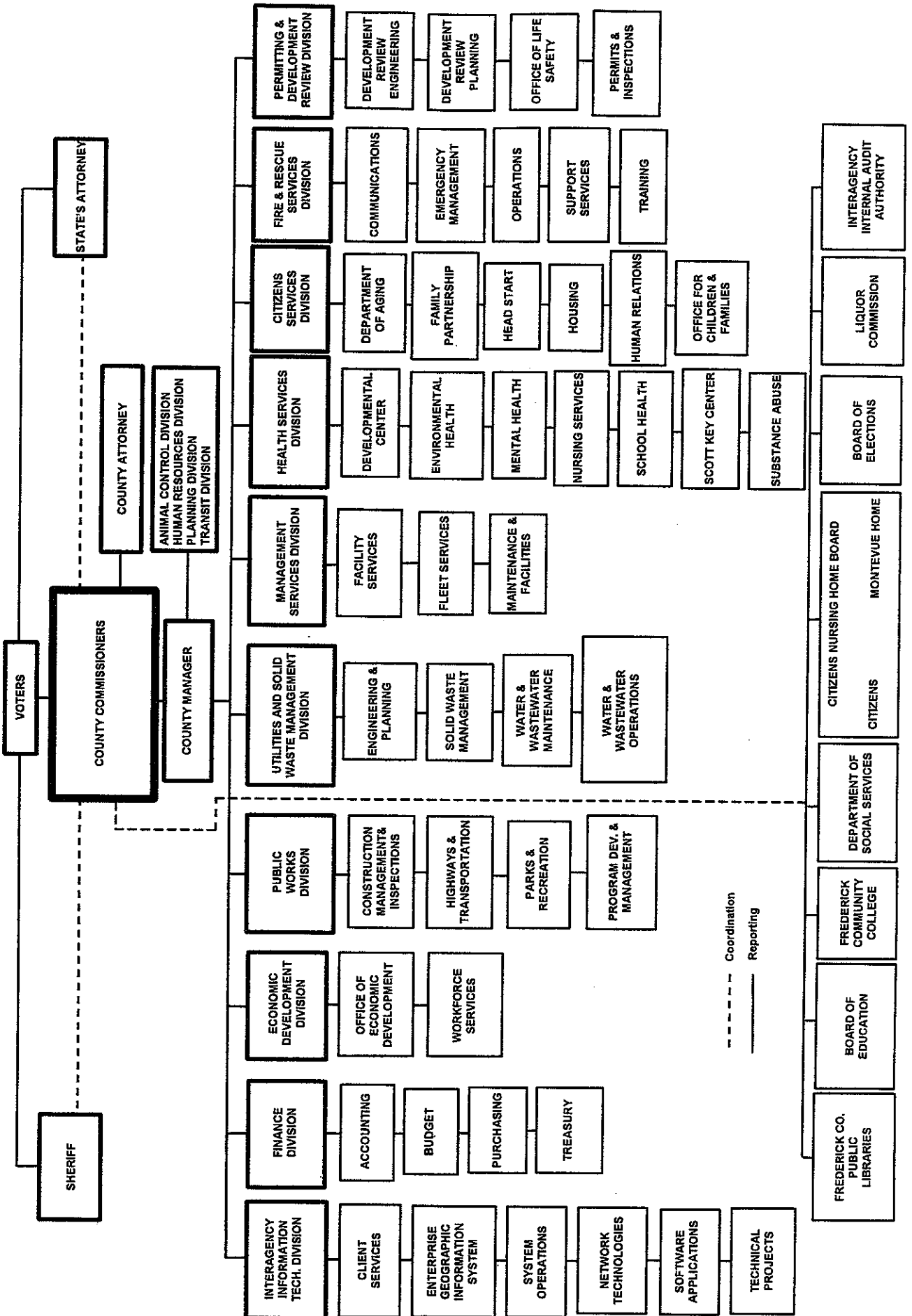
President

*Jeffrey R. Egan*

Executive Director

# FREDERICK COUNTY, MARYLAND GOVERNMENT ORGANIZATION CHART

Revised 08/2005  
Planning Department  
City Mapping and Data Services



## 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

County Manager

Sheriff

State's Attorney

County Attorney

Division of Animal Control

Director of Citizens Services Division

Acting 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 Transit Division

Director of Utilities and Solid Waste Management Division

Health Officer - Health Services Division

Director of Department of Human Resources

Director of Office of Economic Development

Director of Frederick County Public Libraries

Director of Internal Audit

Douglas D. Browning

James W. Hagy

Scott L. Rolle, Esquire

John S. Mathias, Esquire

Harold L. Domer

Margaret Nusbaum

Richard J. Duthoy, CPA

Walter F. Murray

Dale R. Spangenberg

Austin S. Abraham

J. Steven Kaii-Ziegler, AICP

Gary W. Hessong

Alan J. Hudak, P.E.

Sherry Burford

Michael G. Marshner

Barbara A. Brookmyer, MD

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, 2005, 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 99%, 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.

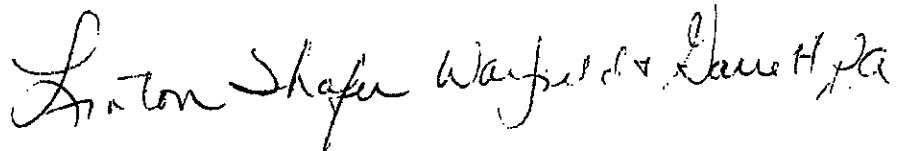
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Frederick County, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and grants fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 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.

November 30, 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 \$519.1 million (net assets). Approximately 50.8% of this amount is attributable to the County's business-type activities. Of total net assets, \$402.1 million is invested in capital assets, net of related debt, and \$36.0 million is restricted for specific purposes (restricted net assets). The County's total unrestricted net assets is \$81.0 million. This total unrestricted net asset amount includes a balance of \$88.2 million from business-type activities, offset by a deficit balance in unrestricted net assets from governmental activities of \$7.2 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 \$171.4 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 \$66.6 million or 14.7%. The governmental net assets increased by \$41.2 million, or 19.3%, primarily the result of revenues from Property Taxes, Income Taxes and Other Local Taxes. These three revenue sources increased \$27.6 million from fiscal year 2004 to fiscal year 2005. The business-type net assets increased by \$25.4 million or 10.7%, primarily the result of capital contributions in the Water and Sewer Fund.
- The governmental activities revenue totaled \$442.6 million or 86.1% of total revenue and the net results from governmental activities totaled \$41.2 million or 61.9% of the total change in net assets.

- The business-type activities revenue totaled \$71.5 million (or 13.9% of total revenue) and the net assets from business-type activities increased by \$25.4 million (or 38.1% of the total change in net assets).
- The total cost of all County programs was \$447.5 million.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase in fund balance of \$22.4 million. At the close of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$56.6 million, or 18.2% of total General Fund expenditures. Of the total unreserved amount, \$15.6 million, is a required set-aside. Designated fund balance of the General Fund was \$32.5 million, or 36.5% of the total unreserved fund balance.
- As of June 30, 2005, the County's governmental funds reported combined fund balances of \$170.3 million, an increase of \$14.1 million in comparison with the prior year.
- Frederick County's total bonded debt decreased by \$22.7 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 statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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 eighteen 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 Development Road Improvement Fund, the Electric Lighting Tax Districts Fund, the Parks Acquisition & Development Fund, the Hotel Rental Tax Fund, the Citizens Care & Rehabilitation Center Building Fund, the Sheriff's Drug Enforcement Fund, the Sheriff's Office Fund, the Narcotics Task Force Fund, the Inmates Canteen Fund, the Non-Profit Organizations Loans Fund, the Fire/Rescue Loans Fund, and the Economic Development Loans Fund.

Frederick County adopts an annual appropriated budget for its General Fund and each of the Special Revenue Funds (except for the Sheriff's Drug Enforcement Fund, the Sheriff's Office Fund, the Narcotics Task Force Fund, the Inmates Canteen Fund, the Non-Profit Organizations Loans Fund, and the Fire/Rescue Loans Fund). Budgetary comparison schedules have been prepared for the General and Grants funds and can be found on pages 38 through 46 of this report. Budgetary schedules for the remaining non-major special revenue funds can be found on pages 116 through 118 in the Supplementary Data section.

**Proprietary Funds:** Frederick County maintains two different types of proprietary funds, Enterprise funds and Internal Service 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 Care & Rehabilitation Center Fund, the Montevue Home Fund, the Bell Court Apartments Fund, and the Permitting and Development Review Fund. 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 basis of 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 Statements, 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 to the Financial Statements 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 \$519.1 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 77.5% 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 6.9% 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 \$81.0 million, which represents 15.6% of total net assets. The unrestricted net assets for business-type activities have a balance of \$88.2 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.

Table 1  
Statement of Net Assets  
as of June 30  
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 250,360	\$ 229,693	\$ 123,782	\$ 129,086	\$ 374,142	\$ 358,779
Capital assets	310,489	296,703	272,786	242,141	583,275	538,844
Total assets	<u>560,849</u>	<u>526,396</u>	<u>396,568</u>	<u>371,227</u>	<u>957,417</u>	<u>897,623</u>
Current and other liabilities	35,869	31,722	16,656	12,867	52,525	44,589
Long-term debt outstanding	269,660	280,654	116,177	120,037	385,837	400,691
Total Liabilities	<u>305,529</u>	<u>312,376</u>	<u>132,833</u>	<u>132,904</u>	<u>438,362</u>	<u>445,280</u>
Net Assets:						
Invested in capital assets, net of debt	226,722	225,535	175,358	147,999	402,080	373,534
Restricted	35,780	26,589	230	191	36,010	26,780
Unrestricted (deficit)	(7,182)	(38,104)	88,147	90,133	80,965	52,029
Total net assets	<u>\$ 255,320</u>	<u>\$ 214,020</u>	<u>\$ 263,735</u>	<u>\$ 238,323</u>	<u>\$ 519,055</u>	<u>\$ 452,343</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 \$66.7 million during the fiscal year. Net assets of governmental activities increased \$41.3 million in fiscal year 2005, compared to an increase of \$13.8 million for fiscal year 2004. The increase in net assets of business-type activities was \$25.4 million in fiscal year 2005, compared to an increase of \$18.7 million for fiscal year 2004.

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		Business-type		Total	
	Activities		Activities		Primary Government	
	2005	2004	2005	2004	2005	2004
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 10,721	\$ 10,666	\$ 45,173	\$ 43,393	\$ 55,894	\$ 54,059
Operating grants and contributions	36,100	33,920	12,810	8,810	48,910	42,730
Capital grants and contributions	5,203	6,508	10,235	5,929	15,438	12,437
<b>General revenues</b>						
Local property taxes	182,303	167,913	-	-	182,303	167,913
Local income taxes	142,255	137,782	-	-	142,255	137,782
Other local taxes	57,773	49,074	-	-	57,773	49,074
Investment earnings	5,517	2,514	2,848	654	8,365	3,168
Miscellaneous	2,694	2,251	466	695	3,160	2,946
<b>Total revenues</b>	<b>442,566</b>	<b>410,628</b>	<b>71,532</b>	<b>59,481</b>	<b>514,098</b>	<b>470,109</b>
<b>EXPENSES</b>						
<b>Program Activities</b>						
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General government	27,425	24,302	-	-	27,425	24,302
Public safety	58,697	48,232	-	-	58,697	48,232
Public Works	29,789	31,657	-	-	29,789	31,657
Health	15,587	15,002	-	-	15,587	15,002
Social services	5,520	5,935	-	-	5,520	5,935
Education	215,924	214,619	-	-	215,924	214,619
Parks, recreation, and culture	9,451	10,937	-	-	9,451	10,937
Conservation of natural resources	1,279	4,981	-	-	1,279	4,981
Community development and public housing	3,713	3,634	-	-	3,713	3,634
Economic development and opportunity	10,929	10,369	-	-	10,929	10,369
Miscellaneous	3,803	4,397	-	-	3,803	4,397
Intergovernmental	6,007	4,797	-	-	6,007	4,797
Interest on long term debt	9,351	11,090	-	-	9,351	11,090
<b>Business-type Activities:</b>						
Water and sewer	-	-	19,978	19,786	19,978	19,786
Solid waste management	-	-	12,369	11,613	12,369	11,613
Non-major proprietary funds	-	-	17,642	16,261	17,642	16,261
<b>Total expenses</b>	<b>397,475</b>	<b>389,952</b>	<b>49,989</b>	<b>47,660</b>	<b>447,464</b>	<b>437,612</b>
Increase in net assets before transfers	45,091	20,676	21,543	11,821	66,634	32,497
Transfers	(3,869)	(6,906)	3,869	6,906	-	-
Increase (Decrease) in Net Assets	41,222	13,770	25,412	18,727	66,634	32,497
Net Assets - Beginning	214,020	200,250	238,323	219,596	452,343	419,846
Prior Period Adjustment	78	-	-	-	78	-
Net Assets - Ending	<b>\$ 255,242</b>	<b>\$ 214,020</b>	<b>\$ 263,735</b>	<b>\$ 238,323</b>	<b>\$ 519,055</b>	<b>\$ 452,343</b>

**Governmental Activities:** Governmental activities increased Frederick County's net assets by \$41.2 million, thereby accounting for 61.9% 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 7.8% or \$27.6 million during fiscal year 2005.

**Business-type Activities:** Business-type activities increased Frederick County's net assets by \$25.4 million, accounting for 38.1% 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 \$22.3 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 \$170.3 million. Approximately 82.7% of this total amount (\$140.7 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 (\$27.7 million), (2) for inventories (\$.4 million), (3) for long-term receivables (\$.8 million) or (4) dedicated for a variety of restricted purposes (\$.5 million). The reserved fund balance, at 17.3% 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 \$56.6 million, while total fund balance reached \$92.6 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 28.6% of total General Fund expenditures, while total fund balance represents 29.8% of that same amount.

The fund balance of Frederick County's General Fund increased by \$22.4 million during the current fiscal year. This increase is due primarily to increases in income tax and recordation taxes totaling \$24.6 million greater than expected.

The Capital Projects Fund has a total fund balance of \$14.8 million. The total decrease in fund balance was \$24.0 million. This decrease is primarily due to spending for capital projects prior to the issuance of long-term debt. Government Obligation bonds were sold on November 29, 2005 to reimburse the fund.



**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 \$76.1 million and unrestricted net assets in the Solid Waste Management Fund totaled \$10.2 million.

## **General Fund Budgetary Highlights**

The final budget for the General Fund was increased \$5.2 million over the original budget. This increase was primarily the result of appropriating grant 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 \$20.6 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 \$5.5 million due to overly conservative budget estimates.
- Local income tax distributions exceeded the budget by \$13.1 million primarily due to increases in the capital gains portion of local income taxes.
- Other local taxes, primarily recordation tax collections, exceeded the budget by \$11.4 million. These funds are generated by recordation taxes charged on the recording of mortgage instruments and are a result of the County's strong real estate market coupled with continued increased refinancing activity.
- Investment earnings were over budget by \$1.6 million due to improved yields on short-term investments.
- Various departmental under spending of appropriations resulted in total expenditures being under budget by \$8.8 million. The largest contribution to this savings was \$2.7 million in debt service due to delays in issuance of new bonds and the advance refunding of \$106.6 million of General Obligation Bonds and Bond Anticipation Notes.

## **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, 2005 and 2004, amount to \$583.3 million and \$538.8 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 8.3%.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Land	\$ 30,379	\$ 20,879	\$ 6,953	\$ 7,059	\$ 37,332	\$ 27,938
Construction in prog.	15,657	16,226	42,827	25,334	58,484	41,560
Buildings, impr. & equip.	118,813	109,157	58,815	56,218	177,628	165,375
Infrastructure	145,640	150,441	164,191	153,530	309,831	303,971
<b>Total</b>	<b>\$ 310,489</b>	<b>\$ 296,703</b>	<b>\$ 272,786</b>	<b>\$ 242,141</b>	<b>\$ 583,275</b>	<b>\$ 538,844</b>

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, 2005**  
**(In Thousands)**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Beginning Balance	\$ 296,703	\$ 242,141	\$ 538,844
Additions	49,118	55,043	104,161
Retirement	(20,243)	(16,254)	(36,497)
Depreciation	(16,819)	(8,522)	(25,341)
Retirement*	1,730	378	2,108
<b>Ending Balance</b>	<b>\$ 310,489</b>	<b>\$ 272,786</b>	<b>\$ 583,275</b>

\*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:
  - Roads Satellite Facilities \$1.1 million
  - Detention Center, 2.7 million
  - Old National Pike District Park 3.1 million

- Transferred to the Frederick County Board of Education for school construction:
  - Tuscarora Elementary \$3.7 million
  - Crestwood Middle 1.3 million
  - Centerville Elementary 9.1 million
  - Urbana High School Addition 3.8 million
  - Brunswick Middle School 2.6 million
  - Urbana Middle School 2.6 million

**Business-type Activities:**

- Landfill Site B Cell III \$4.1 million
- Fountaindale Line Replacement 1.8 million
- Adamstown Sewer 2.4 million
- New Design Water Transmission 12.5 million

**Debt Outstanding**

As of year-end, the County had \$305.8 million in bonded debt outstanding compared to a total of \$320.4 million last year, a 5.0% net decrease.

**Table 5  
Outstanding Debt  
(In Thousands)**

	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
<b>Governmental Activities:</b>		
<b>Bonds and notes payable:</b>		
General obligation bonds	\$ 234,328	\$ 243,800
Bond anticipation notes	-	8,150
Installment purchase agreements	15,767	8,775
Other notes payable	7,323	7,973
	<u>257,418</u>	<u>268,698</u>
Add remaining original issue premium	10,543	1,851
Less deferred amount on bond refundings	(9,401)	(1,125)
Total bonds and notes payable	<u>258,560</u>	<u>269,424</u>
<b>Other liabilities:</b>		
Capital lease obligations	4,980	5,538
Compensated absences	6,121	5,692
Total other liabilities	<u>11,101</u>	<u>11,230</u>
Governmental activities long-term liabilities	<u>\$ 269,661</u>	<u>\$ 280,654</u>
<b>Business-type Activities:</b>		
<b>Bonds and notes payable:</b>		
General obligation bonds	\$ 71,517	\$ 76,586
Other notes payable	28,918	31,062
	<u>100,435</u>	<u>107,648</u>
Add remaining original issue premium	2,181	889
Less deferred amount on bond refundings	(2,123)	(871)
Total bonds and notes payable	<u>100,493</u>	<u>107,666</u>
<b>Other liabilities:</b>		
Compensated absences	1,120	1,067
Landfill closure costs	14,564	11,304
Total other liabilities	<u>15,684</u>	<u>12,371</u>
Business-type activities long-term liabilities	<u>\$ 116,177</u>	<u>\$ 120,037</u>

On May 1, 2005 the county issued the General Obligation Public Facilities Refunding Bonds of 2005 in the amount of \$107,015,000. The gross proceeds of \$117.6 million were used to advance refund \$106.6 of Public Facilities Bonds and Bond Anticipation Notes. The rating agencies provided the following rating to this debt issue.

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

In June 2005, the County entered into a capital lease agreement. The \$852,100 in proceeds was used to acquire fire and rescue equipment.

Principal payments and reductions of long term debt in the amounts of \$111.8 million and \$22.4 million were made in the governmental and business-type activities, respectively, including the refunding issue.

Additional information on the County's long-term debt can be found in Note 3F on pages 81 - 93 of this report

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following summarizes some economic factors and trends:

- As of June 2005 the average unemployment rate for the County is 3.3%, while the average unemployment rate for the State of Maryland is 4.3%.
- Median household effective buying income in Frederick County is estimated at \$52,799, while the estimate for the State of Maryland is \$47,062 for calendar year 2005.
- The average annual number of jobs in Frederick County increased from 2001 to 2005 by 6.5%.
- The FY2006 property tax rate remains at \$1.00 per \$100 of assessed valuation. The tax rate is based on a full market value assessment of \$18,552,300,000.

### **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 Acting Director of Finance, Frederick County Government, 12 East 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 non major funds.

FREDERICK COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Public Libraries
<b>Assets</b>						
Cash	\$ 414,304	\$ 3,937,467	\$ 4,351,771	\$ 5,315,663	\$ 8,548,200	\$ 88,378
Equity in pooled invested cash	159,388,549	97,877,493	257,266,042	-	22,588	-
Total cash and cash equivalents	159,802,853	101,814,960	261,617,813	5,315,663	8,570,788	88,378
Investments	10,324,969	18,626,810	28,951,779	2,784,255	4,031,074	308,806
Receivables, net of allowance for uncollectibles:						
Property taxes	790,478	-	790,478	-	-	-
Accounts	4,623,473	8,010,344	12,633,817	2,413,665	1,281,022	714
Intergovernmental	62,548,431	87,229	62,635,660	1,260,704	660,546	-
Internal balances	5,388,888	(5,388,888)	-	-	-	-
Due from primary government	-	-	-	8,710,692	329,786	1,046,212
Due from component units	27,821	-	27,821	-	-	-
Inventories	688,394	184,797	873,191	828,686	324,269	-
Prepaid items	5,575	-	5,575	32,139	255,803	-
Deferred charges	1,233,437	446,957	1,680,394	-	-	-
Long-term receivables, net of allowance for uncollectibles	3,538,580	-	3,538,580	-	303	-
Cash and cash equivalents - restricted	1,386,998	-	1,386,998	-	-	-
<b>Capital assets:</b>						
Land	30,378,862	6,953,179	37,332,041	34,734,908	271,620	-
Buildings and improvements	116,827,349	88,315,338	205,142,687	380,600,869	47,907,764	-
Equipment	62,724,040	29,443,657	92,167,697	57,862,876	4,975,107	-
Library collection	-	-	-	-	1,678,453	9,683,789
Infrastructure	275,358,915	190,676,035	466,034,950	-	-	-
Construction in progress	15,656,825	42,827,168	58,483,993	149,912,569	892,863	-
Accumulated depreciation	(190,457,347)	(85,429,441)	(275,886,788)	(175,056,855)	(20,780,162)	(6,468,456)
Total assets	560,848,541	396,568,145	957,416,686	469,400,171	50,399,236	4,657,443

(continued)

FREDERICK COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Public Libraries
<b>Liabilities</b>						
Accounts payable	\$ 4,622,677	\$ 701,582	\$ 5,324,259	\$ 11,980,061	\$ 762,857	\$ 72,084
Accrued liabilities	10,336,732	7,950,980	18,287,712	45,757	111,964	-
Payroll and benefit deductions	2,107,019	-	2,107,019	9,606,988	134,569	239,239
Property taxes payable	736,439	-	736,439	-	-	-
Due to third parties	693,707	-	693,707	-	159,597	-
Due to other governmental units	487,401	-	487,401	-	-	-
Due to component units	10,086,690	-	10,086,690	-	-	-
Unearned Revenues	3,888,621	2,235,242	6,123,863	73,986	1,410,026	139,042
Performance and security deposits	-	8,174	8,174	-	-	-
Other liabilities	2,908,767	5,760,391	8,669,158	-	-	-
Noncurrent liabilities:						
Due within one year	18,274,416	7,943,025	26,217,441	6,102,856	-	8,382
Due in more than one year	251,386,191	108,233,940	359,620,131	15,511,781	1,236,906	267,036
Total liabilities	305,528,660	132,833,334	438,361,994	43,321,429	3,815,919	725,783
<b>Net Assets</b>						
Investment in capital assets, net of related debt	226,722,373	175,358,149	402,080,522	446,859,605	34,635,612	3,215,333
Restricted for:						
School and library construction	24,384,011	-	24,384,011	-	-	-
Additional or expanded road facilities	5,387,998	-	5,387,998	-	-	-
Other purposes	6,008,323	229,896	6,238,219	-	4,134,381	504,105
Unrestricted (Deficit)	(7,182,824)	88,146,766	80,963,942	(20,780,863)	7,813,324	212,222
Total net assets	\$ 255,319,881	\$ 263,734,811	\$ 519,054,692	\$ 426,078,742	\$ 46,583,317	\$ 3,931,660

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, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Board of Education	Component Units Community College	Public Libraries
<b>Primary government:</b>									
Governmental activities:									
General government	\$ 27,425,402	\$ 1,086,267	\$ 1,032,072	\$ -	\$ (25,307,063)	\$ -	\$ -	\$ -	\$ -
Public safety	58,696,992	2,938,922	3,628,893	2,031,663	(50,097,514)	-	-	-	-
Public works	29,789,255	743,694	12,928,214	2,644,904	(13,472,453)	-	-	-	-
Health	15,596,778	3,348,561	8,693,381	145,510	(3,399,326)	-	-	-	-
Social services	5,519,938	1,632,919	858,551	-	(3,028,468)	-	-	-	-
Education	215,923,669	-	-	-	(215,923,669)	-	-	-	-
Parks, recreation and culture	9,450,582	466,417	16,594	7,785	(8,957,786)	-	-	-	-
Conservation of natural resources	1,278,761	129,844	40,028	335,335	(773,574)	-	-	-	-
Community development and public housing	3,713,439	-	3,574,782	-	(138,657)	-	-	-	-
Economic development and opportunity	10,928,583	374,485	5,325,500	9,000	(5,219,598)	-	-	-	-
Miscellaneous	3,803,446	-	-	29,057	(3,774,389)	-	-	-	-
Intergovernmental	6,006,926	-	-	-	(6,006,926)	-	-	-	-
Interest on long term debt	9,351,188	-	-	-	(9,351,188)	-	-	-	-
Total governmental activities	397,474,989	10,721,109	36,100,015	5,203,254	(345,450,611)	-	-	-	-
<b>Business-type activities:</b>									
Water and Sewer	19,977,977	19,177,820	12,810,064	9,509,599	-	21,519,506	-	-	-
Solid Waste Management	12,368,757	11,306,315	-	-	-	(1,062,442)	-	-	-
Nursing Homes	13,399,901	10,226,189	-	-	-	(3,173,702)	-	-	-
Public Housing	107,323	82,043	-	-	-	(25,280)	-	-	-
Permitting & Development Review	4,134,794	4,380,255	-	725,261	-	970,722	-	-	-
Total business-type activities	49,988,752	45,172,592	12,810,064	10,234,860	-	18,228,804	-	-	-
Total primary government	\$ 447,463,741	\$ 55,893,741	\$ 48,910,079	\$ 15,438,114	(345,450,611)	18,228,804	(83,637,067)	(6,712,201)	451,485
<b>Component Units:</b>									
Board of Education	\$ 368,429,643	\$ 8,532,435	\$ 235,409,997	\$ 40,850,144	-	-	(83,637,067)	-	-
Community College	36,062,653	13,504,497	14,263,647	1,552,308	-	-	-	-	-
Public Libraries	7,176,068	345,174	7,282,379	-	-	-	-	-	451,485
Total Component Units	\$ 411,658,364	\$ 22,382,106	\$ 256,976,023	\$ 42,402,452	-	-	(83,637,067)	(6,712,201)	451,485
<b>General Revenues:</b>									
Local property taxes					182,302,769				
Local income taxes					142,255,367				
Other local taxes					57,772,607				
Grants and contributions not restricted to specific programs					5,517,391	2,848,200	105,703,057	5,146,359	6,121
Investment earnings					2,693,466	465,661	235,650	407,632	-
Miscellaneous					(3,868,735)	3,868,735	952,665	1,799,085	-
Transfers					386,672,865	7,182,596	106,891,392	7,353,076	6,121
Total general revenues and transfers					41,222,254	25,411,400	23,254,325	640,875	457,606
Change in net assets					214,097,627	238,323,411	402,824,417	45,942,442	3,474,054
Net assets - beginning of year, as restated					\$ 255,319,991	\$ 263,794,811	\$ 426,078,742	\$ 46,593,317	\$ 3,931,660
Total net assets - end of year					\$ 469,417,618	\$ 502,118,222	\$ 852,903,154	\$ 92,535,764	\$ 7,405,714

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

FREDERICK COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Grants Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 49,493	\$ 20,718	\$ -	\$ 344,093	\$ 414,304
Equity in pooled invested cash	86,113,646	717,814	18,443,819	53,022,412	158,297,691
Total cash and cash equivalents	86,163,139	738,532	18,443,819	53,366,505	158,711,995
Investments	-	-	-	10,324,969	10,324,969
Receivables, net of allowance for uncollectibles:					
Property taxes	-	-	-	-	-
Accounts	723,423	-	-	67,055	790,478
Intergovernmental	2,409,275	27,568	-	397,868	2,834,711
Prepays	57,690,749	3,485,362	1,418,000	-	62,594,111
Due from other funds	7,334,709	-	-	5,575	7,334,709
Due from component units	27,821	-	-	-	27,821
Inventories	405,385	-	-	-	405,385
Long-term receivables, net of allowance for uncollectibles:					
Loans to property owners	946,811	-	-	-	946,811
Employee salary advances	181,354	-	-	-	181,354
MILAMCRF loans	-	-	-	-	-
Fire/Rescue loans	-	-	-	1,488,108	1,488,108
Non profit organization loans	72,450	-	-	125,275	125,275
Small business loans	-	-	-	103,635	103,635
Community development block grant loans	-	530,601	-	90,346	90,346
Cash and cash equivalents - restricted	520,972	-	-	866,026	530,601
Total assets	\$ 156,476,088	\$ 4,732,053	\$ 19,861,819	\$ 66,835,362	\$ 247,905,332
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 809,881	\$ 138,885	\$ 3,491,086	\$ 14,509	\$ 4,454,371
Accrued liabilities	4,450,879	719,752	111,468	1,387,550	6,669,649
Payroll and benefit deductions	1,552,470	501,182	53,367	-	2,107,019
Property taxes payable	736,439	-	-	-	736,439
Due to third parties	474,415	-	-	-	474,415
Due to other governmental units	-	391,477	-	219,292	693,707
Due to other funds	816,678	-	-	95,924	487,401
Due to component units	9,754,124	-	-	63,509	880,187
Other liabilities	-	408,090	329,766	-	10,083,910
Deferred revenue	45,247,300	817,858	1,060,511	1,440,166	2,908,767
Total liabilities	63,842,186	2,977,244	5,046,228	2,556,772	48,621,930
<b>Fund balances:</b>					
Reserved	3,567,549	1,064,743	24,473,841	408,654	29,534,787
Unreserved:					
Designated for:					
Subsequent year's expenditures	29,724,224	670,076	-	-	30,394,300
Other purposes - General fund	2,747,872	-	-	-	2,747,872
Other purposes - Special revenue funds	-	-	-	40,224,063	40,224,063
Undesignated:					
General fund	56,594,257	-	-	-	56,594,257
Special revenue funds	-	-	-	-	-
Capital projects fund	-	-	(9,658,250)	20,424,923	20,424,923
Total fund balances	92,633,902	1,754,819	14,815,591	61,057,640	170,261,952
Total liabilities and fund balances	\$ 156,476,088	\$ 4,732,053	\$ 19,861,819	\$ 66,835,362	\$ 247,905,332

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, 2005**

Total fund balance - governmental funds (See Exhibit II-A-3)

\$ 170,261,952

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds (includes Capital Assets of the internal service fund).

Land	\$ 30,378,862
Buildings and Improvements	116,827,349
Equipment	62,724,040
Infrastructure	275,358,915
Construction in Progress	15,856,825
Less Accumulated Depreciation	<u>(190,457,347)</u>
	310,488,644

Long-term liabilities related to governmental activities are not due and payable in the current period and therefore are not reported in the funds (includes long-term liabilities of the internal service fund).

Bonds Payable, net of Deferred Loss on Bond Refunding	(224,926,620)
Accrued Bond Interest	(3,582,650)
Installment Purchase Agreements	(15,767,333)
Notes Payable	(7,322,577)
Capital Lease Obligations	(4,980,289)
Unamortized Premium on Bonds Payable	(10,542,690)
Compensated Absences	(6,121,098)
Recognition of Deferred Revenue	<u>44,733,309</u>
	(228,509,948)

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	1,054,283
Deferred Issuance Costs - IPAs	140,961
Deferred Issuance Costs - Capital Leases	<u>38,193</u>
	1,233,437

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 are included in governmental activities in the statement of net assets. This balance is net of Capital Assets and Long-term liabilities included above.

Net assets of governmental activities (See Exhibit II-A-1)	<u>1,845,796</u>
	\$ 255,319,881

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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General	Grants Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 187,874,701	-	\$ -	\$ 15,706,352	\$ 183,381,053
Local income taxes	137,124,133	-	-	-	137,124,133
Other local taxes	28,198,172	-	-	28,364,192	57,562,364
Licenses and permits	979,054	-	-	-	979,054
Grants from federal government	50,405	11,413,560	872,972	-	12,336,937
Grants from state government	13,763,781	14,123,197	1,279,907	400,335	29,567,220
Charges for services	4,224,515	2,935,804	-	2,102,013	9,262,332
Fines and forfeitures	170,158	-	-	160,372	330,530
Interest from loans	-	-	-	11,078	11,078
Investment earnings	2,699,479	2,947	-	2,814,965	5,517,391
Miscellaneous	1,761,021	405,668	386,048	-	2,552,737
<b>Total revenues</b>	<b>358,845,419</b>	<b>28,892,176</b>	<b>2,548,927</b>	<b>50,559,307</b>	<b>438,635,829</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	20,675,263	1,514,702	-	14,145	22,204,110
Public safety	37,251,432	2,341,228	-	16,931,870	56,524,525
Public works	15,185,725	5,614,754	-	11,998	20,812,477
Health	2,952,069	12,495,788	-	-	15,447,857
Social services	5,201,581	1,338,777	-	-	6,540,358
Education	185,300,073	-	-	-	185,300,073
Parks, recreation and culture	8,782,888	-	-	-	8,782,888
Conservation of natural resources	458,995	227,719	-	1,054,344	1,741,058
Community development and public housing	278,363	3,445,604	-	-	3,723,967
Economic development and opportunity	2,155,416	7,895,181	-	875,569	10,926,166
Miscellaneous	4,182,513	-	-	-	4,182,513
Intergovernmental	4,847,291	-	-	-	4,847,291
Debt service	23,954,306	-	4,542,987	-	33,517,672
Capital projects	-	34,873,748	51,188,595	-	51,188,595
<b>Total expenditures</b>	<b>310,925,910</b>	<b>34,873,748</b>	<b>55,731,582</b>	<b>24,208,305</b>	<b>425,739,545</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>48,719,509</b>	<b>(5,991,572)</b>	<b>(53,182,655)</b>	<b>26,351,002</b>	<b>12,896,284</b>
<b>Other financing sources (uses)</b>					
Transfers in from General Fund	-	5,998,324	16,425,624	1,232,633	23,656,581
Transfers in from Special Revenue Funds	-	-	12,954,780	-	12,954,780
Transfers in from Internal Service Fund	18,212	-	-	-	18,212
Transfers out to:					
Special Revenue Funds	(7,230,957)	-	-	-	(7,230,957)
Capital Projects Fund	(16,425,624)	-	-	-	(29,380,404)
Enterprise Funds	(3,693,735)	-	(175,000)	(12,954,780)	(3,868,735)
Internal Service Fund	(14,804)	-	-	-	(14,804)
Proceeds from refunding bonds	62,517,782	-	-	29,264,190	91,781,972
Payment to refunded bond escrow agent	(64,545,625)	-	-	(31,943,547)	(96,489,172)
Bond premium on public facilities and refunding bonds	6,014,302	-	-	2,855,728	8,870,030
Proceeds of capital lease	-	-	-	852,100	852,100
State of capital assets	-	-	-	18,000	18,000
<b>Total other financing sources and (uses)</b>	<b>(23,360,449)</b>	<b>5,998,324</b>	<b>29,205,404</b>	<b>(10,675,676)</b>	<b>1,167,603</b>
<b>Net change in fund balances</b>	<b>22,359,060</b>	<b>6,752</b>	<b>(23,977,251)</b>	<b>15,675,326</b>	<b>14,063,887</b>
<b>Fund balances - July 1, as restated</b>	<b>70,274,842</b>	<b>1,748,067</b>	<b>38,792,842</b>	<b>45,382,314</b>	<b>156,198,065</b>
<b>Fund balances - June 30</b>	<b>\$ 92,633,902</b>	<b>\$ 1,754,819</b>	<b>\$ 14,815,591</b>	<b>\$ 61,057,640</b>	<b>\$ 170,261,952</b>

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, 2005

Net change in fund balances - total governmental funds (See Exhibit II-A-5) \$ 14,063,887

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	\$ 11,759,104
Depreciation Expense	(16,818,960)
Adjusted for Internal Service Fund Depreciation	<u>2,014,210</u>
	(3,045,646)

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

Donation of Capital Assets	2,766,502
Additions to Construction in Progress	16,390,964
Asset Replacements, Retirements and Deletions	<u>(4,670,418)</u>
	14,487,048

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	42,374,004
Income Taxes - Recognized as Income in the Prior Year	(37,242,770)
State Funding Receivable - Prior Year	(3,787,711)
Other Revenues - Deferred in the Funds Statements	2,359,305
Other Revenues - Recognized as Income in the Prior Year	<u>(3,679,041)</u>
	23,787

(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, 2005**

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	\$ (91,781,973)
Issuance of IPAs	(7,360,513)
Capital Lease Financing	(852,100)
Bond Premiums	(8,870,030)
Deferred Loss on Bond Refunding	8,503,728
Deferred Charge for Issuance Costs	556,936
Principal Payments on General Obligation Debt	109,399,966
Principal Payments on Installment Purchase Agreements	367,850
Principal Payments on Notes Payable	650,488
Principal Payments on Capital Leases	1,410,145
Amortization of Bond Premiums	178,829
Amortization of Deferred Loss on Refunding	(227,464)
Amortization of Issuance Costs	(128,367)
	11,847,495

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	4,457,858
Accrued Interest - Current Year	(3,562,650)
Compensated Absences Accrual	(420,081)
Other expenses	22,848
	477,975

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

3,367,708

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

\$ 41,222,254

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

**FREDERICK COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL  
GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Local property taxes</b>				
Real property (inc. additions & abatements)	\$ 155,900,000	\$ 155,900,000	\$ 161,145,239	\$ 5,245,239
Public utilities	8,500,000	8,500,000	8,262,044	(237,956)
Payments in lieu of taxes	165,000	165,000	1,697	(163,303)
Total levy	<u>164,565,000</u>	<u>164,565,000</u>	<u>169,408,980</u>	<u>4,843,980</u>
Tax credit - state reimbursement	1,490,000	1,490,000	1,591,858	101,858
Tax credits and refunds	(3,972,000)	(3,972,000)	(3,769,107)	202,893
Interest - delinquent taxes	1,600,000	1,600,000	1,478,276	(121,724)
Discounts allowed on taxes	(1,050,000)	(1,050,000)	(1,035,306)	14,694
Total adjustments	<u>(1,932,000)</u>	<u>(1,932,000)</u>	<u>(1,734,279)</u>	<u>197,721</u>
Total property taxes	<u>162,633,000</u>	<u>162,633,000</u>	<u>167,674,701</u>	<u>5,041,701</u>
<b>Local income taxes</b>	<u>127,374,000</u>	<u>123,999,960</u>	<u>137,124,133</u>	<u>13,124,173</u>
<b>Other local taxes</b>				
Admission and amusement	500,000	500,000	803,830	303,830
Recordation	14,392,860	14,392,860	25,892,014	11,499,154
911 fees - local	1,600,000	1,600,000	1,420,326	(379,674)
Trailer parks	85,000	85,000	81,522	(3,478)
Security interest filing fees	700	700	480	(220)
Total other local taxes	<u>16,778,560</u>	<u>16,778,560</u>	<u>28,198,172</u>	<u>11,419,612</u>
<b>Licenses and permits</b>				
Alcoholic beverage licenses	200,000	200,000	213,418	13,418
Traders' licenses	175,000	175,000	189,685	14,685
Zoning permits	160,000	160,000	256,308	96,308
Driveway permits	25,000	25,000	29,521	4,521
Grading permits	125,000	125,000	229,101	104,101
Septic/well permits	11,000	11,000	-	(11,000)
Animal licenses	18,000	18,000	26,958	8,958
Marriage fees	14,000	14,000	12,340	(1,660)
Forest resource ordinance	5,000	5,000	21,723	16,723
Total licenses and permits	<u>733,000</u>	<u>733,000</u>	<u>979,054</u>	<u>246,054</u>

(continued)

FREDERICK COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Grants from federal government</b>				
Federal payments in lieu of taxes:				
Parks	\$ 15,000	\$ 15,000	\$ 18,594	\$ 3,594
Housing	30,000	30,000	31,811	1,811
Total grants from federal government	45,000	45,000	50,405	5,405
<b>Grants from state government</b>				
Police protection	1,100,000	1,100,000	956,235	(143,765)
Aid for fire, rescue and ambulance services	352,000	352,000	360,354	8,354
County inmate housing	1,500,000	1,500,000	1,648,306	148,306
Highway user revenues	9,931,000	9,931,000	10,722,019	791,019
Parks	60,000	60,000	76,867	16,867
Total grants from state government	12,943,000	12,943,000	13,763,781	820,781
<b>Charges for services</b>				
Planning and zoning fees	71,000	71,000	130,321	59,321
Data processing services	200	200	-	(200)
Court costs, fees and charges	2,000	2,000	2,318	318
Scott Key Center	1,126,755	1,140,441	1,088,262	(52,179)
Other general government	114,000	114,000	122,104	8,104
Public safety	369,500	369,500	428,469	58,969
Transportation services	105,000	105,000	203,388	98,388
Social services	400,000	400,000	544,080	144,080
Job Training Agency	120,377	123,700	118,146	(5,554)
Frederick County Developmental Center	84,000	84,000	80,443	(3,557)
Mental health	1,105,000	1,105,000	1,000,042	(104,958)
Administration fees	-	-	40,525	40,525
Recreation	385,000	385,000	466,417	81,417
Total charges for services	3,882,832	3,899,841	4,224,515	324,674
<b>Fines and forfeitures</b>				
Court	120,000	120,000	70,999	(49,001)
Alcoholic beverages	10,000	10,000	5,050	(4,950)
Other fines and forfeitures	89,500	89,500	94,109	4,609
Total fines and forfeitures	219,500	219,500	170,158	(49,342)
<b>Investment earnings</b>				
	1,075,000	1,075,000	2,699,479	1,624,479
<b>Miscellaneous revenues</b>				
Rents and concessions	921,142	921,142	1,070,851	149,709
Contributions and donations	-	29,877	19,345	(10,532)
Sale of property	10,000	10,000	251	(9,749)
Special assessments	83,000	83,000	86,605	3,605
Other miscellaneous revenues	710,000	715,000	583,969	(131,031)
Total miscellaneous revenues	1,724,142	1,759,019	1,761,021	2,002
<b>Total revenues</b>	327,408,034	324,085,880	356,645,419	32,559,539



**FREDERICK COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>General government</b>				
<b>Legislative and executive</b>				
County commissioners	\$ 608,447	\$ 612,332	\$ 616,319	\$ (3,987)
County manager	613,281	613,114	588,256	24,858
Boards and commissions	13,980	12,824	12,322	502
Total legislative and executive	<u>1,235,708</u>	<u>1,238,270</u>	<u>1,216,897</u>	<u>21,373</u>
<b>Judicial</b>				
Circuit court	725,620	736,349	714,086	22,263
Orphans court	25,672	25,672	23,914	1,758
States attorney	3,834,849	3,867,003	3,932,377	(65,374)
Grand jury	68,310	68,860	69,265	(405)
Other judicial	500	500	-	500
Total judicial	<u>4,655,951</u>	<u>4,698,384</u>	<u>4,739,642</u>	<u>(41,258)</u>
<b>Elections</b>				
Board of supervisors of elections	1,059,189	1,057,379	670,904	386,475
<b>Financial Administration</b>				
Accounting	2,773,397	2,709,396	2,240,939	468,457
Independent auditing	34,500	34,500	47,678	(13,178)
Budgeting	392,091	394,296	393,360	936
Purchasing	467,328	465,439	427,364	38,075
Treasury	521,528	525,535	525,467	68
Total financial administration	<u>4,188,844</u>	<u>4,129,166</u>	<u>3,634,808</u>	<u>494,358</u>
<b>Legal</b>				
County attorney	672,112	675,158	680,311	(5,153)
<b>Personnel administration</b>				
Personnel	695,675	699,934	691,747	8,187
<b>Planning and zoning</b>				
Planning	1,755,137	1,756,265	1,522,190	234,075
Board of zoning appeals	10,126	10,126	8,621	1,505
Total planning and zoning	<u>1,765,263</u>	<u>1,766,391</u>	<u>1,530,811</u>	<u>235,580</u>

(continued)

FREDERICK COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Amended Budget	Actual	Variance-Positive (Negative)
<b>Management services</b>				
Interagency Information Technologies	\$ 4,602,093	\$ 4,634,739	\$ 4,506,017	\$ 128,722
General services	19,243	158,893	123,602	35,291
Logistical services	454,345	456,474	331,156	125,318
Maintenance	5,350,090	5,368,526	4,970,006	398,521
Custodial services	1,529,898	1,533,507	1,469,720	73,787
Total management services	11,955,669	12,152,139	11,390,500	761,639
<b>Other general government</b>				
Internal Audit	333,626	621,571	624,281	(2,710)
Board of liquor license commissioners	223,616	222,336	202,844	19,492
	557,242	843,907	827,125	16,782
Total general government	26,785,653	27,260,728	25,382,745	1,877,983
<b>Public safety</b>				
Sheriff	15,054,507	15,129,482	15,111,314	18,168
Fire protection	401,910	345,185	354,534	(9,349)
Fire/rescue state grant allocation	352,000	360,354	360,354	(8,354)
Fire inspection	236,384	236,780	185,146	51,634
Fire and rescue services	4,730,612	4,791,412	4,519,833	271,579
Advanced life support	246,969	235,942	228,073	6,869
Detention center	9,528,114	9,810,505	9,857,513	(47,008)
Work release center	1,695,472	1,525,492	1,648,059	(122,567)
Alternative sentencing	599,698	607,724	571,478	36,246
Emergency management	236,884	238,109	237,159	950
Animal control	1,136,737	1,145,679	1,112,808	32,871
Emergency communications	2,988,855	3,005,000	2,934,305	70,695
Public safety director	317,761	395,497	391,661	3,836
Local emergency preparedness committee	-	-	(235)	235
Total public safety	37,525,903	37,818,807	37,513,002	305,805
<b>Public works</b>				
Highways	9,843,658	11,717,011	11,684,223	32,788
Public works administration	270,147	273,465	222,290	51,175
Project management	319,926	321,615	251,137	70,478
Construction management	1,208,775	1,217,673	1,047,751	169,922
Development review	836,165	837,906	851,851	(13,945)
Program development and management	346,596	350,380	345,979	4,401
Transportation engineering	1,142,357	1,125,951	1,003,715	122,236
Total public works	13,967,624	15,844,001	15,406,946	437,055

(continued)

**FREDERICK COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Health</b>				
County administrator	\$ 117,322	\$ 119,428	\$ 109,044	\$ 10,384
School health program	(6,565)	49,482	(598)	50,080
Detention center substance abuse	115,137	115,137	115,137	-
Mental health	1,405,392	1,405,352	1,154,433	250,919
Mosquito control	8,000	8,000	2,793	5,207
Frederick County Developmental Center	1,549,430	1,573,388	1,422,117	151,271
ARC of Frederick County	36,000	36,000	36,000	-
Counseling Services	24,000	24,000	24,000	-
Mental Health Association hotline	45,000	45,000	45,000	-
Child Abuse Prevention-Mental Health Association	5,000	5,000	5,000	-
Alzheimer's Association of Frederick County	10,000	10,000	10,000	-
Central Maryland Catholic Charities	18,000	18,000	18,000	-
Hepatitis Clinic	15,000	15,000	15,000	-
<b>Total health</b>	<b>3,341,716</b>	<b>3,423,787</b>	<b>2,955,926</b>	<b>467,861</b>
<b>Social services</b>				
Contribution to Department of Social Services	1,683,644	1,711,845	1,571,228	140,617
Department of Aging	508,069	507,244	507,244	1
Office of Children and Families	159,864	191,591	169,022	22,569
Transit	225,411	230,914	244,088	(13,174)
Family partnership	245,856	251,124	196,106	55,018
Deinstitutionalization day care	11,514	11,514	11,514	-
Community Agency School Services	48,000	48,000	48,000	-
Daybreak Adult Daycare Center	25,000	25,000	25,000	-
Advocates for the Homeless	25,000	25,000	25,000	-
Services for the hearing impaired	3,750	3,750	3,750	-
The Volunteer Center - Unified Way	16,000	16,000	16,000	-
Up-County Family Center	28,500	28,500	28,500	-
Character counts	3,500	3,500	3,500	-
Emergency food/fuel/shelter	151,000	151,000	151,000	-
Healthy Family/Heartly House	17,500	17,500	17,500	-
Big Brother, Big Sister	10,000	10,000	10,000	-
CASA of Frederick County	5,000	5,000	5,000	-
Boys and Girls Club	10,000	10,000	10,000	-
Scott Key Center	2,089,502	2,128,942	2,086,672	42,270
Other social services	101,571	101,571	100,921	650
<b>Total social services</b>	<b>5,368,681</b>	<b>5,477,996</b>	<b>5,230,045</b>	<b>247,951</b>
<b>Education</b>				
Hood College	100,000	100,000	100,000	-
Maryland School for the Blind	2,000	2,000	-	2,000
Frederick County Board of Education	175,553,487	175,546,922	174,542,485	1,004,437
Frederick Community College	10,770,267	10,770,267	10,657,588	112,679
<b>Total education</b>	<b>186,425,754</b>	<b>186,419,189</b>	<b>185,300,073</b>	<b>1,119,116</b>

(continued)

**FREDERICK COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Parks, recreation and culture</b>				
Frederick County Public Libraries	\$ 5,589,282	\$ 5,654,144	\$ 5,634,939	\$ 19,205
Parks	2,489,906	2,489,771	2,489,827	9,944
Recreation programs	763,062	796,480	666,925	129,555
Recreation grants	5,000	5,000	5,000	-
Historical Society of Frederick County	5,000	5,000	5,000	-
American Legion Council	1,000	1,000	1,000	-
National Museum of Civil War Medicine	10,000	10,000	10,000	-
Delaplaine Visual Arts Center	5,000	5,000	5,000	-
Community libraries	5,589	5,589	5,589	-
<b>Total parks, recreation and culture</b>	<b>8,673,839</b>	<b>8,981,984</b>	<b>8,823,280</b>	<b>158,704</b>
<b>Conservation of natural resources</b>				
Extension service	269,893	269,437	267,673	1,764
Soil conservation	179,838	179,838	183,735	(3,897)
Gypsy moth control	54,800	54,800	8,726	46,074
Forestry Board	2,000	2,000	2,000	-
Western Maryland Resources Conservation and Development Council	500	500	500	-
<b>Total conservation of natural resources</b>	<b>507,031</b>	<b>506,575</b>	<b>462,634</b>	<b>43,941</b>
<b>Community development and public housing</b>				
Housing administration	232,899	236,622	208,850	27,772
Affordable housing council	200,000	200,000	190,000	10,000
<b>Total community development and public housing</b>	<b>432,899</b>	<b>436,622</b>	<b>398,850</b>	<b>37,772</b>

(continued)

**FREDERICK COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Economic development and opportunity</b>				
Office of economic development	\$ 906,547	\$ 906,022	\$ 871,152	\$ 34,870
Fredrick Municipal Airport	49,500	49,500	49,500	-
Citizens services administration	187,861	186,593	187,902	681
Job Training Agency	611,910	632,078	621,989	10,109
Head Start	41,318	72,815	73,796	(981)
Human relations	148,448	148,549	152,285	(3,736)
Jeanne Bussard Center	40,000	40,000	40,000	-
Commission for Women	4,858	4,858	4,858	-
Commission for Disabilities	450	450	411	39
Seton Center	22,000	22,000	22,000	-
Emmitsburg Child Care Center	23,625	23,625	23,625	-
Child Care Consortium	30,000	30,000	30,000	-
<b>Total economic development and opportunity</b>	<u>2,965,617</u>	<u>2,118,490</u>	<u>2,077,498</u>	<u>40,992</u>
<b>Non-departmental</b>				
Property and liability insurance	1,208,700	1,208,700	811,025	397,675
Health Insurance - retirees	1,600,000	1,600,000	2,070,641	(470,641)
Other employee benefits and taxes	364,242	(511,071)	516,281	(1,027,352)
Other miscellaneous	(1,074,029)	(1,553,385)	(4,094,978)	2,541,593
<b>Total miscellaneous</b>	<u>2,098,913</u>	<u>744,244</u>	<u>(697,031)</u>	<u>1,441,275</u>
<b>Intergovernmental</b>				
Financial corporations grant to municipalities	50,000	50,000	49,273	727
Tax rebate to municipalities	4,798,018	4,798,018	4,798,018	-
<b>Total intergovernmental</b>	<u>4,848,018</u>	<u>4,848,018</u>	<u>4,847,291</u>	<u>727</u>
<b>Debt service</b>				
Principal - general obligation debt	11,741,917	15,351,917	15,327,619	24,298
Principal - state loans	184,604	184,604	184,143	461
Interest - general obligation debt	10,714,867	10,714,867	8,089,727	2,625,140
Interest - state loans	65,473	65,473	52,817	12,656
<b>Total debt service</b>	<u>22,706,861</u>	<u>26,316,861</u>	<u>23,654,306</u>	<u>2,662,555</u>
<b>Total expenditures</b>	<u>314,948,509</u>	<u>320,197,302</u>	<u>311,355,565</u>	<u>8,841,737</u>

(continued)

FREDERICK COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGETARY BASIS - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
<b>Other financing sources (uses)</b>				
Proceeds from refunding bond	\$ -	\$ (62,520,698)	\$ (62,517,782)	\$ (2,916)
Payment to refunding agent	-	64,925,000	64,545,625	379,375
Bond premium on public facilities & refunding bonds	-	(6,014,302)	(6,014,302)	-
Transfers in from				
Fleet Services	-	-	(18,212)	18,212
Transfers out to				
Grants revenue fund	6,940,695	6,725,121	5,996,324	726,797
Agriculture preservation fund	1,061,737	1,062,359	1,062,359	-
Capital projects fund	16,180,624	16,425,624	16,425,624	-
Internal service fund - Fleet services	-	14,804	14,804	-
Fire and rescue fund	-	170,274	170,274	-
Enterprise fund - Permitting and Development Review	851,303	867,200	867,200	-
Enterprise fund - Citizens Care & Rehabilitation Center	1,821,253	1,818,643	1,818,643	-
Enterprise fund - Montevue Home	988,212	1,007,892	1,007,892	-
Total other financing sources (uses)	<u>27,843,824</u>	<u>24,481,917</u>	<u>23,360,449</u>	<u>1,121,468</u>
Budgeted usage of fund balance	<u>15,384,299</u>	<u>20,593,339</u>	<u>20,593,339</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,522,744</u>	<u>\$ 42,522,744</u>
Net change in reserves and adjustments to GAAP basis			(20,163,684)	
Fund balance - beginning, as restated			<u>70,274,842</u>	
Fund balance - ending			<u>\$ 92,633,902</u>	

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 FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts	Actual Amounts	Variance -
	Original	Final	Positive (Negative)
<b>Revenues</b>			
Grants from federal government	\$ 9,778,683	\$ 11,413,560	(4,567,136)
Grants from state government	13,623,231	14,123,197	(1,802,641)
Charges for services	2,460,317	2,935,804	139,311
Investment earnings	-	3,608	(661)
Miscellaneous	149,057	406,668	(225,098)
Total revenues	26,011,288	28,882,176	(6,456,225)
<b>Expenditures</b>			
General government	1,573,471	1,514,702	240,868
Public safety	51,723	4,287,408	1,956,185
Public works	6,011,098	9,104,692	3,489,938
Health	12,779,234	13,316,309	887,064
Social services	1,265,339	1,561,031	221,804
Parks, recreation and culture	13,362	-	-
Conservation of natural resources	160,951	231,757	4,038
Comm development and public housing	3,262,882	3,401,059	138,936
Economic development and opportunity	7,849,008	7,858,697	868,138
Total expenditures	32,967,068	34,726,626	7,806,971
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(6,955,780)</b>	<b>(5,844,450)</b>	<b>1,350,746</b>
<b>Other financing sources (uses)</b>			
Appropriated fund balance	-	468,352	(170,861)
Transfer from General Fund	6,955,780	6,726,844	(728,520)
Total other financing sources (uses)	6,955,780	7,195,196	(899,381)
Net change in fund balances	-	-	451,365
<b>Net change in reserves and adjustment to GAAP basis</b>			
Fund balance - beginning		(444,613)	
Fund balance - ending		1,748,067	
		\$ 1,754,819	

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

FREDERICK COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Total	Governmental Activities- Internal Service Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total		
<b>Assets</b>						
Current assets:						
Cash	\$ 3,572,572	\$ 2,600	\$ 362,295	\$ 3,937,467	\$ -	
Equity in pooled invested cash	61,331,619	32,804,276	3,741,604	97,877,493	1,090,858	
Total cash and cash equivalents	64,904,195	32,806,876	4,103,899	101,814,960	1,090,858	
Short-term investments	3,829,781	-	-	3,829,781	-	
Receivables, net of allowance for uncollectibles accounts	5,191,009	1,394,719	1,434,616	8,010,344	32,732	
Intergovernmental receivables	-	87,229	-	87,229	4,320	
Due from other funds	-	-	-	-	816,678	
Inventories	132,989	-	51,828	184,797	283,009	
Total current assets	74,057,944	34,278,824	5,590,343	113,927,111	2,227,597	
Noncurrent assets:						
Long-term investments	14,797,029	-	-	14,797,029	-	
Capital Assets:						
Land	3,469,873	2,837,164	646,142	6,953,179	-	
Buildings and Improvements	47,084,712	30,199,036	11,031,590	88,315,338	1,820,867	
Equipment	23,442,715	3,947,258	2,053,684	29,443,657	17,789,036	
Other improvements	190,676,035	-	-	190,676,035	-	
Accumulated depreciation	(53,558,844)	(26,552,745)	(5,319,852)	(85,429,441)	(8,572,242)	
Construction in progress	37,761,254	5,065,914	-	42,827,168	-	
Deferred bond issue expense	336,517	110,440	-	446,957	-	
Total noncurrent assets	284,011,291	15,607,067	8,411,564	298,029,922	11,037,661	
Total assets	338,069,235	49,885,891	14,001,907	401,957,033	13,265,258	
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	615,313	75,257	11,012	701,582	168,306	
Accrued expenses	5,751,894	1,302,263	896,823	7,950,980	84,433	
Due to other funds	-	-	5,515,171	5,515,171	-	
Deferred revenues	1,005,687	5,828	1,223,527	2,235,242	-	
Security deposits	-	-	8,174	8,174	-	
Other liabilities	5,298,692	393,898	67,661	5,760,391	-	
Current portion landfill closure and postclosure liability	-	289,708	-	289,708	-	
Current portion general obligation bonds and notes	5,853,783	1,677,023	-	7,530,806	-	
Current portion of compensated absences	21,736	5,010	95,785	122,511	2,144	
Total current liabilities	18,547,505	3,748,927	7,816,133	30,114,565	254,863	
Noncurrent liabilities:						
Long term portion landfill closure and postclosure liability	-	14,274,319	-	14,274,319	-	
Long term portion general obligation bonds and notes	68,035,189	24,926,577	-	92,961,766	-	
Liability for compensated absences	366,030	94,051	517,774	977,855	89,085	
Total noncurrent liabilities	68,421,219	39,294,947	517,774	108,233,940	89,085	
Total liabilities	86,968,724	43,043,874	8,335,907	138,348,505	343,968	
<b>Net Assets</b>						
Invested in capital assets, net of related debt	174,988,772	(3,338,631)	3,708,008	175,358,149	11,037,661	
Restricted	-	-	229,896	229,896	-	
Unrestricted	76,111,739	10,180,648	1,728,096	88,020,483	1,883,629	
Total net assets	\$ 251,100,511	\$ 6,842,017	\$ 5,666,000	\$ 263,608,528	\$ 12,921,290	
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				126,283		
Net assets of business-type activities				\$ 263,734,811		

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, 2005**

	Business-type Activities-Enterprise Funds				Governmental Activities-Fleet Services Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
<b>Operating revenues</b>					
Water and sewer charges	\$ 18,754,046	\$ -	\$ -	\$ 18,754,046	\$ -
Landfill charges	-	11,253,075	-	11,253,075	-
Charges for health care services, net of contractual adjustments	-	-	10,135,886	10,135,886	-
License and permit revenue	-	-	2,861,910	2,861,910	-
Fee revenue	-	-	1,517,945	1,517,945	-
Rental charges	-	-	82,008	82,008	-
Fleet services charges	-	-	-	-	7,747,247
Total net charges for services	18,754,046	11,253,075	14,597,749	44,604,870	7,747,247
Delinquent fees collected	36,916	53,240	-	90,156	-
Other revenues	386,898	-	90,748	477,606	-
Total operating revenues	19,177,820	11,306,315	14,688,497	45,172,632	7,747,247
<b>Operating expenses</b>					
Personal services	6,377,460	1,343,042	12,571,403	20,291,905	1,529,647
Operating expenses (including administrative overhead)	4,425,632	6,340,226	3,560,595	14,326,453	865,622
Supplies	430,894	58,736	1,129,728	1,619,358	2,963,405
Repairs and maintenance	1,237,208	244,555	48,066	1,529,827	410,300
Depreciation expense	4,769,263	3,407,975	345,421	8,522,659	1,946,714
Total operating expenses	17,240,455	11,394,534	17,655,213	46,290,202	7,715,688
Operating income (loss)	1,937,365	(88,219)	(2,966,716)	(1,117,570)	31,559
<b>Nonoperating revenues (expenses)</b>					
Donations	-	-	38,927	38,927	-
Interest income	2,120,888	696,820	30,492	2,848,200	-
Miscellaneous income (expense)	446,317	-	5,368	451,705	61,016
Interest expense	(2,774,828)	(1,003,595)	-	(3,778,423)	-
Transfers out	-	-	-	-	(18,212)
Gain (loss) on disposition of fixed assets	-	(24,971)	-	(24,971)	(121,376)
Total nonoperating revenues (expenses)	(207,623)	(331,746)	74,807	(464,562)	(78,572)
Net income (loss) before contributions and transfers	1,729,742	(419,965)	(2,891,909)	(1,582,132)	(47,013)
Capital contributions	22,319,663	-	725,261	23,044,924	3,500,781
Transfers in	-	-	3,868,735	3,868,735	14,804
Total contributions and transfers	22,319,663	-	4,593,996	26,913,659	3,515,585
Change in net assets	24,049,405	(419,965)	1,702,087	25,331,527	3,468,572
Net assets - July 1	227,051,106	7,261,982	3,963,913	237,277,001	9,452,718
Net assets - June 30	\$ 251,100,511	\$ 6,842,017	\$ 5,666,000	\$ 263,608,528	\$ 12,921,290
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				79,873	
Change in net assets of business-type activities				\$ 25,411,400	

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, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities- Fleet Services Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
<b>Cash flows from operating activities</b>					
Cash received from patients, residents, and customers	\$ 19,239,645	\$ 11,378,891	\$ 14,764,996	\$ 45,383,532	\$ 7,853,014
Cash received from interfund services	-	56,404	4,308,322	4,364,726	-
Cash paid to suppliers	(6,340,172)	(3,308,875)	(4,745,160)	(14,394,207)	(4,400,983)
Cash paid to employees	(6,317,926)	(1,320,203)	(12,446,544)	(20,084,673)	(1,506,614)
Other	-	-	189,642	189,642	-
Net cash provided (used) by operating activities	6,581,547	6,806,217	2,071,256	15,459,020	1,945,417
<b>Cash flows from noncapital financing activities</b>					
Transfers in	-	-	3,868,735	3,868,735	-
Cash received from donations	-	-	38,927	38,927	-
Cash received from patient and resident funds	-	-	6,733	6,733	-
Cash paid to memorial and employee funds	-	-	(736)	(736)	-
Net cash provided (used) by noncapital financing activities	-	-	3,913,659	3,913,659	-
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(25,984,649)	(4,662,380)	(4,325,242)	(34,972,271)	(4,598,230)
Recoveries for damages	-	-	-	-	103,820
Proceeds from sale of assets	65,831	425	-	425	60,138
Proceeds from debt issues	(5,747,929)	17,130	-	82,961	-
Payment of bond and note principal	(2,692,467)	(1,649,157)	-	(7,397,086)	-
Interest paid on bonds	22,319,663	(979,244)	-	(3,671,711)	-
Contributed capital	-	-	-	22,319,663	3,579,713
Net cash provided (used) by capital & related financing activities	(12,039,551)	(7,273,226)	(4,325,242)	(23,638,019)	(854,559)
<b>Cash flows from investing activities</b>					
Purchase of investments	(426,453)	-	-	(426,453)	-
Proceeds from the sale of investments	3,672,834	-	-	3,672,834	-
Interest received on investments	2,549,734	645,744	30,492	3,225,970	-
Net cash provided (used) by investing activities	5,796,115	645,744	30,492	6,472,351	-
Net increase in cash and cash equivalents	338,111	178,735	1,690,165	2,207,011	1,090,858
Cash and cash equivalents, July 1	64,566,074	32,628,141	2,413,734	99,607,949	-
Cash and cash equivalents, June 30	\$ 64,904,185	\$ 32,806,876	\$ 4,103,899	\$ 101,814,960	\$ 1,090,858

(continued)

FREDERICK COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities- Fleet Services Fund
	Water and Sewer	Solid Waste Management	Nonmajor Proprietary Funds	Total	
Operating income (loss)	\$ 1,937,365	\$ (88,219)	\$ (2,966,716)	\$ (1,117,570)	\$ 31,559
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	4,769,263	3,407,975	345,422	8,522,660	1,946,714
Landfill closing costs	-	3,534,297	-	3,534,297	-
Miscellaneous non operating income	500,617	-	5,388	506,005	-
Change in assets and liabilities:					
(Increase) decrease:					
Accounts receivable	(258,015)	72,576	(203,439)	(388,878)	(13,239)
Bad debt allowance	-	1,202	21,106	22,308	-
Intergovernmental receivables	-	181,140	-	181,140	(2,620)
Due from other funds	-	-	-	-	121,899
Inventory	(11,153)	-	(18,671)	(29,824)	(49,767)
Increase (decrease):					
Accounts payable	(587,711)	(143,351)	(196,019)	(927,081)	(111,211)
Accrued expenses	708,551	221,542	205,052	1,135,145	13,869
Deferred revenues	(78,352)	3,025	550,027	474,700	-
Liability for compensated leave	9,962	15,341	28,075	53,378	9,163
Due to other funds	-	(124,736)	4,300,464	4,175,728	(950)
Security deposits	-	-	(20)	(20)	-
Closure liability	-	(274,575)	-	(274,575)	-
Other liabilities	(408,980)	-	587	(408,393)	-
Net cash provided (used) by operating activities	\$ 6,581,547	\$ 6,806,217	\$ 2,071,256	\$ 15,459,020	\$ 1,945,417

Noncash investing, capital, and financing activities:  
Included in interest income in the Water and Sewer Fund is an unrealized (loss) of \$(346,256).

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

**FREDERICK COUNTY, MARYLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<u>Pension Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,154,749	\$ 107,818
Equity in pooled invested cash investments:	-	3,393,188
Fixed income securities	43,604,079	-
Equity securities	89,592,670	-
Accounts receivable	-	2,854
Interest receivable	364,663	-
Total assets	<u>138,716,161</u>	<u>\$ 3,503,860</u>
<b>LIABILITIES</b>		
Accounts payable	160,332	-
Due to other funds	1,756,029	-
Deferred revenue	4,365	-
Due to third parties	-	-
Performance deposits	-	117,501
Retirement benefit deductions	37,567	3,386,359
Total liabilities	<u>1,958,293</u>	<u>\$ 3,503,860</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	<u>\$ 136,757,868</u>	

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, 2005**

	<b>Pension Trust</b>
<b>Additions</b>	
Contributions	
Employer contributions	\$ 9,785,642
Member contributions	3,507,556
Total contributions	13,293,198
Investment income	
Net appreciation (depreciation) in fair value of plan investments	9,452,069
Interest and dividends	3,311,998
Investment expense	(589,752)
Net investment income	12,174,315
Total additions	25,467,513
<b>Deductions</b>	
Benefits and refunds paid to plan members and beneficiaries	3,963,625
Administrative expenses	315,790
Total deductions	4,279,415
Change in net assets	21,188,098
Net assets held in trust for pension benefits, July 1	115,569,770
Net assets held in trust for pension benefits, June 30	\$ 136,757,868

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

**NOTES TO FINANCIAL STATEMENTS**



Frederick County, Maryland

Directory For

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies.....	A-57
A. Financial Reporting Entity.....	A-57
B. Government-Wide and Fund Financial Statements.....	A-58
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.....	A-59
D. Assets, Liabilities and Net Assets on Equity.....	A-62
1. Pooled Cash and Investments.....	A-62
2. Property Taxes Receivable.....	A-62
3. Inventories.....	A-62
4. Capital Assets.....	A-63
5. Compensated Absences.....	A-63
6. Long-Term Obligations.....	A-64
7. Net Assets/Fund Balances.....	A-64
8. Estimates.....	A-64
Note 2. Stewardship, Compliance and Accountability.....	A-65
A. Budgetary Data.....	A-65
B. Reconciliation of GAAP to Basis of Budgeting.....	A-66
Note 3. Detailed Notes on All Funds.....	A-68
A. Cash, Investments and Equity in Pooled Invested Cash.....	A-68
1. Deposits.....	A-68
2. Investments.....	A-69
B. Receivables and Payables.....	A-75
1. Accounts and Other Receivables.....	A-75
2. Due To/From Primary Government and Component Units.....	A-75
C. Capital Assets.....	A-75
D. Interfund Receivables, Payables and Transfers.....	A-79
1. Primary Government Interfund Receivables and Payable Balances.....	A-79
2. Interfund Transfers – Primary Government Due.....	A-79
E. Operating Leases.....	A-80
F. Non-Current Liabilities.....	A-80
1. Changes in Non-Current Liabilities.....	A-80
2. General Obligation Bonds.....	A-82
3. Agricultural Preservation Installment Purchase Agreement.....	A-85
4. Capital Lease Obligations.....	A-87
5. Notes Payable.....	A-89
6. Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs.....	A-91
7. Current Year Defeasance of Debt.....	A-92

8. Prior-Year Defeasance of Debt.....	A-92
G. Fund Balances/Net Assets.....	A-92
1. Governmental Activities with Reservation of Fund Balance.....	A-92
2. Governmental Activities with Unreserved Fund Balances Designated for Other Purposes.....	A-93
3. Governmental Activities with Unreserved, Undesignated Fund Balances.....	A-94
4. Business-type Activities with Unrestricted Net Assets.....	A-94
H. Prior Period Adjustments – Restatement of Beginning Fund Balances and Net Assets.....	A-95
Note 4. Other Information.....	A-96
A. Commitments and Contingencies.....	A-96
1. Construction Commitments.....	A-96
2. Federal Financial Assistance.....	A-96
3. Pending Litigation.....	A-96
4. Economic Dependency.....	A-98
5. Risk Management.....	A-98
6. Contingent Liability.....	A-98
B. Arbitrage Rebate Requirements.....	A-98
C. Conduit Debt.....	A-99
D. Retirement Plans.....	A-100
1. Single-Employer Pension Plan.....	A-100
2. Cost-Sharing Multiple-Employer Pension Plan.....	A-102
3. Component Units.....	A-103
E. Post-Employment Benefits Plans.....	A-104
F. Deferred Compensation.....	A-104
G. Component Unit Self-Insurance Fund Deficit.....	A-105
H. Subsequent Events.....	A-105
I. New Governmental Account Standards Board (GASB) Standard.....	A-105



**FREDERICK COUNTY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2005

**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 County 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 Library meets the conditions for financial accountability with respect to the Board of County Commissioners of Frederick County, as discussed below, and is included in the reporting entity.

The Board of Trustees of Frederick County Public Library (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 County 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 Board of Education of Frederick County and the Board of Trustees of Frederick Community College meet the conditions for fiscal dependency with respect to the Board of County 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 County Commissioners of Frederick County. The BOE submits a funding request by major categories of expenditure; the Board of County Commissioners can reduce the BOE request and appropriate a lesser amount in total and/or redistribute funds between major categories. The Board of County 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 County 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 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 primary 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*.

**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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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, other local 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, 2005, the Grants Fund did not meet the criteria for inclusion as a Major Fund. However, it has been presented as a Major Fund since the implementation of GASB Statement No. 34. Accordingly, in order to enhance consistency from year to year, the Grants Fund has been included as a Major Fund in this report.

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).

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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. Expenditures accounted for are limited to salaries and fringes, training, lease payments on capital equipment and other capital costs. All other expenditures are recorded in the General Fund.
- *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 recordation taxes dedicated for parkland acquisition and development.
- *Hotel Rental Tax Fund* – This fund accounts for the hotel tax received from the local hotels as defined by the Hotel Tax Ordinance.
- *Citizens Care and Rehabilitation Center Building Fund* – This fund accounts for recordation taxes dedicated to pay for the cost of building a new Citizens Care and Rehabilitation Center.
- *Sheriff's Activities Fund* – These four funds account 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 reloaning of these proceeds to volunteer fire and rescue companies for the purchase of vehicles and/or equipment.
- *Loan Activities* – These funds accounts for the loan activities associated with three loan funds – Non-Profit Organization Loans Fire/Rescue Loans and, Economic Development Loans.

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 Care and Rehabilitation Center Fund* accounts for operations of Citizens Care and Rehabilitation Center 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:

- *Internal Service Fund* accounts for fleet related services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.
- *Agency 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.
- *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 invested cash 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 invested cash.

"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, 2005, was \$16,233,905,646. 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 99.7% of taxes levied in the current year. Total property tax collections were 100.0% of current taxes levied. The receivable portion of the current year property tax levy, including fire and lighting tax districts, is \$521,875 and is included in total property taxes receivable \$790,478 on the Statement of Net Assets. This compares to the current portion of the prior year levy of \$588,295 included in the total property taxes of \$841,842 as of June 30, 2004.

*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 can be used in a subsequent period or will be paid to employees upon separation from County service. In the government-wide financial statements and proprietary fund

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

and fiduciary fund financial statements, all annual, holiday, and compensatory leave are accrued when earned. 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.

**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.

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 for all funds, except the General Fund, at the fund level of budgetary control. The General Fund budget is adopted at the department level.
- (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.



NOTES TO FINANCIAL STATEMENTS  
(Continued)

The following departments over expended their FY2005 budgets:

	Amended Budget	Actual	Variance
	\$	\$	\$
County Commissioners	612,332	616,319	3,987
States Attorney	3,867,003	3,932,377	65,374
Grand Jury	68,860	69,265	405
Independent Auditing	34,500	47,678	13,178
County Attorney	675,158	680,311	5,153
Internal Audit	621,571	624,281	2,710
Fire Protection	345,185	354,534	9,349
Fire/Rescue State Grant Allocation	352,000	360,354	8,354
Detention Center	9,810,505	9,857,513	47,008
Work Release	1,525,492	1,648,059	122,567
Development Review	837,906	851,851	13,945
Transit	230,914	244,088	13,174
Soil Conservation	179,838	183,735	3,897
Head Start	72,815	73,796	981
Human Relations	148,549	152,285	3,736

The majority of these expenditures is due to the accounting policy change to accrue year-end payroll on a budgetary basis whereas in prior fiscal years it was a reconciling item between the budgetary and GAAP Statements.

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 \$5,002,229 and the bank balance was \$8,550,593. The County's deposits are categorized below to give an indication of the level of custodial credit risk assumed by the County at year-end. The bank's balances were collateralized as follows:

Federal Deposit Insurance Corporation (FDIC)	\$ 2,445,970
National Credit Union Administration (NCUA)	1,707
Held by the government's agent, in the government's name	5,009,075
Funds held by a New Jersey bank and covered by the Governmental Unit Deposit Protection Act	179,942
Unspent lease proceeds held in escrow	913,899
Total Bank Balance	<u>\$ 8,550,593</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, 2005, totaled \$291,956,590 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	\$ 4,351,771
Equity in Pooled Invested Cash	257,266,042
Investments	28,951,779
Restricted Cash and Cash Equivalents	1,386,998
Total	<u>\$ 291,956,590</u>
Deposit & Investment Summary:	
Investments	\$ 291,175,910
Cash on Hand	20,058
Deposits	5,002,229
Less: Component Units and Agency Fund Cash Equivalents	
Retirement Fund	(634,229)
Frederick County Public Libraries	(106,378)
Agency Funds	(3,501,000)
Total	<u>\$ 291,956,590</u>

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**Pension Trust Fund**

At the year-end, the carrying amount of the Pension Trust Fund's deposits was \$71,922 and the bank balance was \$349,870. 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, 2005, BOE's cash on hand for petty cash was \$25,525. The carrying amount of the Board's deposits was \$7,324,590 and the bank balance was \$11,910,924. The deposits of the Board were not exposed to custodial risk at June 30, 2005.

At June 30, 2005, FCC's cash on hand for petty cash was \$4,300. The carrying amount of the College's deposits was \$334,855 and the bank balance was \$291,467. The deposits of the college were not exposed to custodial credit risk at June 30, 2005. The College has a contractual agreement with the bank for funds to be transferred daily from investment in an interest bearing account to cover checks as presented.

At June 30, 2005, FCPL's cash on hand for petty cash was \$100. The carrying amount and bank balance of the Library's deposits was \$657.

**2. Investments**

**Primary Government**

As of June 30, 2005, Frederick County held the following investments and maturities. The government's investment balances were as follows:

<u>Investment Type (All funds)</u>	<u>Fair Value</u>	<u>0 - 18 Month Maturities</u>	<u>18 - 24 Month Maturities</u>	<u>&gt; 24 Month Maturities</u>
U. S. Treasuries	\$ 14,053,454	\$ -	\$ -	\$ 14,053,454
Repurchase Agreements	5,765,257	5,765,257	-	-
MD Local Government Investment Pool	248,422,104	248,422,104	-	-
Federal Agency Securities	22,935,095	10,206,470	-	12,728,625
Total Fair Value	\$ 291,175,910	\$ 264,393,831	\$ -	\$ 26,782,079

**Interest Rate Risk** – The County recognizes that interest rate risk can result from market price losses due to changes in interest rates. Portfolio diversification of maturities is employed as a way to control these risks. The County's investment policy limits General fund investments to maturities within eighteen months from the date of purchase. Up to one-half of Water and Sewer Fund investments may have maturities from two to ten years, with the remaining investments maturing within two years. In all funds, portfolio maturities are staggered to avoid undue concentration of assets in a specific maturity sector.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**Credit Risk** – Funds of the County will only be invested in accordance with the Provision of Article 95, Sections 22, 22L, and 22N of the Annotated Code of Maryland, State Finance and Procurement Article 6-222 (a) of the Annotated Code of Maryland. The State's restrictions are included in parentheses below. In addition to the State's provisions, the County investment policy lists the following investments as legal for purchase:

1. U. S. Treasury securities
2. Obligations of U. S. government agencies
3. Repurchase agreement (collateralized in an amount not less than 102% of the principal amount by an obligation of the U.S., its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer)
4. Bankers' acceptances
5. Shares in an investment company or investment trust (limited to direct obligations of the U.S government and to repurchased agreements fully collateralized by U. S. government obligations and the investment company or trust takes delivery of that collateral, either directly or through an authorized custodian.).
6. Money market mutual funds that contain only securities of the organizations listed in items (1), (2), and (3) above.
7. Certificates of deposit (collateralized within the guidelines of the Annotated Code of Maryland, State Finance and Procurement Article 6-202)
8. Maryland Local Government Investment Pool (MLGIP)

The County's investments have received the followings ratings:

<u>Investment</u>	<u>Fair Value</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>
MLGIP	\$ 248,422,104		AAA/m	
Repurchase Agreement	5,765,257	Aa2	AA	AA-
FHLB	1,437,188	Aaa		
FNMA	4,711,56		AAA	AAA
FHLMC	5,536,750	Aaa	AAA	
FAMC	1,043,125	Aaa		

The repurchase agreement is collateralized with FNMA securities that are rated Aaa by Moody's Investors Service. All other investments are debt securities of the U. S. government or obligations of the U.S. government that are explicitly guaranteed by the U.S. government.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**Concentration of Credit Risk** – To reduce this risk, the County seeks to maintain a balanced portfolio by issuer or financial institution and class of security or money market instrument. A portion of the portfolio shall be invested in marketable U. S. Treasury bills at all times. More than 5% of the County's portfolio is invested in the Maryland Local Government Investment Pool (MLGIP). The MLGIP may invest in instruments rated only Tier 1 by at least one Nationally Recognized Securities Rating Organization (NRSRO). They have maximum exposure limits per issuer to maintain a diversified portfolio.

Investment Type	Fair Value	% of Portfolio
U. S. Treasuries	\$ 14,053,454	4.826%
Repurchase Agreements	5,765,257	1.980%
MD Local Government Investment Pool	248,422,104	85.317%
Money Market Funds	10,206,470	3.505%
Federal Home Loan Bank (FHLB)	1,437,188	0.494%
Federal National Mortgage Assoc. (FNMA)	4,711,562	1.618%
Federal Home Loan Mortgage Corp (FHLMC)	5,536,750	1.902%
Federal Agriculture Mortgage Corp. (FAMC)	1,043,125	0.358%
Total Fair Value	\$ 291,175,910	100.000%

**Custodial Credit Risk** – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investment policy requires that all securities purchased by the County and securities taken as collateral, shall be held in third-party safekeeping by an institution designated as primary agent. All securities shall be purchased, sold, titled or released using the delivery vs. payment procedure. Collateral shall be:

- 1 - in an amount not less than 102% of the principal amount of the repurchase agreement,
- 2 - include debt securities of the issuing agency or mortgage-backed securities guaranteed by the issuing agency, but no derivatives thereof,
- 3 - direct obligations of the U. S. Treasury, and derivatives thereof insofar as they represent principal portions of the debt stripped of their interest coupons (Treasury strips),
- 4 - held to a minimum number of pieces at all times and
- 5 - marked to market daily and reported monthly by the investment custodian.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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	\$ 25,449,641	\$ -	\$ -	\$ 25,449,641
Corporate Bonds and Notes	18,154,438	-	-	18,154,438
Common Stocks	47,142,342	-	-	47,142,342
	<u>\$ 90,746,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,746,421</u>
Investment in Money Market Mutual Funds				4,520,520
Investment in Equity Mutual Funds				<u>42,450,328</u>
				<u>\$ 137,717,269</u>

Component Units

The Board of Education's investments at June 30, 2005 are categorized in the following table:

Investment Type	Fair Value	Investment Maturities (in Years)			Interest Rate At June 30
		Less than 1	1-5	6-10	
State Investment Pool	\$ 2,782,256	\$ 2,782,256	\$ -	\$ -	2.98%
Certificates of Deposit	87,866	87,866	-	-	Various
	<u>\$ 2,870,122</u>	<u>\$ 2,870,122</u>	<u>\$ -</u>	<u>\$ -</u>	

Investment income includes the following for the year ended June 30, 2005:

Total net investment income per statement of activities \$235,650

The College's investments at June 30, 2005 were as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			Interest Rate At June 30
		Less than 1	1-5	6-10	
State Investment Pool	\$ 7,959,455	\$ 7,959,455	\$ -	\$ -	2.98%
	<u>\$ 7,959,455</u>	<u>\$ 7,959,455</u>	<u>\$ -</u>	<u>\$ -</u>	



**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Investment income includes the following for the year ended June 30, 2005:

Total net investment income per statement of activities \$407,632

The Frederick Community College Foundation investments at June 30, 2005 are:

Investment Type	Market Value at June 30, 2005	% of Total	Annualized * Income Projection	Projected Yield as a % of Market Value
Cash Equivalents	\$ 243,492	6%	\$ 6,769	2.78%
Bond Funds	1,477,358	34%	72,538	4.91%
Equity funds	2,553,716	60%	22,473	0.88%
<b>Total</b>	<b>\$ 4,274,566</b>	<b>100%</b>	<b>101,780</b>	<b>2.38%</b>
			(20,090)	-0.47%
			\$ 81,690	1.91%

Less: Estimated Annual Management Fee  
**Estimated Net Annual Yield**

\* Annualized estimates based on amounts and rates as of June 30, 2005.

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, 2005		June 30, 2004	
	Cost	Market	Cost	Market
U.S. Treasury Note & Bonds	\$ 54,513	\$ 56,208	\$ 119,052	\$ 126,278
U.S. Agencies	385,511	397,938	245,720	251,267
Corporate Bonds	985,909	1,023,212	798,216	841,952
Total Debt Securities	1,425,933	1,477,358	1,162,988	1,219,497
Equity Securities	2,627,712	2,553,716	2,475,879	2,281,095
<b>Total Investments</b>	<b>\$ 4,053,645</b>	<b>\$ 4,031,074</b>	<b>\$ 3,638,867</b>	<b>\$ 3,500,592</b>

NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Library's investments at June 30, 2005 were as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			Interest Rate At June 30
		Less than 1	1-5	6-10	
State Investment Pool	\$ 288,806	\$ 288,806	\$ -	\$ -	2.98%
Certificates of Deposit	20,000	20,000	-	-	Various
	<u>\$ 308,806</u>	<u>\$ 308,806</u>	<u>\$ -</u>	<u>\$ -</u>	

Investment income includes the following for the year ended June 30, 2005:

Total net investment income per statement of activities \$6,121

*Investment Rate Risk.* Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost.

*Credit Risk.* The BOE, FCC and FCPL invest in the Maryland Local Government Investment Pool (MLGIP), which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market funds. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the BOE, FCC and FCPL will not be able to recover all or portion of the value of its investments or collateral securities that are in possession of an outside party. At June 30, 2005, all of the component unit investments were insured or registered, or securities were held by the unit or its agent in the unit's name or were invested in the MLGIP.

*Foreign Currency Risk.* There are no investments in foreign currency by the BOE, FCC or FCPL.

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	\$188,283
Water and Sewer	1,092
Solid Waste	184,515
Citizen's Nursing Home	50,904
Montevue Home	52,192

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, 2005, are reconciled as follows:

Due from component units per Primary Government	\$ -	\$ 27,821	-	\$ 27,821
Plus: Payable recorded by component unit in FY05	12,004	-	-	12,004
Due to primary government per Component Units	<u>\$ 12,004</u>	<u>\$ 27,821</u>	<u>-</u>	<u>\$ 39,825</u>
Due to component units per Primary Government	\$ 8,710,692	\$ 329,786	\$ 1,046,212	\$ 10,086,690
Less: Receivables recorded by component unit in FY05	-	-	-	-
Due from primary government per Component Units	<u>\$ 8,710,692</u>	<u>\$ 329,786</u>	<u>\$ 1,046,212</u>	<u>\$ 10,086,690</u>

**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.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Capital Asset activity for the year ended June 30, 2005 is as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 20,879,104	\$ 9,499,758	\$ -	\$ 30,378,862
Construction in progress	16,225,912	16,390,964	(16,960,051)	15,656,825
Total capital assets at historical cost not being depreciated	37,105,016	25,890,722	(16,960,051)	46,035,687
Capital assets being depreciated:				
Buildings and improvements	108,044,236	9,722,543	(939,430)	116,827,349
Equipment	54,849,327	10,218,728	(2,344,015)	62,724,040
Infrastructure	272,073,229	3,285,686	-	275,358,915
Total capital assets at historical cost being depreciated	434,966,792	23,226,957	(3,283,445)	454,910,304
Less accumulated depreciation for:				
Buildings and improvements	33,074,658	2,390,952	(9,394)	35,456,216
Equipment	20,661,803	6,341,461	(1,720,767)	25,282,497
Infrastructure	121,632,087	8,086,547	-	129,718,634
Total accumulated depreciation	175,368,548	16,818,960	(1,730,161)	190,457,347
Total capital assets being depreciated, net of accumulated depreciation	259,598,244	6,407,997	(1,553,284)	264,452,957
Governmental activities capital assets, net	\$ 296,703,260	\$ 32,298,719	\$ (18,513,335)	\$ 310,488,644
Depreciation expense was charged to governmental functions as follows:				
General government				\$ 2,118,524
Public works				1,024,376
Social services				1,001,696
Health				248,410
Rec and culture				829,301
Public safety				3,510,106
Infrastructure				8,086,547
Total depreciation expense				\$ 16,818,960

NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Primary Government				
	Beginning Balance	Reclassifications	Additions	Retirements	Ending Balance
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 7,059,358	\$ (620,121)	\$ 513,942	\$ -	\$ 6,953,179
Construction in progress	25,333,983	-	33,331,995	(15,838,810)	42,827,168
Totals capital assets at historical cost not being depreciated	32,393,341	(620,121)	33,845,937	(15,838,810)	49,780,347
Capital assets being depreciated:					
Buildings and improvements	81,363,156	620,121	6,332,061	-	88,315,338
Equipment	28,125,203	-	1,733,123	(414,669)	29,443,657
Infrastructure	177,544,393	-	13,131,642	-	190,676,035
Total capital assets at historical cost being depreciated	287,032,752	620,121	21,196,826	(414,669)	308,435,030
Less accumulated depreciation for:					
Buildings and equipment	53,270,878	-	6,051,606	(378,312)	58,944,172
Infrastructure	24,014,216	-	2,471,053	-	26,485,269
Total accumulated depreciation	77,285,094	-	8,522,659	(378,312)	85,429,441
Total capital assets being depreciated, net of accumulated depreciation	209,747,658	620,121	12,674,167	(36,357)	223,005,589
Business-type activities capital assets, net of accumulated depreciation	\$ 242,140,999	\$ -	\$ 46,520,104	\$ (15,875,167)	\$ 272,785,936
Depreciation expense was charged to business-type functions as follows:					
Citizens Nursing Home					\$ 130,744
Montevue Home					43,829
Bell Court					62,596
Permitting & Development Review					108,252
Solid Waste					3,407,975
Water & Sewer					4,769,263
Total depreciation expense					\$ 8,522,659

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Component units' capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 34,919,296	\$ 87,231	-	\$ 35,006,527
Construction in progress	122,632,548	41,733,940	(13,561,056)	150,805,432
Totals capital assets at historical cost not being depreciated	<u>157,551,844</u>	<u>41,821,171</u>	<u>(13,561,056)</u>	<u>185,811,959</u>
Capital assets being depreciated:				
Library collection	10,436,376	1,551,894	(698,268)	11,290,002
Building and improvements	420,257,225	8,251,408	-	428,508,633
Furniture and equipment	60,540,577	5,173,599	(2,803,953)	62,910,223
Totals capital assets at historical cost being depreciated	<u>491,234,178</u>	<u>14,976,901</u>	<u>(3,502,221)</u>	<u>502,708,858</u>
Less accumulated depreciation for:				
Library collection	7,494,392	1,190,741	(698,268)	7,986,865
Building and improvements	140,296,280	12,178,364	-	152,474,644
Furniture and equipment	38,837,919	5,636,420	(2,630,376)	41,843,963
Total accumulated depreciation	<u>186,628,591</u>	<u>19,005,525</u>	<u>(3,328,644)</u>	<u>202,305,472</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>304,605,587</u>	<u>(4,028,624)</u>	<u>(173,577)</u>	<u>300,403,386</u>
Component units' capital assets, net of accumulated depreciation	<u>\$ 462,157,431</u>	<u>\$ 37,792,547</u>	<u>\$ (13,734,633)</u>	<u>\$ 486,215,345</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	Nonmajor Proprietary	Pension Trust	Nonmajor Governmental	Nonmajor Governmental	
General Fund	\$ -	\$ 5,515,171	\$ 1,756,029	\$ 63,509	\$ 63,509	\$ 7,334,709
Internal Service	816,678	-	-	-	-	816,678
Total Due to Other Funds	\$ 816,678	\$ 5,515,171	\$ 1,756,029	\$ 63,509	\$ 63,509	\$ 8,151,387

Interfund balances due from the nonmajor proprietary funds include \$2,964,574 from Citizens Care and Rehabilitation Center and \$2,550,597 from the Permitting and Development Review Fund. The amount due from Citizens Care and Rehabilitation Center is primarily the additional cash amounts needed during the year ended June 30, 2005, to fund the operations of the center. This amount due will be repaid to the General Fund through improved operating results of the center expected in subsequent years. The amount due from the Permitting and Development Review Fund is the result of General Fund monies used to purchase and implement a new permitting software. All other balances result from the timing of cash flows and will clear themselves through normal operations.

2. Interfund Transfers – Primary Government

Interfund transfers for the year ended June 30, 2005, consists of the following:

Transfers Out	Transfers In					Total Transfers to Other Funds	
	General Fund	Grants	Capital Projects	Nonmajor Governmental	Nonmajor Proprietary		Internal Service Fund
General Fund	\$ -	\$ 5,998,324	\$ 16,425,624	\$ 1,232,633	\$ 3,693,735	\$ 14,804	\$ 27,365,120
Capital Projects	-	-	-	-	175,000	-	175,000
Nonmajor governmental	-	-	12,954,780	-	-	-	12,954,780
Internal Service Fund	18,212	-	-	-	-	-	18,212
Total transfers in	\$ 18,212	\$ 5,998,324	\$ 29,380,404	\$ 1,232,633	\$ 3,868,735	\$ 14,804	\$ 40,513,112

**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 Citizens Care and Rehabilitation Center 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 2005 were approximately \$960,000.

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

	Fiscal Year	Total Payment
	2006	\$ 594,484
	2007	461,978
	2008	165,188
	2009	89,496
	2010	84,876
	2011-2027	1,143,875
	<b>Total</b>	<b>\$ 2,539,897</b>

**F. Non-Current Liabilities**

1. *Changes in Non-Current Liabilities*

	Balance July 1, 2004 *	Additions	Principal Repayments & Reductions	Balance June 30, 2005	Due Within One Year
<b>Governmental Activities:</b>					
Bonds Payable	\$ 243,795,966	\$ 91,781,973	\$ (101,249,966)	\$ 234,327,973	\$ 14,065,014
Unamortized Premium on Bonds	1,851,489	8,870,030	(178,829)	10,542,690	714,929
Installment Purchase Agreements	8,774,670	7,360,513	(367,850)	15,767,333	-
Bond Anticipation Notes Payable	8,150,000	-	(8,150,000)	-	-
Notes Payable	7,973,065	-	(650,488)	7,322,577	682,851
Capital Lease Obligations	5,538,335	852,100	(1,410,146)	4,980,289	3,576,501
Compensated Absences	5,691,853	5,069,392	(4,640,147)	6,121,098	262,164
Deferred Loss on Bond Refunding	(1,125,089)	(8,503,728)	227,464	(9,401,353)	(1,027,043)
Total Governmental Activity- Long Term Liabilities	\$ 280,650,289	\$ 105,430,280	\$ (116,419,962)	\$ 269,660,607	\$ 18,274,416

\* There was a \$3,540 reclassification of bond payable beginning balances between the governmental activities and the business-type activities.



NOTES TO FINANCIAL STATEMENTS  
(Continued)

**Primary Government:**

Payments on the non-current liabilities above (excluding compensated absences), that pertain to the County's governmental activities are made by the General, Capital Projects, 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.5 (Notes Payable). The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. In the past, approximately 66% 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 respective 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, 2005, Internal Service Fund compensated absences totaling \$91,229 are included in the above amounts.

	Balance July 1, 2004 *	Additions	Principal Repayments & Reductions	Balance June 30, 2005	Due Within One Year
<b>Business-type Activities:</b>					
Bonds Payable	\$ 76,589,035	\$ 15,233,028	\$ (20,305,035)	\$ 71,517,028	\$ 5,379,983
Unamortized Premium on Bonds	888,720	1,435,813	(143,047)	2,181,486	132,460
Notes Payable	31,062,443	-	(2,145,149)	28,917,294	2,216,748
Landfill Closure Costs	11,304,305	3,534,297	(274,575)	14,564,027	289,708
Compensated Absences	1,066,987	1,122,633	(1,069,254)	1,120,366	122,511
Deferred Loss on Bond Refundings	(871,320)	(1,484,857)	232,941	(2,123,236)	(198,385)
Total Business-type Activities - Long Term Liabilities	\$ 120,040,170	\$ 19,840,914	\$ (23,704,119)	\$ 116,176,965	\$ 7,943,025

\* There was a \$3,540 reclassification of bond payable beginning balances between the governmental activities and the business-type activities.

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 water, sewer and solid waste activities at June 30, 2005 was \$2,435,085,487 and the legal debt margin was \$2,334,651,526.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**COMPONENT UNITS**

	Balance July 1, 2004	Net Changes	Balance June 30, 2005	Due Within One Year
<b>Board of Education</b>				
Capital lease obligations	\$ 2,829,215	\$ (1,634,453)	\$ 1,194,762	\$ 568,418
Compensated absences	4,699,915	298,159	4,998,074	3,902,955
Termination benefits payable	14,845,906	575,895	15,421,801	1,631,483
Board of Education - Long-term Liabilities	\$ 22,375,036	\$ (760,399)	\$ 21,614,637	\$ 6,102,856
<b>Frederick Community College</b>				
Notes payable	\$ 95,966	\$ (95,966)	\$ -	\$ -
Compensated absences	1,147,377	89,529	1,236,906	-
Frederick Community College - Long-term Liabilities	\$ 1,243,343	\$ (6,437)	\$ 1,236,906	\$ -
<b>Frederick County Public Libraries</b>				
Compensated absences	\$ 259,427	\$ 15,991	\$ 275,418	\$ 8,382

**2. General Obligation Bonds**

**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 15% 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 \$128,286,176 which \$62,286,176 is the remaining authorization under Chapter 37 of the Laws of Maryland of 2003, and \$66,000,000 remaining authorization under Chapter 145 of the Laws of Maryland of 2005 as of June 30, 2005.

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)

	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Range of Interest Rates	Amount of Original Issue	Amount Outstanding 6/30/05
<b>Governmental Activities</b>						
Public Facilities Bonds						
Public Facilities Bonds of 1995	General	03/15/95	Due serially to 07/1/2005	5.00-5.20%	\$ 27,162,400	\$ 1,266,447
Public Facilities Refunding Bonds of 1998, Series A (1)	General	10/15/98	Due serially to 07/1/2015	3.30-5.00%	19,346,419	18,694,521
Public Facilities Bonds of 1999 (3)	General	08/15/99	Due serially to 07/1/2009	5.22-5.31%	59,116,000	12,610,249
Public Facilities Bonds of 1999 (3)	Impact Fee	08/15/99	Due serially to 07/1/2009	5.22-5.31%	30,515,000	6,509,265
Public Facilities Bonds of 2000 (3)	General	11/15/00	Due serially to 12/1/2010	5.00%	36,161,520	9,012,756
Public Facilities Bonds of 2000 (3)	Impact Fee	11/15/00	Due serially to 12/1/2010	5.00%	16,653,480	4,150,648
Public Facilities Refunding Bonds of 2001 (5)	General	07/15/01	Due serially to 07/1/2008	3.448-4.00%	6,579,486	4,655,529
Public Facilities Refunding Bonds of 2002, Series A (6)	General	04/01/02	Due serially to 07/1/2016	5.0000%	13,999,267	11,037,049
Public Facilities Bonds of 2002	General	11/01/02	Due serially to 11/1/2022	2.00-4.68%	38,200,000	35,444,895
Public Facilities and Refunding Bonds of 2003	General	09/01/03	Due serially to 08/1/2018	2.00-4.25%	33,013,847	30,884,869
Public Facilities and Refunding Bonds of 2003	Fire Tax	09/01/03	Due serially to 08/1/2018	2.00-4.25%	2,505,905	2,364,478
Public Facilities and Refunding Bonds of 2003	Impact Fee	09/01/03	Due serially to 08/1/2018	2.00-4.25%	6,269,108	5,915,294
Public Facilities Refunding Bonds of 2005	General	05/19/05	Due serially to 08/1/2020	3.50-5.00%	62,517,782	62,517,782
Public Facilities Refunding Bonds of 2005	Impact Fee	05/19/05	Due serially to 08/1/2020	3.50-5.00%	29,264,191	29,264,191
					<u>\$ 381,304,405</u>	<u>\$ 234,327,973</u>

The annual requirements to amortize governmental activities bond debt as of June 30, 2005 are as follows:

Fiscal Year Ending June 30,	Public Facilities Bonds	
	Principal	Interest
2006	\$ 14,065,014	\$ 9,090,093
2007	14,278,355	9,637,023
2008	14,708,815	9,053,474
2009	15,093,779	8,431,173
2010	15,005,031	7,791,819
2011-2015	74,930,127	29,287,914
2016-2020	74,170,305	11,624,804
2021-2025	12,076,547	692,610
	<u>\$ 234,327,973</u>	<u>\$ 85,608,910</u>

NOTES TO FINANCIAL STATEMENTS  
(Continued)

Business Type Activities	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Range of Interest Rates	Amount of Original Issue	Amount Outstanding 6/30/05
Public Facilities Bonds						
Public Facilities Bonds of 1995	W&S	03/15/95	07/01/05	5.00-5.20%	\$ 4,000,000	\$ 186,500
Public Facilities Bonds of 1995	SW	03/15/95	07/01/05	5.00-5.20%	8,837,600	412,053
Public Facilities Refunding Bonds of 1998, Series A (1)	W&S	10/15/98	07/01/15	3.30-5.00%	2,849,000	2,753,000
Public Facilities Refunding Bonds of 1998, Series A (1)	SW	10/15/98	07/01/15	3.30-5.00%	6,294,581	6,082,479
Public Facilities Bonds of 1999	W&S	08/15/99	07/01/09	5.22-5.31%	5,159,000	1,100,485
Public Facilities Bonds of 2000	W&S	11/15/00	12/01/10	5.00%	14,185,000	3,535,415
Public Facilities Bonds of 2000	SW	11/15/00	12/01/10	5.00%	5,000,000	1,246,181
Public Facilities Refunding Bonds of 2001 (5)	W&S	07/15/01	07/01/08	3.448-4.00%	8,125,514	5,749,471
Water and Sewer Refunding Bonds of 2002, Series A (6)	W&S	04/01/02	07/01/16	5.00%	8,590,733	6,772,951
Public Facilities Bonds of 2002	W&S	11/01/02	11/01/16	2.00-4.68%	16,680,000	15,476,986
Public Facilities Bonds of 2002	SW	11/01/02	11/01/16	2.00-4.68%	6,820,000	6,328,120
Public Facilities and Refunding Bonds of 2003	W&S	09/01/03	08/01/18	2.00-4.25%	7,216,140	6,640,359
Public Facilities Refunding Bonds of 2005	W&S	05/19/05	08/01/20	3.50-5.00%	12,091,361	12,091,361
Public Facilities Refunding Bonds of 2005	SW	05/19/05	08/01/20	3.50-5.00%	3,141,667	3,141,667
					<b>\$ 108,990,596</b>	<b>\$ 71,517,028</b>

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

The annual requirements to amortize business-type bond debt as of June 30, 2005 are as follows:

Fiscal Year Ending June 30,	Public Facilities Bonds	
	Principal	Interest
2006	\$ 5,379,983	\$ 2,817,983
2007	5,361,648	2,796,098
2008	5,506,184	2,584,047
2009	5,576,221	2,359,101
2010	5,134,969	2,143,198
2011-2015	21,419,872	7,774,236
2016-2020	16,744,693	3,485,365
2021-2025	6,393,459	405,362
	<u>\$71,517,029</u>	<u>\$ 24,365,390</u>

**3. Agricultural Preservation Installment Purchase Agreements**

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 to the owner on the installment purchase agreement. Recordation taxes are the revenue source for the investment purchases.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Interest Rate	Amount of Original Issue	Amount Outstanding 6/30/05
<b>Installment Purchase Agreements</b>						
Installment Purchase Agreement #02-04	Ag Pres	05/15/03	05/15/23	4.95%	\$ 494,567	\$ 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	753,565
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
Installment Purchase Agreement #02-15	Ag Pres	08/03/04	05/15/14	5.43%	303,656	303,656
Installment Purchase Agreement #04-16	Ag Pres	08/03/04	05/15/24	5.43%	592,631	592,631
Installment Purchase Agreement #04-11	Ag Pres	08/03/04	05/15/24	5.43%	285,942	225,942
Installment Purchase Agreement #04-12	Ag Pres	08/03/04	05/15/24	5.43%	208,592	208,592
Installment Purchase Agreement #04-03	Ag Pres	08/03/04	05/15/24	5.43%	194,975	194,975
Installment Purchase Agreement #04-01	Ag Pres	08/03/04	05/15/24	5.25%	262,012	262,012
Installment Purchase Agreement #04-08	Ag Pres	08/31/04	05/15/24	5.25%	234,717	234,717
Installment Purchase Agreement #04-05	Ag Pres	08/31/04	05/15/24	5.25%	308,768	300,000
Installment Purchase Agreement #04-09	Ag Pres	08/31/04	05/15/24	5.25%	87,850	87,850
Installment Purchase Agreement #05-29	Ag Pres	03/29/05	05/25/25	4.98%	684,624	670,000
Installment Purchase Agreement #05-30	Ag Pres	03/29/05	05/25/25	4.98%	488,538	388,538
Installment Purchase Agreement #05-31	Ag Pres	03/29/05	05/25/25	4.98%	432,746	389,471
Installment Purchase Agreement #05-32	Ag Pres	04/19/05	05/15/15	4.28%	416,975	366,975
Installment Purchase Agreement #05-33	Ag Pres	04/19/05	05/15/15	4.28%	243,940	157,757
Installment Purchase Agreement #05-34	Ag Pres	04/19/05	05/15/25	4.74%	686,271	686,271
Installment Purchase Agreement #05-35	Ag Pres	04/19/05	05/15/15	4.28%	637,168	632,168
Installment Purchase Agreement #05-36	Ag Pres	05/19/05	05/15/20	4.44%	544,114	544,114
Installment Purchase Agreement #05-37	Ag Pres	05/19/05	05/15/20	4.44%	92,894	92,894
Installment Purchase Agreement #05-38	Ag Pres	05/19/05	05/15/15	4.12%	282,021	282,021
Installment Purchase Agreement #05-40	Ag Pres	05/19/05	05/15/15	4.12%	372,079	372,079
					<b>\$ 16,379,182</b>	<b>\$ 15,767,333</b>

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

The annual requirements to amortize installment purchase agreement debt as of June 30, 2005 are as follows:

Fiscal Year Ending June 30,	Installment Purchase Agreements	
	Principal	Interest
2006	\$ -	\$ 664,561
2007	-	779,682
2008	-	779,682
2009	-	779,682
2010	-	779,682
2011-2015	4,877,687	3,920,318
2016-2020	637,008	2,860,044
2021-2025	10,252,638	2,342,598
	<u>\$ 15,767,333</u>	<u>\$ 12,906,249</u>

**4. 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	\$ 7,435,254
Less: Accumulated depreciation	(1,504,352)
Total:	<u>\$ 5,930,902</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, 2005, were as follows:

<u>Ending June 30,</u>	<u>Total Payment</u>
2006	\$ 1,531,781
2007	1,578,080
2008	1,201,146
2009	723,224
2010	185,198
2011	46,300
	<u>5,265,729</u>
	<u>(285,440)</u>
	<u>\$ 4,980,289</u>

Less: amount representing interest  
Present value-net minimum lease payments

**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 2005 were \$1,187,446 for the telecommunications equipment and \$50,677 for the food service equipment, and \$527,152 for the buses.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset:		
Machinery and equipment	\$ 8,662,424	\$ 326,016
Less: Accumulated depreciation	<u>(3,676,109)</u>	<u>(309,983)</u>
Total	<u>\$ 4,986,315</u>	<u>\$ 16,033</u>



NOTES TO FINANCIAL STATEMENTS  
(Continued)

As of June 30, 2005, the minimum obligation under capital leases were as follows:

	<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	2006	\$ 570,574	\$ 50,677
	2007	527,152	50,677
	2008	27,152	24,976
	2009	-	28,389
	2010	-	-
Total Obligations		<u>1,124,878</u>	<u>154,719</u>
Less: Portion representing interest		<u>(69,132)</u>	<u>(15,703)</u>
Present value of lease obligation		<u>\$ 1,055,746</u>	<u>\$ 139,016</u>

5. 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, 2005 was \$484,237. 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, 2005 was \$143,389.

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, 2005 was \$955,577. The proceeds of this loan have been reallocated to MediImmune, 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, 2005 was \$7,482. The proceeds of this loan were loaned 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, 2005, is \$494,893. This is a non-interest bearing note. Semi-annual principal payments of \$38,084 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. The original amount of this liability was \$7,036,995 and the balance due at June 30, 2005 is \$5,236,999.

	<b>Amount of Original Issue</b>	<b>Date of Debt Issue</b>	<b>Date of Debt Maturity</b>	<b>Annual Rate/ Payment Frequency</b>	<b>Amount Outstanding 06/30/05</b>
<b>Governmental Activity:</b>					
MD Industrial Land Act Loan - Dan Jay LLC	\$ 630,000	02/11/94	02/11/21	5.23%/Quarterly	\$ 484,237
MD Industrial Land Act Loan - State Farm	181,058	06/23/95	06/23/22	5.93%/Quarterly	143,389
MICRF - MedImmune	1,436,502	12/31/97	12/31/16	3.00%/Quarterly	955,577
MICRF - Sport and Ice Arena	113,637	04/01/96	01/01/06	5.50%/Quarterly	7,482
EPA Asbestos School Hazard Abatement	1,370,471	8/5/1992	11/30/11	0.00%/Semi-annually	494,893
Maryland State Retirement System	7,036,995	06/30/93	12/31/13	7.5%/Annually	5,236,999
Total Notes Payable	<u>\$10,768,663</u>				<u>\$ 7,322,577</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>
2006	\$ 682,851	\$ 422,352
2007	716,577	380,988
2008	760,748	336,817
2009	808,101	289,464
2010	858,871	238,694
2011-2015	3,072,432	424,229
2016-2020	376,245	52,227
2021	46,752	1,382
	<u>\$ 7,322,577</u>	<u>\$ 2,146,153</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, 2005, the County has authorized and approved borrowings in an aggregate principal amount of \$28,469,543 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, 2005, \$28,254,104 of the water and sewer loan proceeds and \$15,803,027 of the solid waste loan proceeds have been drawn. The remaining funds are anticipated to be drawn by the end of fiscal year 2006. The outstanding principal balance on these loans as of June 30, 2005 is \$28,917,293. These loans have interest rates of 2.00 - 4.56%.

**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, 2005, the Site A landfill was 100% to capacity. Total capacity of Site A is 3,228,000 tons. In fiscal year 2005, \$274,575 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 \$49,281 to reflect the variance between estimated and actual costs. This increase is recognized in the \$3,534,297 of additions to landfill closure costs for fiscal year 2005 as previously noted in Note 3.F.1. The total remaining estimated costs for closure and post closure care of Site A is \$4,649,708 as of June 30, 2005. This entire amount is reported as a liability for Site A.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

As of June 30, 2005, the Site B landfill had capacity used of 1,560,258 tons which is 64.5% of total capacity of 2,419,980 tons. The total estimated costs for closure and post closure care of Site B is \$15,377,235, and the resulting liability is \$9,914,319, with \$5,462,916 remaining to be recognized. The current operating strategy includes the utilization of a transfer station scheduled to become operational January 2006. 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 \$14,564,027 as of June 30, 2005. 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 May 1, 2005, the County issued the General Obligation Public Facilities Refunding Bonds of 2005 in the amount of \$107,015,000. These bonds carry an average interest rate of 4.885 percent. The gross proceeds of \$117.6 million (including premium and accrued interest were used to advance refund certain maturities in the amount of \$58.5 million of the 1999 Public Facilities Bonds and \$44.5 million of the 2000 Public Facilities Bonds. This issue was also used to currently refund \$3.6 million of the Bond Anticipation Notes (1997 Series, Second Issue). As a result the Bond Anticipation Notes and certain maturities of the 1999 and 2000 Public Facilities Bonds 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 \$5.4 million (1999 bonds) and \$4.5 million (2000 bonds). These differences are reported in the accompanying financial statements, as a deduction from bonds payable and are being charged to operations through the years 2020 (1999 bonds), and 2021 (2000 bonds). The County uses the effective interest method to amortize this loss. The County completed the refunding to reduce its total debt service payments, through fiscal year 2021, by \$5.4 million and to obtain an economic gain of \$4.3 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, 2005, 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, 2005, fund balances were reserved as follows:

	General Fund	Grants Funds	Capital Projects	Other Governmental Funds
<b>Reserved</b>				
For encumbrances	\$ 2,907,914	\$ 292,980	\$ 24,473,841	\$ 98,857
For inventories	405,385	-	-	-
For long-term receivables	294,250	530,601	-	-
For future loans	-	261,162	-	-
For drug investigations	-	-	-	155,269
For Agricultural Preservation	-	-	-	-
Compliance monitoring	-	-	-	148,953
For prepaids	-	-	-	5,575
<b>Total reserved fund balances</b>	<b>\$ 3,567,549</b>	<b>\$ 1,084,743</b>	<b>\$ 24,473,841</b>	<b>\$ 408,654</b>

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.

The housing loans receivable shown on the balance sheet are offset by deferred revenue. The deferred revenue represents a combination of Federal, State, and County contributions to the loan program which must be used for specified purposes or returned to the source. Therefore, housing 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, 2005, Unreserved Fund Balance designations are as follows:

	General Fund	Grants Fund	Nonmajor Governmental Funds
<b>Unreserved - Fund Balances Designated for:</b>			
Subsequent years' expenditures	\$ 29,724,224	\$ 670,076	\$ -
Bond rating enhancement	2,150,000	-	-
Capital Projects	-	-	27,961,107
Loans	-	-	1,360,549
Snow Removal	550,000	-	-
Equipment purchases under capital leases	47,872	-	852,100
Inmates purchases	-	-	162,510
Rural Legacy	-	-	2,145,597
IPA debt service	-	-	1,701,079
<b>Total designated fund balances</b>	<b>\$ 32,472,096</b>	<b>\$ 670,076</b>	<b>\$ 34,182,942</b>

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

Designated for use in FY06 budget	\$ 26,481,991
Designated for retiree health plan benefits	2,688,771
Designated for LOSAP (Length of Service Award Program)	553,462
Total General Fund Balance - Unreserved-designated for subsequent years' expenditures	<u>\$ 29,724,224</u>

**3. Governmental Activities with Unreserved, Undesignated Fund Balances**

The General Fund has unreserved, undesignated fund balance at June 30, 2005 totaling \$56,594,257. Section 2-7-1(a) (2) of the Frederick County, Maryland Code of Ordinances 2004 and 2005 S-Z Supplement provides for the County to maintain an unappropriated undesignated General Fund balance equal to 5% of General Fund expenditures and transfers to the Board of Education and Frederick Community College on a budgetary basis for the prior fiscal year. At June 30, 2005 the required balance is \$15,567,778. The actual balance exceeds the required 5% set-aside, as described above, in the amount of \$41,026,479 and is available as funding source in the County's FY07 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, 2005, the balance of these reserves are \$90,096,065 (detailed below). These reserves are a part of the \$251,100,511 Net Asset balance.

Reserved for:	
Operating Reserves	\$ 1,247,119
3 R Reserves	21,573,500
Tap Credits	3,171,077
Working Capital	11,686,481
Cash Funding of Capital Projects	9,903,164
System Development	42,514,724
Total Water and Sewer Reserves	<u>\$ 90,096,065</u>

NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. Prior Period Adjustments ~ Restatement of Beginning Fund Balances and Net Assets

The adjustments of the beginning net assets and governmental fund balance amounts were due to the correction of the following items relating to prior years:

Governmental Fund Statements:

	General Fund	Grants Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Fund balance June 30, 2004 as previously reported	\$ 69,699,377	\$ 1,748,067	\$ 39,290,946	\$ 45,382,314	\$ 156,120,704
Adjustments:					
Understatement of accounts receivable	980,610	-	-	-	980,610
Understatement of accounts payable	-	-	(498,104)	-	(498,104)
Overstatement of due to third parties	575,465	-	-	-	575,465
Understatement of deferred revenues	(980,610)	-	-	-	(980,610)
Fund Balance June 30, 2004 as restated	\$ 70,274,842	\$ 1,748,067	\$ 38,792,842	\$ 45,382,314	\$ 156,198,065

Government-wide Financial Statements:

	Governmental Activities	Primary Government Business-type Activities	Total
Net assets June 30, 2004 as previously stated	\$ 214,020,266	\$ 238,323,411	\$ 452,343,677
Adjustments:			
Understatement of accounts payable	(498,104)	-	(498,104)
Overstatement of due to third parties	575,465	-	575,465
Net assets June 30, 2004 as restated	\$ 214,097,627	\$ 238,323,411	\$ 452,421,038

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**NOTE 4. OTHER INFORMATION**

**A. Commitments and Contingencies**

*1. Construction Commitments*

As of June 30, 2005, the County had the following commitments with respect to unfinished capital projects:

	Total Project Budget	Total Expenditures	Amount Funded	Required Future Funding
General government	\$ 46,032,245	\$ 16,856,344	\$ 17,090,795	\$ 28,941,450
Roads and bridges	35,685,152	18,364,849	22,186,941	13,498,211
Water and sewer	541,600	-	541,600	-
Parks and recreation	19,175,347	5,713,950	14,579,112	4,596,235
Municipal	5,425,500	5,248,333	1,125,500	4,300,000
Board of Education	163,388,086	108,155,321	92,871,501	70,516,585
Frederick Community College	7,758,120	6,474,169	6,197,490	1,560,630
	<u>\$ 278,006,050</u>	<u>\$ 160,812,966</u>	<u>\$ 154,592,939</u>	<u>\$ 123,413,111</u>

*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 (2005 revision). The Single Audit Report for the year ended June 30, 2005 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, 2005. 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, 2005.



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 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 primary 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*.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**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 Care and Rehabilitation Center, a non-major enterprise fund, has three payor types that individually exceed 10% of total operating revenues for this fund. They are Medicaid (54.42%), Private Pay Residents (12.66%) and Medicare (15.95%).

The Solid Waste Enterprise Fund has three customers which account for 42.11% of total operating revenues. Two commercial hauliers accounted for \$3,726,172, or 32.96%, of the fiscal year 2005 operating revenues. A single municipality accounted for \$1,034,514, or 9.15%, of the fiscal year 2005 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 \$1,989,806 or 10.38% of the fiscal year 2005 operating revenues. This customer notified their workforce in October 2005 that the facility may be shutting down and laying off its employees.

**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.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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, 2005.

**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.

Frederick County has issued taxable Tax Increment Financing Bonds to finance a portion of the infrastructure needed in the Dudrow Industrial Park and Center Park Development Districts. This 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 these bonds. Cash and the related liability to bondholders are accounted for in an Agency Fund. Below is information on the current outstanding bond issues:

Payee	Amount of Original Issue	Date of		Interest Rate	Payment Frequency	Amount Outstanding 6/30/2005
		Debt Issue	Debt Maturity			
MedImmune	\$ 1,090,000	10/30/98	11/01/08	7.20%	Annually	\$ 603,778
Emergent Biologics	300,000	03/31/05	12/01/10	4.08%	Annually	300,000
Toys'R-Us	1,890,094	09/26/96	09/15/18	8.16%	Annually	1,523,043
	<u>\$ 3,280,094</u>					<u>\$ 2,426,821</u>

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 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.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**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, 2005, was as follows:

	<u>Uniformed</u>	<u>Non-Uniformed</u>	<u>Non-Vested Terminations</u>	<u>Vested Terminations</u>
Retirees and beneficiaries currently receiving benefits	51	209	-	-
Terminated employees entitled to benefits	-	-	21	97
Active employees	431	1,321	-	-

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.

*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.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

*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 FY2005 was 14.6%. 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*

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 a 3.00% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase.

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. There was an actuarial loss during FY2004, caused primarily by investment performance, which was less than the assumption for four out of the last five fiscal years.

The Plan's unfunded liability is attributable to two sources; plan changes and cumulative gains/losses and assumption changes. Plan changes are amortized over a closed 30-year period and the cumulative gains/losses and assumption changes are amortized over an open 15-year period. As of July 1, 2005 there are two plan change bases which are currently outstanding – the COLA plan change (23 years remaining) and the July 1, 2000 plan improvements for all employees (25 years remaining). All amortization payments are calculated as a level percent of payroll, which is assumed to increase 3% each year.

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
2005	\$ 9,785,642	100%	\$ 0
2004	8,459,701	100	0
2003	7,388,514	100	0

At June 30, 2005, the plan's reserve for employees' retirement system was \$136,757,868, which was fully funded.

**NOTES TO FINANCIAL STATEMENTS**  
*(Continued)*

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, 2005 was \$5,236,999. Interest and principal payments due to maturity as of June 30, 2005, are \$6,898,752. The County has chosen to make 8 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>
2005	\$862,344	\$862,344	100.00%
2004	862,344	862,344	100.00
2003	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, 2005, the State paid \$276,671 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 \$15,511,293 in fiscal year 2005. This contribution was recognized as both revenue and expenditures for the BOE.

On April 2, 2004, the Board adopted the Frederick County Public Schools Defined Contribution Plan (the "Plan"). The Plan is designed to afford eligible employees an opportunity to increase their security at retirement through Employer contributions during their periods of active employment while this Plan remains in effect. The Plan has received a favorable determination letter from the Internal Revenue Service that it qualifies as a tax-qualified "profit-sharing" plan. It is intended to be a "governmental plan" within the meaning of Internal Revenue code Section 414. As of June 30, 2005 no contributions had been made to the plan.

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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 FCC received State contributions toward retirement for the fiscal year of \$965,270. This amount has been recorded as a revenue and expenditure in the financial statements. The other retirement plan, provided through TIAACREF, is an option for permanent employees of the College who are not eligible for the state plans. The State does provide employer share funding for professional employees of the College who choose certain other retirement plans in lieu of participating in the State's retirement systems. These other plans include TIAACREF, AETNA, VALIC, Fidelity and American Century. The other plans are defined contribution plans requiring an employer contribution of 7.25% of employees base salary. Total employer contributions in FY2005 were \$555,473. Employee contributions to a selected plan are not mandatory.

**E. Post-employment Benefits Plans**

In 1985, the County created the Length of Service Awards Program (LOSAP). In fiscal year 2005, LOSAP provided 96 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 \$217,808 in fiscal year 2005 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, 397 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 \$2,070,641 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 to 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 2005 approximately 28.38 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.



**NOTES TO FINANCIAL STATEMENTS**  
*(Continued)*

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, 2005, the Self-Insurance Fund of the Board of Education has a deficit in total net assets of \$566,081. This deficit is expected to be eliminated during fiscal year 2006 since approved premiums were established to exceed anticipated expenses by \$850,000. These increased premiums will be shared by FCPS employees, retirees and the Board of Education.

**H. Subsequent Events**

The County sold General Obligation Public Facilities Bonds of 2005 on November 29, 2005 totaling \$102,320,000. The Bonds are being used to finance Board of Education, Community College, General Government, Roads & Bridges, Parks & Recreation, Parking Deck, Solid Waste Facilities and Water & Sewer Facilities.

**I. New Governmental Accounting Standards Board (GASB) Standard**

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, is effective for the County for the fiscal year ending June 30, 2005. Statement No. 40 amends GASB Statement No. 3 which modifies and expands existing disclosure requirements for deposits and investments. In accordance with the implementation of GASB Statement No. 40, Note 3.A.2 Cash, Investments and Equity in Pooled Cash, Investments has been modified.

## **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	Actuarial Accrued Liability	Actuarial Value of Plan Assets as a Percentage of the Actuarial Accrued Liability		Unfunded Actuarial Liability	Annual Covered Payroll	Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll
			Actuarial Value of Plan Assets	Percentage of the Actuarial Accrued Liability			
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
07/01/04	118,979,144	151,610,060	78.5		32,630,916	67,993,467	48.0

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
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
2005	9,785,642	9,785,642	100

\*Includes a one-time discretionary payment of \$1,750,000

February \_\_, 2006

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 2006, in an aggregate principal amount of \$20,365,000 (the "Bonds") dated February 1, 2006.

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 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 208 of the Laws of Maryland of 2001, as amended (the "2001 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1979) as amended (the "Water and Sewer Act"), Article 31, Section 24 of the Annotated Code of Maryland, as amended, (together, the "Acts"), Resolution No. 06-03 of the County adopted on January 31, 2006 and Resolution No. 06-04 of the County adopted on February 28, 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 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**

**\$20,060,000\***  
**FREDERICK COUNTY, MARYLAND**  
**General Obligation Bonds**  
**Public Facilities Refunding Bonds of 2006**  
**Dated February 1, 2006**

**Sealed proposals or electronic bids via *PARITY***  
**will be received until 11 o'clock A.M., local Frederick, Maryland Time, on**  
**Tuesday, February 14, 2006**  
**Winchester Hall, 12 East Church Street, 3<sup>rd</sup> 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 \$20,060,000\* General Obligation Public Facilities Refunding Bonds of 2006 (the "Bonds"). The Bonds will be dated February 1, 2006 and bear interest payable semi-annually beginning on May 1, 2006 and thereafter on the first days of June and November until maturity or redemption.

The Bonds are issued pursuant to the authority of Chapter 548 of the Laws of Maryland of 1993, as amended (the "1993 Act"), Chapter 180 of the Laws of Maryland of 1995, as amended (the "1995 Act"), Chapter 76 of the Laws of Maryland of 1997, as amended (the "1997 Act"), Chapter 373 of the Laws of Maryland of 1999, as amended (the "1999 Act"), Chapter 208 of the Laws of Maryland of 2001, as amended (the "2001 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 24 of the Annotated Code of Maryland, as amended, (together, the "Acts") and in accordance with Resolution No. 06-03 adopted by the Board on January 31, 2006.

The Bonds will mature, subject to prior redemption as herein stated, on the first days of November in the following years and aggregate amounts:

<u>Year of Maturity</u>	<u>Annual Amount</u> <u>Maturing</u>
2018.....	\$3,305,000
2019.....	3,890,000
2020.....	4,080,000
2021.....	4,285,000
2022.....	4,500,000

The proceeds of the Bonds will be used to refund the callable maturities of 2018-2022, inclusive, of the County Public Facilities Bonds of 2002.

**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 May and November, commencing May, 2006, 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.

\*Preliminary, subject to change.

Bonds are not subject to redemption prior to their maturities.

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 February 14, 2006.

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 February 14, 2006. 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, 3<sup>rd</sup> 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 on 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 the difference between the lowest rate and the highest rate may not exceed 2%. The highest rate of interest permitted may not exceed 5.25% 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 4:00 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 \$200,600 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. 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 300 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 February 28, 2006, 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 2006**

**FEBRUARY 14, 2006**

County Commissioners of Frederick County  
3<sup>rd</sup> 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 2006 (the "Bonds") of County Commissioners of Frederick County, described in such Notice of Sale, such Bonds dated February 1, 2006 to mature in the several years shown in the table below and to bear interest at the rate per annum set opposite such years, respectively.

<u>Year of Maturity</u>	<u>Interest Rate</u>
2018.....	___%
2019.....	___%
2020.....	___%
2021.....	___%
2022.....	___%

We will pay an amount equal to the par value of the Bonds .....	\$ _____
plus a dollar premium in the amount of .....	+ \$ _____
Total .....	<u>\$ _____</u>

We will pay accrued interest on the Bonds from February 1, 2006 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 \$200,600 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 \$200,600 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 \$20,060,000 Frederick County, Maryland General Obligation Public Facilities Refunding Bonds of 2006 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 06-03 adopted on January 31, 2006 (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](http://www.bloomberg.com/markets/muni_contactinfo.html)  
 E-Mail: [munis@bloomberg.com](mailto: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](mailto: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](http://www.jjkenny.com/jjkenny/pser_descrip_data_rep.html)  
 E-Mail: [nrmsir\\_repository@sandp.com](mailto: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](mailto:nrmsir@FTID.com)

“Official Statement” shall mean the Official Statement dated \_\_\_\_\_, 2006 relating to the Issuer’s \$\_\_\_\_\_ Frederick County, Maryland General Obligation Public Facilities Refunding Bonds of 2006.

“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, 2006.

(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, 2006, 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: \_\_\_\_\_, 2006

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 February 1, 2006

## General Obligation Public Facilities Bonds of 2002

<u>Date of Maturity November 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>
2018.....	355694B90	\$3,710,000	5.00%	101%
2019.....	355694C24	3,890,000	5.00	101
2020.....	355694C32	4,080,000	5.00	101
2021.....	355694C40	4,285,000	5.00	101
2022.....	355694C57	4,500,000	5.00	101

Bonds redeemable on November 1, 2012 at the principal amount thereof, plus a premium of 1% of such principal amount and accrued interest.