

**OFFICIAL STATEMENT DATED MAY 15, 2007****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".

\$91,880,000

**FREDERICK COUNTY, MARYLAND
GENERAL OBLIGATION
PUBLIC FACILITIES BONDS OF 2007**

Dated May 15, 2007**Due: June 1, as shown below**

Bond Ratings	Fitch Ratings: AA+ Moody's: Aa2 Standard & Poor's: AA
Redemption	Bonds maturing on or after June 1, 2018, are redeemable in whole or in part, on or after June 1, 2017.
Security Purpose	General obligations of County Commissioners of Frederick County The proceeds are being used to provide funds for the design, planning, renovation and construction of public schools, county buildings, county parks, water and sewer facilities, solid waste facilities and a tourism center.
Interest Payment Dates	June 1 and December 1, beginning December 1, 2007.
Closing/Settlement	On or about May 31, 2007
Denominations	\$5,000
Book-Entry Only Form	The Depository Trust Company, New York, NY
Registrar/Paying Agent	Manufacturers and Traders Trust Company, Baltimore, MD
Bond Counsel	Venable LLP, Baltimore, MD
Financial Advisor	Davenport & Company LLC, Towson, MD
Issuer Contact	Frederick County Director of Finance: (301) 600-1753

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

Maturing June 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP	Maturing June 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP
2008.....	\$3,000,000	4.50%	3.58%	355694J92	2018.....	\$4,555,000	5.00%	3.85%	355694L32
2009.....	3,270,000	4.00	3.60	355694K25	2019.....	4,735,000	4.00	3.98	355694L40
2010.....	3,390,000	4.00	3.61	355694K33	2020.....	4,920,000	4.00	4.05	355694L57
2011.....	3,515,000	4.00	3.61	355694K41	2021.....	5,115,000	4.00	4.17	355694L65
2012.....	3,640,000	4.00	3.62	355694K58	2022.....	5,325,000	4.00	4.20	355694L73
2013.....	3,775,000	4.00	3.64	355694K66	2023.....	5,540,000	4.10	4.20	355694L81
2014.....	3,915,000	5.00	3.66	355694K74	2024.....	5,765,000	4.50	4.32	355694L99
2015.....	4,065,000	5.00	3.68	355694K82	2025.....	6,000,000	4.50	4.34	355694M23
2016.....	4,220,000	5.00	3.71	355694K90	2026.....	6,250,000	4.50	4.35	355694M31
2017.....	4,380,000	4.00	3.75	355694L24	2027.....	6,505,000	4.125	4.30	355694M49

(Accrued interest from May 15, 2007 to be added)

* The interest rates shown above are the interest rates payable by the County resulting from the sale of the Bonds on May 15, 2007, by UBS Securities LLC. 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 May 15, 2007 and the information contained herein speaks only as of that date.

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

COUNTY COMMISSIONERS OF FREDERICK COUNTY

CERTAIN ELECTED OFFICIALS

Jan H. Gardner
President, Board of County Commissioners

David P. Gray
Vice President, Board of County Commissioners

Kai J. Hagen
Commissioner

Charles A. Jenkins
Commissioner

John L. Thompson, Jr.
Commissioner

CERTAIN APPOINTED OFFICIALS

Douglas D. Browning, CPA
County Manager

Barry L. Stanton
Assistant County Manager

John R. Kroll
Director, Finance Division

John S. Mathias
County Attorney

Marie S. Keegin, CEcD
Director, Economic Development Division

Eric Soter
Acting Director, Planning Division

Alan J. Hudak, PE
Director, Public Works 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 AND BOND REGISTRAR
Manufacturers and Traders Trust Company
Baltimore, Maryland

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

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

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

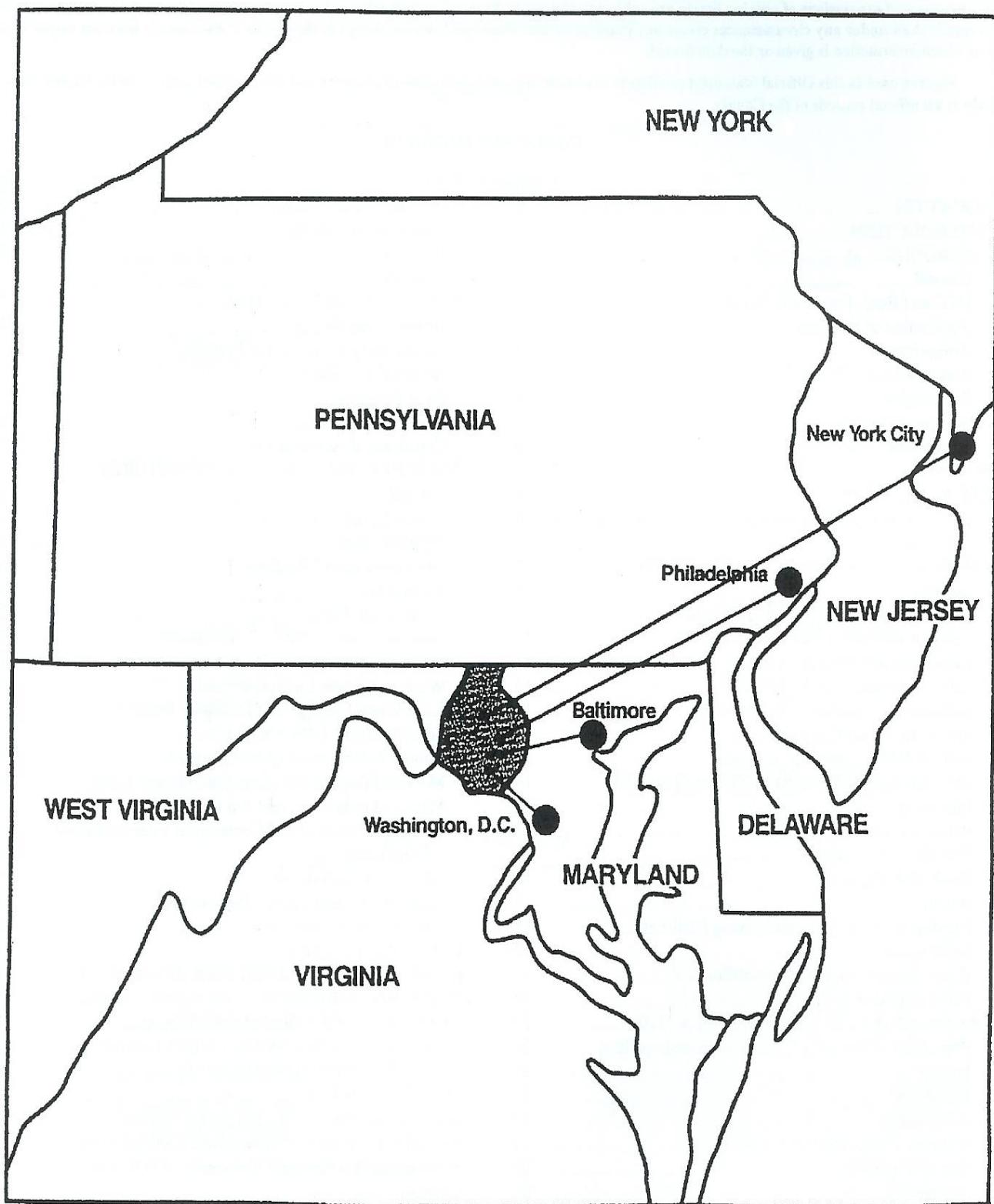
Figures used in this Official Statement relating to tax collections, assessed value of property and the financial position of the County have been taken from official records of the County.

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LOCATION

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



OFFICIAL STATEMENT
Relating to

\$91,880,000

FREDERICK COUNTY, MARYLAND
GENERAL OBLIGATION
PUBLIC FACILITIES BONDS OF 2007

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 \$91,880,000 Frederick County, Maryland, General Obligation Public Facilities Bonds of 2007 (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, 2006 is 228,800.

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 60,725 as of June 30, 2006. 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) 600-1100.

Any questions regarding this Official Statement or the Bonds should be directed to the Director of Finance, Frederick County, Maryland, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701, telephone number. (301) 600-1753. The County’s Internet address is www.co.frederick.md.us.

THE BONDS

General

The Bonds will be dated May 15, 2007 will be issued in an aggregate principal amount of \$91,880,000 and will mature each June 1, in annual installments beginning with the year 2008 and ending with the year 2027 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 December 1, 2007 and semiannually thereafter on the first days of June and December 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.

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

Board of Education	\$22,672,000
Community College	200,000
General Government	22,331,730
Municipal Projects	2,667,238
Roads and Bridges	3,734,032
Solid Waste Facilities.....	7,200,000
Tourism Center	1,285,000
Water and Sewer Facilities.....	<u>31,790,000</u>
Total Bonds.....	<u>\$91,880,000</u>

Authorization

The proposed bonds are issued pursuant to the authority of Chapter 558 of the Laws of Maryland of 2000, as amended (the "2000 Act"), Chapter 37 of the Laws of Maryland of 2003, as amended (the "2003 Act"), Chapter 145 of the Laws of Maryland of 2005, as amended (the "2005 Act"), Chapter 2-13 of the Code of Public Legal Laws of Frederick County (1979), as amended (the "Water and Sewer Act"), Sections 5-601 through 5-604 of the Education Volume of the Annotated Code of Maryland, as amended (together the "Acts") and in accordance with Resolution No. 07-15 adopted by the Board on May 1, 2007 (the "Resolution").

Registration and Transfer

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

Redemption

Bonds that mature on or after June 1, 2018 are subject to redemption on or after June 1, 2017, as a whole or in part on any date thereafter, at the option of the County, at redemption price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

If less than all of the Bonds are called for redemption, the particular series and maturities of the Bonds to be redeemed shall be selected by the County. If less than all of the Bonds of any one maturity of a series are called for redemption, the particular Bonds to be redeemed from such maturity shall be selected by lot by the Registrar, except that so long as The Depository Trust Company ("DTC") or its nominee is the sole registered owner of the Bonds, the particular Bonds or portion to be redeemed shall be selected by lot by DTC, in such manner as DTC shall determine. Each \$5,000 portion of a Bond shall be treated as a separate Bond in the selection by lot of Bonds to be redeemed.

In case part but not all of a Bond shall be selected for redemption, then, upon the surrender thereof, there shall be issued without charge to the registered owner thereof a Bond or Bonds of the same series in any authorized denomination as specified by the registered owner. The aggregate principal amount of the Bond or Bonds so issued shall be equal to the unredeemed balance of the principal amount of the Bond surrendered.

If the County elects to redeem all or a portion of the Bonds outstanding, it shall deliver a redemption notice to DTC not less than 30 days prior to the date fixed for redemption. If the book-entry system is discontinued for the Bonds, the County shall give a redemption notice by letter mailed first class, postage prepaid, to the registered owners of the Bonds to be redeemed at their last addresses appearing on the registration books maintained by the Registrar (the "Bond Register") not less than 30 days prior to the redemption date. Failure to deliver or mail any such notice with respect to a particular Bond or any defect in such notice, or in the delivery or mailing thereof, shall not affect the validity of the redemption proceedings. From and after the date fixed for redemption, if funds sufficient for the payment of the redemption price of the Bonds called for redemption are held by the Paying Agent on such date, the Bonds so called for redemption shall become due and payable at the redemption price provided for the redemption of such Bonds on such date, interest on the Bonds shall cease to accrue and the registered owners of such Bonds so called for redemption shall have no rights in respect thereof except to receive payment of the redemption price thereof from such monies held by the Paying Agent. Upon presentation and surrender of a Bond called for redemption in compliance with the redemption notice, the Paying Agent shall pay the appropriate redemption price of such Bond. If Bonds so called for redemption are not paid upon presentation and surrender as described above, such Bonds shall continue to bear interest at the rates stated therein until paid.

Security for the Bonds

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

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

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

Bondholders' Remedies

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

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

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

RATINGS

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 includability 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 includable 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.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includable in gross income for Federal income tax purposes. If the Service does audit the Bonds, under current Service procedure, the Service will treat the County as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

Interest paid on tax exempt obligations after December 1, 2005 is subject to information reporting for federal income tax purposes in a manner similar to taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

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.

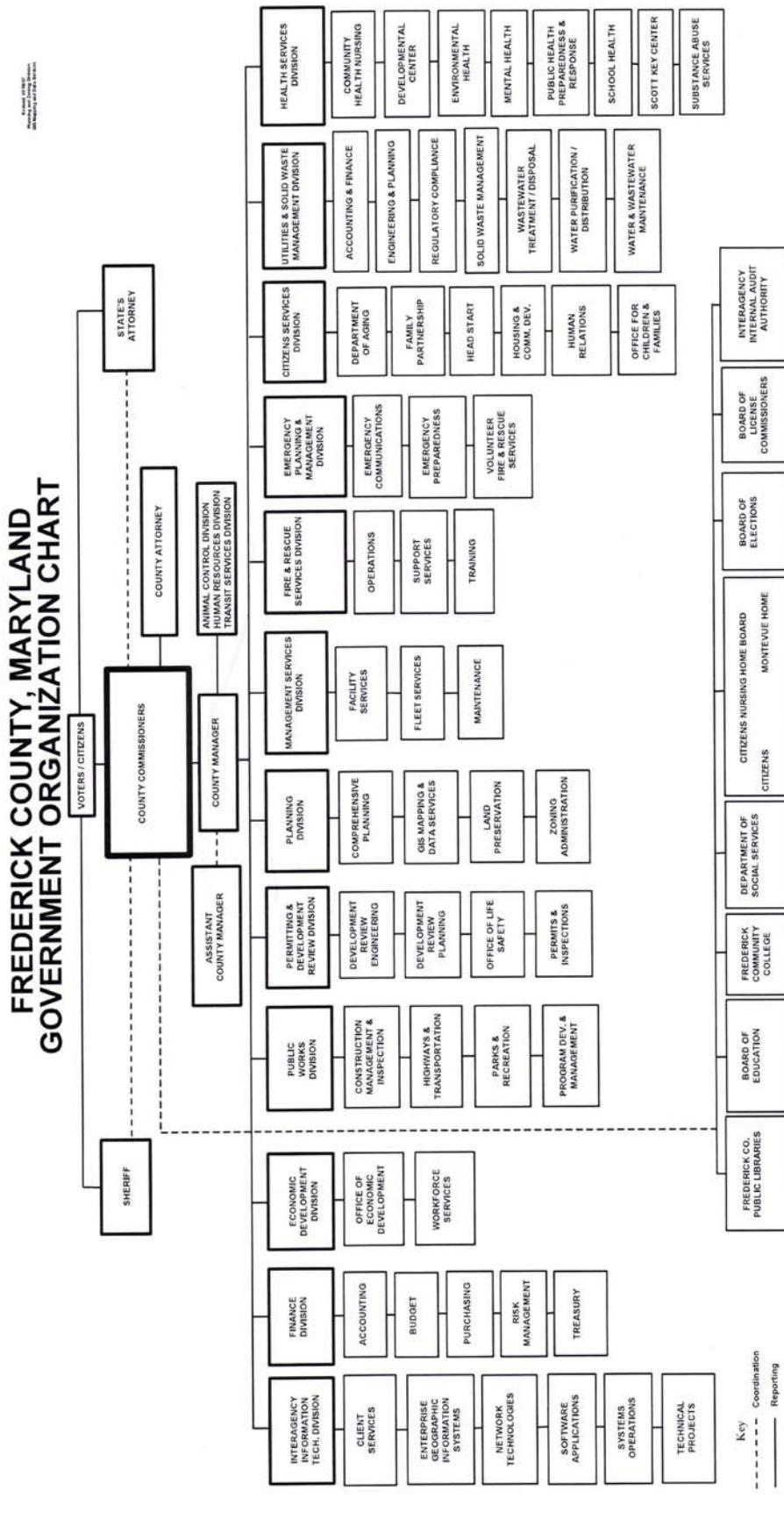
Section 3 of Article 25 of the Annotated Code of Maryland of 1957, as amended (the “Maryland Code”) sets out the enumerated powers of the county commissioners of each county in the State of Maryland (the “State”) that is governed by county commissioners. Section 1 of said Article 25 declares the county 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.



Certain Elected and Appointed Officials

Jan H. Gardner, President, has served as a county commissioner for the past eight years. Ms. Gardner graduated from the University of Notre Dame with a bachelor's degree in business administration majoring in finance and economics and received her master of business administration degree from Xavier University in Cincinnati, Ohio, graduating summa cum laude. Ms. Gardner has worked on school construction issues to address overcrowding and the renovation of older schools. She has served on a statewide Public School Facilities Task Force, working to define adequate school facilities and make recommendations for the implementation of full-day kindergarten. Ms. Gardner has worked on transportation solutions and has served as the liaison for the Metropolitan Washington Council of Governments Transportation Planning Board and the Frederick Area Committee on Transportation. She initiated the Frederick County Prescription Discount Card Program to help citizens with the rising cost of prescription medications. Ms. Gardner currently serves as the president of the Maryland Association of Counties.

David P. Gray, Vice President, is serving his fourth term as a county commissioner. He served as president of the Board of County Commissioners in his third term from 1998-2002 and is currently serving as vice president. Mr. Gray also served as a member of the Frederick County Planning Commission from 1979 to 1990. In his first of three consecutive terms, from 1990 to 2002, Mr. Gray successfully advocated for a Frederick County Ethics Ordinance and the County's first Adequate Public Facilities Ordinance. Mr. Gray received his bachelor of electrical engineering degree from the University of Delaware in 1963, and pursued his career in engineering until 1989 when he and his wife partnered in business as tax consultants. Mr. Gray continued his studies in business law, accounting, and computer networking, as well as in corporate and individual tax analysis. He is a licensed NASD investment representative and has achieved the IRS status as an enrolled agent.

Kai J. Hagen, Commissioner, is serving his first term as county commissioner. Mr. Hagen attended college in Minnesota and lived for a time in California, where he managed a number of nonprofit organizations before moving to Frederick County to stay in 1995. For three years, he wrote bi-weekly columns for both the *Gazette* and the *Frederick News Post*. He served as a member of the Frederick County Parks and Recreation Commission, was appointed to the Frederick County Citizens Zoning Review Committee, and also co-chaired the Western Maryland Committee of Reality Check Plus. Comprised of business, civic and elected leaders from Western Maryland, Reality Check Plus is a series of exercises designed to establish a 25-year projection for housing and employment requirements and opportunities across the state. Mr. Hagen was the director of the Frederick Regional Action Network, which effectively "promotes common sense solutions to persistent challenges associated with growth and development." He also directed on-line community development for large corporations and nonprofit organizations. Mr. Hagen has coached youth soccer and basketball in Frederick County for the last nine years.

Charles A. Jenkins, Commissioner, is serving his first term as county commissioner. Mr. Jenkins is a veteran of the United States Navy, having served four years as a Navy cryptologist. During his tenure, he earned the Navy Achievement Medal and the Joint Services Achievement Medal. A 1990 graduate of James Madison University, he holds a bachelor's degree in the Russian language with minors in history and Russian studies. Mr. Jenkins is a private pilot and member of the Aircraft Owners and Pilots Association. He currently is a realtor at Re/Max 100.

John L. "Lennie" Thompson, Jr., Commissioner, has been a county commissioner since 1998 and served as the president of the Board of County Commissioners from 2002-2006. Mr. Thompson 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. Mr. 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 to 1990 and as burgess of Walkersville from 1996 to 1998. He is a member of the Bush Creek Church of the Brethren, a member of the Walkersville Volunteer Fire Company, and a charter member of the Walkersville Volunteer Community Rescue Company.

Douglas D. Browning, CPA, County Manager, was appointed to his position in December 2002. Before becoming county manager, Mr. Browning was appointed as the acting county manager in June 2002. Mr. Browning began his career with Frederick County as the 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 Board of County Commissioners 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 his 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.

Barry L. Stanton, Assistant County Manager, was appointed to his position in January 2007. Mr. Stanton brings over 27 years of professional experience in organizational management, public safety policy development and strategic planning to the newly created position. As the assistant county manager, Mr. Stanton's role includes oversight of the Frederick County Emergency Management Policy Group and responsibility for daily operations of a number of divisions within county government. Prior to returning to Frederick County, he served as director of the Prince George's County Department of Corrections since November 1997. Before his appointment in Prince George's County, he worked his way up through the ranks in the Frederick County Sheriff's Office to become chief of the Bureau of Corrections. Mr. Stanton is a graduate of Frederick High School, Frederick, Maryland. Mr. Stanton received his bachelor's degree in sociology and criminal justice from Cheyney State University, Cheyney, Pennsylvania, and his master's degree in organizational management from the University of Phoenix, Columbia, Maryland.

John S. Mathias, County Attorney, was appointed to his position in September 1988. Mr. Mathias 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.

John R. Kroll, Director of Finance, was appointed to his position in March 2007. Before becoming director of the Finance Division, Mr. Kroll served as acting deputy director of the Finance Division for 17 months and was the budget officer from 2002 to 2005. Prior to his employment with Frederick County, Mr. Kroll was director of finance for Rockingham County, Virginia, and the City of Montpelier, Vermont. In addition he served as Director of Budgets and Grants Administration for the Boulder Valley School District in Boulder, Colorado, and as budget officer and budget analyst for the City of Longmont, Colorado. Mr. Kroll received his master's degree in public administration from the University of Colorado and bachelor of arts degrees from Virginia Polytechnic Institute and State University in philosophy and economics. He is a member of the Government Finance Officers Association and the Maryland Government Finance Officers Association.

Alan J. Hudak, PE, Director of Public Works Division, was appointed to his position in May 2000, and has been employed with Frederick County since June 1980. Prior to his appointment as director, Mr. Hudak 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 received his 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.

Eric E. Soter, Acting Director of Planning, was appointed to his position in April 2007. Mr. Soter began his career with Frederick County in March 2002 serving as the director of the Department of Planning and Zoning and recently serving as the deputy director of the division since September 2005. Prior to his employment with Frederick County, Mr. Soter served as urban design director for the City of Gaithersburg, Maryland from 2001-2002, and as senior staff planner from 1999-2001. He also was employed with Carroll County Government from 1997-1999 as a transportation/comprehensive planner, and an associate planner with the Baltimore Metropolitan Council, a regional Metropolitan Planning Organization, from 1994-1997. In 1994, Mr. Soter earned a dual bachelor of science degree in Geography and Economics from Towson University, Towson, Maryland, and also earned a certificate in cartography and graphics. Mr. Soter is a member of the American Planning Association (APA), as well as the Maryland Chapter of the APA.

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Marie S. Keegin, CEcD, Director of Economic Development Division, was appointed to her position 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 her bachelor of arts degree in economics and human resources management from Hood College and her 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 is the immediate past president of the Maryland Economic Development Association.

Michael G. Marschner, Director of Utilities and Solid Waste Management Division, was appointed to his position in February 2000 (the County's water and sewer utility and solid waste operations were previously administered by the Public Works Division), and had been employed with Frederick County since June 1983. Prior to his appointment as director, Mr. Marschner served in several other utility management positions in the county's Public Works Division including division chief of operations from July 1990 to June 1997, and bureau chief of the water and sewer operations from July 1997 to February 2000. 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 is an appointed and commissioned member of the Northeast Maryland Waste Disposal Authority.

Remuneration of Certain County Officials

The following table presents the annual remuneration for certain County officials as of March 1, 2007:

<u>Official Title</u>	
County Manager	\$160,552
County Attorney	141,990
Director of Utilities and Solid Waste.....	134,559
Director of Public Works.....	126,975
Assistant County Manager.....	120,000
Director of Finance	120,000
Director of Economic Development	116,450
Acting Director of Planning.....	98,917

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 eligible 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 eligible 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, 2005 for the County Plan. At July 1, 2005, 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.....	\$120,858,427
Vested terminated participants	3,953,584
Retired participants, beneficiaries and disabled participants.....	<u>49,148,132</u>
Total actuarial accrued liability.....	173,960,143
Actuarial value of plan assets	<u>(134,532,516)</u>
Unfunded actuarial liability	<u>\$ 39,427,627</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 County Plan's unfunded liability of \$39,427,627 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, 2006 there are two plan change bases which are currently outstanding – the COLA plan change (22 years remaining) and the July 1, 2000 plan improvements for all employees (24 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 2006 of \$11,736,171 were made in accordance with an actuarial valuation made at July 1, 2005.

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 December 31, 2006 was \$4,196,755. Interest and principal payments due at maturity as of December 31, 2006, are \$5,174,044. The County paid the scheduled annual amount of \$862,344 to amortize and pay interest on the liability on December 30, 2006, thus meeting its required contribution to the State Systems for fiscal year 2007.

Other Post-Employment Benefits

The County and the Board of Education of Frederick County (the "Board of Education") provide their retirees with other post-employment benefits ("OPEB"). Both the County and the Board of Education have historically funded these programs on a pay-as-you-go basis, but will be required to account for OPEB on an actuarial basis beginning in fiscal year 2008 (in accordance with GASB 45). The County's actuary has determined, as of July 1, 2007, that the County's actuarial accrued liability ("AAL") related to active and retired County employees is \$148,969,000. The Board of Education's actuary has determined, as of July 1, 2007, that the Board of Education's AAL related to active and retired Board of Education employees is \$267,707,000. These figures use 7.75% (for the County) and 8.00% (for the Board of Education) discounted rates based on the assumption that the County and Board of Education will create and invest through trust funds dedicated to paying OPEB. The annual required contribution ("ARC") as of July 1, 2007 is \$13,858,000 for the County and \$30,408,000 for the Board of Education. The staff recommended budget for fiscal year 2008 has contributions to trust funds currently set at \$6,461,218 for the County and \$12,911,200 for the Board of Education. These calculations assume a five-year phase-in with the cumulative net OPEB obligation amortized over a closed 30-year period. In addition, the County has been accumulating funding in anticipation of implementing GASB 45 and an additional \$5,828,071 would be deposited to the County's trust fund for future use. The Board of County Commissioners and the Board of Education have not yet approved final budgets for fiscal year 2008.

Labor Relations

As of June 30, 2006, the County employed 2,179 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 relations 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. An ordinance has been adopted with non-binding collective bargaining for those employees to begin November, 2007. 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 & 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. 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, 2006, for all lease-purchase agreements:

Fiscal Year	Total Payment
2007.....	\$1,734,600
2008.....	1,360,681
2009.....	882,760
2010.....	344,734
2011.....	<u>126,066</u>
Subtotal	4,448,841
Less amount representing interest	<u>(213,719)</u>
Present value-net minimum lease payments.....	<u><u>\$4,235,122</u></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 2006 were approximately \$853,000.

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 Care and Rehabilitation Center & Montevue Home Board of Trustees; the Board of Education; Frederick Community College; the Department of Social Services; the Interagency Internal Audit Authority; the Liquor Commission; the Board of Elections; and Frederick County Public Libraries. Except for the Frederick County Board of Education and Frederick Community College, whose board members are elected or appointed by the Governor of Maryland, members of the boards of the remaining agencies are either appointed by the Board or are designated members of other County agencies. The Board of Education, Frederick Community College and Frederick County Public Libraries are accounted for as component units. Citizens Care and Rehabilitation Center and Montevue Home are accounted for as enterprise funds. All other agencies are funded for in whole or in part by the County's General Fund.

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 is responsible for the overall operation and policy decisions of the County's 64 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 December 2006, the Board of Education exercised control over 37 elementary, 14 middle schools, 9 high schools, and 4 vocational and special education facilities, accommodating 40,287 students, an increase of 462 from the previous year.

During the 2006-2007 school year the teacher/student ratio was approximately 1 to 15. In June 2006, 2,757 students received high school diplomas.

The County's largest General Fund appropriation in its adopted fiscal year 2007 budget is \$205,380,682 for operating expenditures for public education. County appropriations for operating expenditures constituted an 8.38% increase over approved operating expenditures by the County for public education in fiscal year 2006. 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 \$68,786,250 in fiscal year 2007. The County expects to receive State aid of \$201,817,663 (including Federal funds pass through of \$16,981,629) and \$19,914,750 for operating and capital expenditures, respectively, for public education in Frederick County during fiscal year 2007.

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 2006, 4,825 students enrolled in the academic programs of the College. Additionally, 14,500 students enrolled in non-credit continuing education programs during the 2005-2006 academic year. The fiscal year 2007 operating budget for Frederick Community College is \$32,574,310. Of this amount, 38% was appropriated from the County's General Fund. The balance of the College's funding is derived from a combination of State aid, student tuition and other miscellaneous sources. Additionally, the County funds certain capital improvements and renovations annually. New construction funding is usually shared by the County and State. The County's funding of the College's fiscal 2007 capital budget is \$1,202,500. Fiscal year 2006 funding totaled \$2,268,380.

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 261 personnel. The Corrections Bureau consists of Administrative Services, Community Services, Inmate Services and Security Operations and is staffed with 171 personnel. The 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, the 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, school crossing guard 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 276 uniformed personnel responding with approximately 1,200 volunteers. Emergency response vehicles include 56 pumper, 8 aerials, 12 tankers, 9 squads, 30 brush trucks, 35 ambulances, and 8 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 construction 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, Braddock Heights, Carroll Manor, Urbana, New Market 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 45 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). The planning functions are carried out through a number of citizen boards and commissions.

The Frederick County Planning Commission was created in 1955 with the responsibility of preparing and administering plans and development regulations for the County. The Board of County Commissioners appoints seven members of the Planning Commission to five-year terms and one member is a County Commissioner serving in an ex-officio capacity. The Commission holds regular public meetings to review development and planning items. The members represent a diversity of viewpoints including agriculture, business, professional services, civic groups and environmental perspectives. The Planning Commission has final authority over site plans, subdivision plats, PUD plans, modifications to the subdivision regulations and determination of Adequate Public Facilities for new developments. On items such as zoning map amendments, zoning or subdivision text amendments and adoption of countywide and regional plans, the Planning Commission has an advisory role through the provision of a recommendation to the Board, who has the authority to adopt, change or amend plans and regulations.

The Planning function is further carried out by the Frederick County Board of Zoning Appeals, which was established in conjunction with the original Zoning Ordinance in 1959. The Board of County Commissioners appoints 5 members and 1 alternate member of the Zoning Appeals Board to staggered 3-year terms. The Zoning Appeals Board adopts its own administrative procedures and has the powers: to hear and decide appeals where it is alleged there is an error in any order, requirement, decision or determination made by an administrative official in the enforcement of the Zoning Ordinance; to hear and decide special exceptions authorized in the Zoning Ordinance; to authorize, upon appeal in specific cases, a variance from the terms of the Zoning Ordinance.

Other boards and commissions include the Agricultural Preservation Advisory Board, the Agricultural Reconciliation Committee, the Historic Preservation Commission and the Monocacy Scenic River Advisory Board.

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 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 updated in 2004. The New Market Plan and Walkersville Plan were updated in 2006. The Thurmont Region Plan is currently under review as it was last updated in 1995. The other regions were last adopted as follows: the Middletown and Brunswick Plans in 1997-1998; the Adamstown Plan in 2001; and the Frederick Region Plan in 2002.

Permitting Services

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 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 \$25,909,840 and \$11,679,244, respectively, for the County's road system in fiscal year 2007. State Highway User Revenues to the County for highway maintenance through State-shared taxes is expected to be \$14,000,000 in fiscal year 2007.

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 91.00%. The primary third-party reimbursement is through Medicaid. Budgeted expenses for fiscal years 2006 and 2007 were \$12,320,246 and \$12,407,630, respectively. The nursing home employs 148 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 2006 and 2007 were \$2,251,182 and \$2,473,982, respectively.

Solid Waste

The Division of Utilities and Solid Waste Management (DUSWM) is responsible for the planning, design and management of the County's solid waste disposal system and programs. The County's primary disposal facilities are located at its 529-acre Reich's Ford Road Landfill property, which includes the 72-acre Site A landfill, 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 a 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 or transferred to other solid waste facilities along with municipal solid waste. Rubblefill closure construction was completed in fiscal year 2007. 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 currently the last remaining permitted disposal cell, Cell 3, was completed in fiscal year 2007 and is ready to accept waste.

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. 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.

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

Other than through its curbside collection recycling program the County does not provide or fund waste collection services. Municipal or private waste haulers collect trash in Frederick 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 53,000 homes, 12 satellite drop-off locations and 2 yard waste drop-off sites with mulching operation.

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.

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. MDE tentatively approved the County's request for a vertical expansion of the landfill. On December 19, 2005, MDE conducted a public hearing on its tentative approval of the requested expansion. Although the County expected the new landfill permit to be issued in February 2006, the final decision on the permit has been delayed.

The other initiative is the construction of a permanent solid waste transfer and processing facility. The design and permitting of the transfer and processing facility has been completed, however, the construction of the facility was delayed due to a legal challenge by a local citizens group. The County prevailed in both the Circuit Court and Maryland Court of Special Appeals and subsequently bid the construction of the transfer station. Bids for the transfer station were received on March 8, 2007 with the apparent low bid of \$8.836 million. The Board of County Commissioners awarded the transfer station construction contract in April 2007.

In April 25, 2005 the County secured a long-term transportation and disposal contract, through the Northeast Maryland Waste Disposal Authority (the "Authority"), with Waste Management Inc. The contract provides the County with waste transportation services and landfill disposal capacity at several Waste Management Landfills in Virginia and Pennsylvania. The transportation and disposal contract is for an initial 6-year period with 4 optional one-year terms at the Authority's (County's) sole discretion. Transportation and disposal rates under this contract are subject to defined CPI and fuel cost adjustments. The agreement provides the County firm out-of-state landfill disposal capacity until 2015. To conserve capacity in the landfill's last remaining permitted cell, the County initiated a temporary waste transfer operation on December 12, 2005, which is expected to remain in place until the transfer operations are moved to the new permanent transfer and processing station, scheduled to be completed by July 2008. In securing waste transportation and disposal services for the permanent transfer operation, the County also included single stream recycling processing services in the contract with Waste Management. Once the transfer station construction is completed, the County will have the ability to switch from dual stream to single stream recycling collection, which may allow the County to reduce its curbside recycling program costs.

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 allowing the County to become a member of 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. 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 was established by Ordinance on January 26, 2006. County residents, businesses, and institutions received the SBC on tax bills issued on July 1, 2006 and thereafter. The revenue generated by the SBC will supplement the revenues collected as tipping fees, allowing the County to set tipping fees at market rates. The County decided to phase in the SBC over two year period of time. SBC revenues for fiscal year 2007 were \$2.4 million. Projected SBC revenues for fiscal year 2008 are \$4.0 million.

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 new tipping fees applied to all users of the County's waste disposal facilities:

<u>Current Tipping Fees:</u>	<u>Per Ton</u>
Municipal Solid Waste (MSW)	\$59
Construction and Demolition (C&D)	\$68
Tires	\$160

Increases in the tipping fees for fiscal year 2008 are expected to cover part or all of a projected solid waste enterprise revenue shortfall. A public hearing on the tipping increase for fiscal year 2008 has been tentatively scheduled for May 15, 2007.

In October 2005, R.W. Beck Inc. completed a study of Frederick County's long-term solid waste management options. The Beck Report concluded that the construction of a regional 1500 ton per day waste to energy (WTE) facility would provide the County with the lowest cost long-term waste disposal option. The study compared three disposal options including long haul and disposal out of State, composting, and a County only and regional WTE facility. The 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 provided alternative strategies for funding solid waste management services some of which require the County to obtain additional enabling legislation from the General Assembly. In an effort to explore the WTE recommendations contained in the Beck Report, the Board adopted Resolution No. 06-05 Waste to Energy Disposal Facility directing DUSWM and the Authority to pursue full service proposals for the design, construction and operation of a 900 ton per day ("TPD") local (County only) WTE and a 1500 TPD regional WTE. An RFP for these services was released through the Authority in October 6, 2006. Pre-qualified vendors that can provide these services submitted formal proposals on April 20, 2007. The County, through the Authority, has secured the services of HDR Engineers to comprehensively review the proposals before the Board takes any formal action on the WTE project and potential award of a DBO contract. This effort should be completed by July 2007. In March 2007 County staff accompanied representatives from the Authority and HDR Engineers on a technology tour of WTE facilities in several European countries. They technology tour delegation also met with several European solid waste associations to discuss the current state of technology in Europe. European countries rely heavily on WTE facilities for electricity and heat, processing more than 45 million tons of solid waste per year; the combined output of Europe's WTE facilities can supply electricity for 20 million people and enough steam to serve 32 million people with heat.

Water Supply and Sewage Facilities

The Division of Utilities and Solid Waste Management is also 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. Water transmission projects needed to provide water to the City of Frederick as well as the County's expanding water service areas, have been completed. Water treatment plant upgrades (two phases) to supply capacity for the transmission system are ongoing and are scheduled to be completed in 2007 and 2009. The transmission system improvements included four water transmission main contracts totaling 75,760 linear feet of 42", 36", and 24" lines, as well as a 14 million gallons per day ("MGD") pump station and 2.5 million gallon storage reservoir. A fifth contract which comprises a raw waterline and treated effluent outfall, is expected to be bid-ready by the end of April 2007, with construction commencing July 2007.

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. The callable maturities of the Public Facilities Bonds of 2002 were refunded in February 2006. 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, East County Water Distribution System, Buckeystown Sewerage Conveyance System and Cell 3 lining and rubblefill capping was received from the Maryland Department of the Environment Revolving Loan Program. See "CERTAIN DEBT INFORMATION".

The 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 64% of the County's water supply presently comes from the Potomac River, while 24% comes from Lake Linganore, with the remaining 12% supplied from deep well sources.

The County's recent completion of the first phase of its Potomac River water transmission system establishes 32 MGD of water transmission capacity to serve the County's service areas south of the City of Frederick and east of the Monocacy River as well as a portion of the City of Frederick. In March 2006 the City of Frederick executed the County's Potomac River Water Supply Agreement (PRWSA), which among other things, formally establishes the City's participation in the funding of the County's Potomac River transmission system and treatment plant improvements so that the City can receive up to 8 MGD of water supply capacity. The first phase of improvements to the County's Potomac River New Design Water Treatment Plant (WTP) is underway with construction scheduled to be completed by November 2007. These improvements will provide an initial increase in treatment capacity from 6.6 to 8.8 MGD. The second phase of construction will expand the WTP capacity to 25 MGD. This phase of the project will be bid in May 2007, with completion anticipated in June 2009. The City of Frederick is funding its share of the improvement that will provide them with up to 8.0 MGD. The total costs of the related water supply projects are estimated to be \$93 million, with the County paying approximately \$59 million and the City paying \$34 million.

The County owns and operates 14 wastewater treatment plants (WWTP) and leachate treatment facility; all but one has 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 from areas south of the City of Frederick and 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 are reported as part of the total flow treated at the Ballenger Creek WWTP. Originally treatment capacity beyond the 6 MGD available from the Ballenger Creek WWTP was planned to occur through the construction of second (sister) plant next to the Ballenger Creek facility, on property owned by DUSWM known as the McKinney site. In March 2006 the County's engineering consultant team of Whitman Requardt and Associates and CH2MHILL finalized the facility plan for the Ballenger Creek-McKinney WWTP. This facility plan determined that the optimal expansion of the facility should be to 15 MGD instead of the originally programmed 12 MGD. This greater increase in capacity was based in part on 20-year projected capacity needs and available assimilation capacity in the receiving stream (Monocacy River). The facility plan also recommended that the increase in capacity should be through an expansion of the Ballenger Creek WWTP, using a portion of the McKinney site. In this way, the operations of the facility would be simplified and State mandated Enhanced Nutrient Removal (ENR) requirements could be optimized reducing overall project complexity and cost. Following the consultants recommendations DUSWM applied to increase to its National Pollutant Discharge Elimination System (NPDES) permit for the Ballenger Creek-McKinney WWTP. The County simultaneously pursued an ENR grant from the Maryland Department of the Environment (MDE), for that portion of the improvements that will provide ENR for 6 MGD of existing capacity associated with the Ballenger Creek WWTP. On August 25, 2006 the County received an ENR grant commitment of \$17.62 million or 26% of completed costs for the Ballenger Creek – McKinney WWTP project. On November 30, 2006 the County received its NPDES permit for the Ballenger Creek-McKinney project, increasing the

discharge and pollutant loading to allow for a 15 MGD discharge to the Monocacy River. Final design of the WWTP upgrade and expansion to 15 MGD is ongoing; design is scheduled to be completed for construction bidding in January 2008.

The expanded Ballenger Creek-McKinney WWTP will also provide some additional capacity for the City of Frederick, the actual amount of which has yet to be determined. The County and the City of Frederick are currently working on a wastewater capacity agreement that will complement the recently executed PRWSA.

As of December 31, 2006, the County owned and operated the following sewerage and water systems:

<u>System</u>	<u>Equivalent Dwelling Units Served(3)</u>	<u>Millions of Gallons Per Day</u>	
		<u>Current Flow</u>	<u>Capacity</u>
Sewerage ⁽¹⁾			
Ballenger Creek	20,732	5.183	6.000
Crestview	140	0.035	0.036
Fountaindale.....	688	0.135	0.200
Jefferson.....	660	0.165	0.300
Kempton Elementary School	8	0.002	0.005
Landfill Leachate ⁽⁴⁾	-	-	0.144
Lewistown Elementary School	12	0.003	0.022
Libertytown.....	156	0.039	0.050
Mill Bottom	256	0.064	0.100
Monrovia.....	340	0.085	0.200
New Market	316	0.079	0.240
Pleasant Branch.....	200	0.050	0.100
Point of Rocks.....	368	0.092	0.230
Urbana High School.....	4	0.001	0.030
White Rock	24	0.006	0.050
			7.707
Water ⁽²⁾			
Bradford Estates.....	88	0.022	0.030
Cambridge Farms.....	328	0.082	0.125
Cloverhill III	416	0.104	0.192
Copperfield	168	0.042	0.065
Fountaindale.....	1,384	0.346	0.324
Lake Linganore	6,612	1.653	2.000
Liberty East.....	40	0.010	0.115
Liberty West and Liberty Condos	16	0.004	0.037
New Design.....	20,704	5.176	6.600
Pleasant Branch.....	412	0.103	0.238
Sam Hill	424	0.106	0.168
White Rock	132	0.033	0.036
Woodspring.....	368	0.092	0.302
			10.232

⁽¹⁾ Average daily value based on monthly flow data calendar 2006.

⁽²⁾ Average daily value based on monthly flow data calendar 2006.

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

⁽⁴⁾ 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 1,523 acres of parkland of which 783 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>
2006.....	228,800
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 Division of Planning.

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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 Division of Planning.

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

Population of the State of Maryland and Subdivisions

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

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

Income

Median household effective buying income in Frederick County was estimated at \$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
Frederick County	52,799
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>
2005	\$37,632	5.0%	\$40,760	2.8%	\$34,586	4.6%
2004	35,836	1.2	39,631	5.8	33,050	5.0
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

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, November 2006.

**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>
2005	\$8,183,343	\$220,402,185	2.9%	4.3%
2004	7,950,217	211,245,872	5.0	2.3
2003	7,567,226	206,411,852	4.8	4.3
2002	7,214,897	197,868,861	3.9	3.9
2001	6,946,996	190,331,297	8.1	4.6

Source: Maryland Department of Planning, Planning Data Services from U.S. Bureau of Economic Analysis, November 2006.

Personal income levels for Frederick County residents from 2001 to 2005 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>2005 Number of Returns</u>	<u>2001 Number of Returns</u>	<u>Percent Increase</u>
Calvert County	17,804	14,436	23.3%
Charles County	26,350	20,629	27.7
Frederick County	44,771	36,971	21.1
Montgomery County	194,887	170,882	14.0
Prince George's County	127,837	106,476	20.0
State of Maryland.....	954,478	797,870	19.6

Source: Comptroller of the Treasury, Income Tax Summary Report, Tax Years 2001 and 2005.

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 2006, as a percentage of their ninth grade enrollment four grades earlier, are presented below:

Calvert County	86.9%
Charles County	89.9
Frederick County	96.3
Montgomery County	91.5
Prince George's County	86.5
State of Maryland.....	77.4

Source: Graduation Statistics and Holding Power: Maryland Public Schools: 2005-2006, 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:

	Food & Beverage Stores	Food Serv. & Drinking Estab.	General Merch.	Furnit. & Home Furnish. and Electron. & Appliances	Motor Veh. & Parts Dealers	Miscellaneous	Total Retail Sales
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	
Frederick County	666,906	299,808	482,154	269,811	1,055,286	1,830,222	4,604,187
% of Total	14.5	6.5	10.5	5.9	22.9	39.6	
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 2004 and 2005. 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)

	Fiscal Year 2005	Fiscal Year 2004	Percent Increase
Calvert County	\$ 23,703	22,484	5.4%
Charles County.....	79,016	72,569	8.8
Frederick County	123,295	115,554	6.7
Montgomery County	426,649	403,693	5.7
Prince George's County	385,415	353,788	8.9
State of Maryland.....	3,179,264	2,969,441	7.0

Source: State of Maryland, Consolidated Revenue Reports for fiscal years 2004 and 2005.

Business, Employment and Labor

In the following table, annual average statistics are provided relating to the distribution of employment in Frederick County by employer classification for the third quarter of 2006. These figures exclude railroad, domestic service, self-employed, agricultural and unpaid family workers:

Business and Employment Composition

<u>Classification</u>	<u>Number of Reporting Units</u>	<u>Percent of Total*</u>	<u>Quarterly Average Employment</u>	<u>Percent of Total*</u>
Natural Resources and Mining.....	51	0.1%	543	0.6%
Construction.....	1,064	18.2	10,851	12.0
Manufacturing.....	188	3.2	5,648	6.2
Trade/Transportation/Utilities.....	1,112	19.1	16,901	18.6
Information	98	1.7	1,567	1.7
Financial Activities	543	9.3	7,586	8.4
Professional and Business Services	1,171	20.1	12,786	14.1
Education and Health Services.....	553	9.5	10,340	11.4
Leisure and Hospitality	431	7.4	8,978	9.9
Other Services.....	481	8.2	3,117	3.4
Total – Private Sector.....	5,692	97.7	78,316	86.5
Local Government	70	1.2	8,279	9.1
State Government	7	0.1	559	0.6
Federal Government.....	<u>132</u>	<u>1.0</u>	<u>3,337</u>	<u>3.7</u>
Total	<u>5,824</u>	<u>100.0%</u>	<u>90,531</u>	<u>100.0%</u>

* Totals may not add due to rounding.

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, "Employment and Payrolls, Third Quarter 2006."

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

Ten Largest Employers in Frederick County

<u>Employer</u>	<u>Principal Products or Activities</u>	<u>November 2006 Employment</u>
Fort Detrick Campus	Research/Telecommunications	7,900 *
Frederick Memorial Healthcare System.....	Comprehensive health care	2,300
Bechtel	Telecommunications	2,050
SAIC	Medical research	1,670
Wells Fargo Home Mortgage.....	Mortgage servicing	1,650
United Home Health Care.....	Insurance	1,565
Citi Mortgage	Mortgage servicing	1,300
Frederick Community College	Two-year college	1,159
State Farm Insurance.....	Insurance, regional headquarters	930
NVR Building Products	Wood building products	650

* 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 2002-2006.

Average Annual Unemployment Rate

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Calvert County.....	3.4%	3.3%	3.3%	3.3%	3.3%
Charles County	3.1	3.4	3.4	3.4	3.4
Frederick County.....	3.0	3.1	3.2	3.4	3.4
Montgomery County.....	2.8	3.1	3.1	3.3	3.5
Prince George's County.....	4.1	4.5	4.6	4.7	4.9
State of Maryland.....	3.8	4.2	4.2	4.5	4.5
United States.....	4.5	4.6	4.4	4.8	4.6

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 124,870 in March 2007 and the total employment for this force was 121,069, resulting in an unemployment rate of 3.0% for this period. Certain comparative unemployment rates are given below for March 2007.

Calvert County	2.9%
Charles County	3.0
Frederick County.....	3.0
Montgomery County.....	2.6
Prince George's County.....	3.8
State of Maryland.....	3.6
United States.....	4.5

Source: "State of Maryland. Civilian Labor Force, Employment, and Unemployment by Place of Residence, March, 2007."
Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information.

Commuting Patterns

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

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

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

Agriculture

Agriculture is one of the largest industries in Frederick County, with 49% 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 March 1, 2007, Maryland Agricultural Land Preservation Foundation easements have been purchased on 16,917 acres with an additional 7,844 acres under the 3-year district status. In combination with County and State Land Preservation Programs, there are protective easements on 35,526 acres. The County is now in the sixth year of agricultural land preservation Installment Purchase Program which has purchased easements to protect a total of 9,674 acres. Twenty-two new

applications have been received for the fiscal year 2007 Installment Purchase Program. Staff is in the process of making offers to these property owners.

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.

Frederick County had the 4th highest number of new jobs created for the State of Maryland from 2002 – 2006 (2nd Quarter), adding over 10,000 jobs during that timeframe. The industries that saw the most growth in employment in the private sector were financial activities, professional and business services, leisure and hospitality, and the construction industries. The average wage per worker was \$691 up 16 % 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. It was filled to capacity, with 21 companies, within six months. FITCI has just opened a second incubator location on Metropolitan Court, south of the City of Frederick.

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 Frederick 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 City 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 Civil War sites and 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

	2006		2005		2004		2003		2002	
	<u>Issued</u>	<u>Value (000's)</u>								
Residential	1,284	\$309,135	2,251	\$362,659	1,570	\$295,213	1,924	\$374,304	1,605	\$284,486
Other	<u>4,690</u>	<u>282,219</u>	<u>5,021</u>	<u>213,069</u>	<u>5,727</u>	<u>172,870</u>	<u>5,428</u>	<u>139,551</u>	<u>5,067</u>	<u>55,152</u>
Total.....	<u>5,974</u>	<u>\$591,354</u>	<u>7,272</u>	<u>\$575,728</u>	<u>7,297</u>	<u>\$468,083</u>	<u>7,352</u>	<u>\$513,855</u>	<u>6,672</u>	<u>\$339,638</u>

Source: Frederick County Division of Planning.

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>
2006.....	811	271	10	192	1,284
2005.....	989	425	9	828	2,251
2004.....	903	490	16	161	1,570
2003.....	1,079	554	15	276	1,924
2002.....	1,000	360	13	232	1,605

Source: Frederick County Division of Planning

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%	28.3%	14.7%	15.6%	16.8%
11-20 years old.....	23.1	25.8	21.3	23.2	14.5	17.2
Over 20 years old	39.4	46.5	50.4	62.2	69.9	66.1

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

Land Use

Frederick County's land use is predominantly agricultural and woodland, with about 92,862 acres or 21.7% having been developed. The following table shows land use within Frederick County as of March 1, 2007:

	<u>Acres (1)</u>	<u>Percentage</u>
Agriculture.....	208,803	48.84%
Commercial/Industry	15,523	3.63
Institutional	2,207	0.52
Municipal	25,525	5.97
Residential	49,607	11.60
Resource Conservation/Water/Parks.....	<u>125,833</u>	<u>29.43</u>
Total.....	<u>427,502</u>	<u>100.0%</u>

(1) Total s may not add due to rounding.

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; and 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 is included in the Operating Budget as a transfer to the Capital Budget where the expenditures are recorded.

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). 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 for fiscal year 2005. This was the twenty-fourth year (eighteenth 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 Comprehensive Annual Financial Report to the Certificate of Achievement program requirements and has submitted the report for the fiscal year ended June 30, 2006 to the GFOA.

CERTAIN REVENUES AND EXPENDITURES

General

The County's principal source of General Fund revenue is taxes, which comprise \$362.5 million of the total \$393.6 million budgeted revenues in fiscal year 2007.

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 2002-2006:

Frederick County, Maryland
General Fund
Revenues & Other Financing Sources Over
Expenditures & Other Financing Uses (Change in Fund Balance) – Budgetary Basis

	Fiscal Year				
	2006	2005	2004	2003	2002 (1)
Revenues					
Property Taxes	\$181,637,755	\$167,674,701	\$152,677,680	\$144,707,212	\$136,783,793
Local Taxes	175,355,670	165,322,305	157,755,202	150,574,499	127,432,092
Licenses and Permits	831,982	979,054	847,080	2,294,473	2,202,833
Grants from Federal Government	-	50,405	17,986	47,909	60,200
Grants from State Government	16,740,216	13,763,781	10,531,860	13,506,458	14,209,962
Service Charges	3,766,588	4,224,515	4,441,562	12,171,162	11,374,472
Fines and Forfeitures	203,011	170,158	330,147	109,664	173,627
Investment Earnings	5,786,537	2,699,479	1,711,865	1,931,265	3,379,001
Miscellaneous	2,098,034	1,761,021	1,828,978	1,073,243	1,357,489
Total Revenues	386,419,793	356,645,419	330,142,360	326,415,885	296,973,469
Other Financing Sources	<u>16,012,054</u>	<u>68,550,296</u>	<u>2,019,481</u>	-	-
Total Revenues and Other Financing Sources	<u>402,431,847</u>	<u>425,195,715</u>	<u>332,161,841</u>	<u>326,415,885</u>	<u>296,973,469</u>
Expenditures:					
Current					
General Government	27,743,651	25,382,745	23,374,028	24,748,896	23,390,829
Public Safety	41,973,763	37,513,002	33,519,617	32,206,829	30,711,310
Public Works	14,921,768	15,406,946	12,644,580	12,460,331	11,810,948
Public Health	7,301,110	2,955,926	2,942,168	5,659,254	5,328,692
Public Welfare	5,027,479	5,230,045	4,781,956	2,489,243	2,322,706
Education	100,000	100,000	200	200	200
Recreation and Culture (excluding Library)	3,901,984	3,188,341	2,934,693	2,796,539	2,714,675
Public Service Enterprises	2,895,213	2,938,982	2,991,194	2,709,615	2,722,360
Miscellaneous	(412,578)	(697,031)	1,768,774	2,930,385	2,478,406
Intergovernmental					
Tax Equity	5,405,180	4,798,018	4,414,069	3,817,236	3,045,698
Property Tax Grants to Municipalities	49,273	49,273	49,273	49,273	49,273
Debt Service					
Principal	12,570,489	15,511,762	9,600,823	9,088,934	9,186,074
Interest	<u>7,944,726</u>	<u>8,142,544</u>	<u>8,541,763</u>	<u>8,073,085</u>	<u>8,181,868</u>
Total Expenditures	<u>129,422,058</u>	<u>120,520,553</u>	<u>107,563,138</u>	<u>107,029,820</u>	<u>101,943,039</u>
Other Financing Uses:					
Payment to refunding agent	13,710,975	64,545,625	-	-	-
Transfer to					
Grants Revenue Fund	6,906,776	5,998,324	5,331,967	6,890,825	5,081,635
Agriculture Preservation Fund	1,063,784	1,062,359	530,134	1,100,000	1,204,983
Housing Initiative Appropriation	458,940				
Fire Tax Districts	-	170,274	-	-	-
Economic Development Loans	-	-	-	-	76,495
Capital Projects Fund	23,291,840	16,425,624	19,725,275	21,275,615	16,603,842
Internal Service Fund-Fleet Services	1,260,819	14,804	220,000	-	-
Internal Service Fund-Voice Services	402,312	-	-	-	-
Enterprise Fund – Citizens Care & Rehabilitation Center	1,933,970	1,818,643	1,843,738	1,279,613	832,499
Enterprise Fund – Montevue Home	1,545,848	1,007,892	1,209,551	1,162,046	1,036,269
Enterprise Fund – Permitting & Development Review	1,011,540	867,200	410,309	-	-
Enterprise Fund – Solid Waste	1,650,000	-	3,442,732	-	-
Board of Education	184,882,852	174,542,485	168,631,808	156,583,145	148,616,400
Community College	11,580,560	10,657,588	10,783,417	9,417,536	8,706,336
Library	<u>6,613,979</u>	<u>5,634,939</u>	<u>5,053,300</u>	<u>4,714,379</u>	<u>4,135,059</u>
Total/Other Financing Uses	<u>256,314,195</u>	<u>282,745,757</u>	<u>217,182,231</u>	<u>202,423,159</u>	<u>186,293,518</u>
Total Expenditures and Other Financing Uses	<u>385,736,253</u>	<u>403,266,310</u>	<u>324,745,369</u>	<u>309,452,979</u>	<u>288,236,557</u>
Change in Fund Balance	<u>\$16,695,594</u>	<u>\$21,929,405</u>	<u>\$7,416,472</u>	<u>\$16,962,906</u>	<u>\$8,736,912</u>

(1) Restated

Source: Frederick County Finance Division.

The following table summarizes General Fund revenues and expenditures for fiscal year 2006, amended budget for fiscal year 2007, and unaudited operations from July 1, 2006 to December 31, 2006. This information is presented on a budgetary basis.

	Audited Fiscal Year 2006	Amended Budget Fiscal Year 2007 as of December 31, 2006	Unaudited Operations July 1, 2006 to December 31, 2006
Revenues:			
Property Taxes	\$181,637,755	\$188,212,000	\$191,554,347
Local Taxes.....	175,355,670	174,295,700	60,727,329
Licenses and Permits.....	831,982	491,355	123,575
Grants from State Government	16,740,216	17,645,000	8,568,528
Service Charges	3,766,588	5,664,904	2,633,527
Fines and Forfeitures.....	203,011	182,500	93,428
Investment Earnings.....	5,786,537	4,505,000	5,268,068
Miscellaneous	2,098,034	2,483,622	857,149
Total Revenues	386,419,793	393,480,081	269,825,951
Other Financing Sources.....	16,012,054	-	-
Total Revenues and Other Financing Sources.....	402,431,847	393,480,081	269,825,951
Expenditures:			
Current:			
General Government.....	27,743,651	32,900,453	15,200,367
Public Safety	41,973,763	47,813,104	22,868,348
Public Works.....	14,921,768	16,056,402	7,700,117
Public Health.....	7,301,110	12,064,139	5,272,378
Public Welfare	5,027,479	5,824,513	2,337,430
Education	100,000	2,000	-
Recreation and Culture (excluding Library).....	3,901,984	4,870,856	2,203,030
Public Service Enterprises	2,895,213	3,368,911	1,574,215
Miscellaneous	(412,578)	8,594,014	912,982
Intergovernmental			
Tax Equity	5,405,180	6,012,917	3,028,764
Property Tax Grants to Municipalities	49,273	50,000	21,605
Debt Service			
Principal.....	12,570,489	15,787,992	14,804,021
Interest	7,944,726	10,674,862	5,792,880
Total Expenditures.....	129,422,058	164,020,163	81,716,137
Other Finance Uses:			
Payment to Refunding Agent.....	13,710,975	-	-
Transfers to			
Grants Revenue Fund.....	6,906,776	6,918,253	3,459,126
Agriculture Preservation Fund	1,063,784	1,071,578	535,789
Housing Initiative appropriation	458,940	1,225,000	612,500
Capital Projects Fund	23,291,840	37,715,580	18,855,290
Internal Service Fund-Fleet Services	1,260,819	626,200	626,200
Internal Service Fund-Voice Services.....	402,312	141,413	70,707
Enterprise Fund-Citizens Care Rehabilitation Center	1,933,970	1,960,637	980,319
Enterprise Fund-Montevue Home	1,545,848	1,767,962	883,981
Enterprise Fund-Permitting & Development Review	1,011,540	213,280	106,640
Enterprise Fund-Solid Waste	1,650,000	-	-
Board of Education	184,882,852	200,802,990	96,346,408
Community College	11,580,560	12,527,068	6,238,737
Library	6,613,979	7,585,844	3,672,405
Total Other Financing Uses	256,314,195	272,555,805	132,388,102
Total Expenditures and Other Financing Uses.....	385,736,253	436,575,968	214,104,239
Excess (Deficiency) of Revenues and Other Financing			
Sources over Expenditures and Other Financial Uses.....	16,695,594	(43,095,887)	55,721,712
Use of Fund Balance.....	26,481,991	43,095,887	-
Change in Fund Balance	\$ 43,177,585	\$ -	\$ 55,721,712

Source: Frederick County Finance Division.

Taxes

Ad valorem property taxes remain the County's most important source of revenues, amounting to 47.8% of total budgeted General Fund revenues and 51.9% of total budgeted local General Fund tax revenues in fiscal year 2007. By comparison, in fiscal year 2002, these percentages were 46.0% and 51.8%, respectively. The increase in property taxes between fiscal years 2002 and 2006 was 32.8% compared to increases in income tax revenues of 29.9% and other local tax revenues of 89.8%.

The following table represents the County's actual principal tax revenues by source for each of the five fiscal years 2002-2006, together with the budgeted revenues for fiscal year 2007:

	Total Local Taxes	General Property Taxes(1)	Income Taxes	Other Local Taxes
2007 Budget.....	\$362,507,700	\$188,212,000	\$149,460,000	\$24,835,700
2006	356,993,425	181,637,755	144,199,778	31,155,892
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

(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 105% as the tax credit factor for tax year 2006-2007.

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 2007, the County budgeted \$2,300,000 in tax credits which is entirely reimbursable from the State. In 2006, the County chose to supplement this credit however; subsequently the State expanded its credit eligibility, thereby substantially lessening the effect of the County's action. For 2007, the County's estimate of this supplement was less the \$100,000. Other budgeted tax credits not reimbursed by the state include \$75,000 for historic districts, and \$700,000 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 2002-2006 and the County and State tax rates applicable in each of those years. As of July 1, 2005, the assessment of tax exempt property owned by federal, State and county governments, churches, schools, fraternal organizations, cemeteries, disabled and the blind aggregated \$1,930,325,968. 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)**

	2006	2005	2004	2003	2002
Assessments					
Real Property	\$18,245,677,611	\$15,868,640,547	\$14,713,127,459	\$13,852,072,854	\$12,972,034,400
Public Utilities	<u>317,522,620</u>	<u>365,265,099</u>	<u>341,838,850</u>	<u>365,088,270</u>	<u>382,963,100</u>
Total Base	<u>\$18,563,200,231</u>	<u>\$16,233,905,646</u>	<u>\$15,054,966,309</u>	<u>\$14,217,161,124</u>	<u>\$13,354,997,500</u>
County Tax Rate					
(Per \$100 of Assessment)	\$0.936**	\$1.00**	\$1.00**	\$1.00**	\$1.00**
State Tax Rate					
(Per \$100 of Assessment)	\$0.112	\$0.132	\$0.132	\$0.084	\$0.084

** Excludes Special Revenue Tax Districts.

Source: Frederick County Finance Division.

Tax rates for fiscal year 2007 are based on a taxable assessment of \$21,674,000,000 and are as follows:

	2007
County Tax Rate (Per \$100 of Assessment)	\$.936
State Tax Rate (Per \$100 of Assessment)	0.112

Source: Frederick County Treasurer's Office.

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The following table lists the 20 largest taxpayers in Frederick County and the assessment of their property for fiscal year 2006:

<u>Name of Taxpayer</u>	<u>Assessment</u>	<u>Percentage of Total County Taxable Assessments</u>
Potomac Edison Company	\$141,794,420	0.76%
Verizon-Maryland	106,296,530	0.57%
PR Financing Limited Partnership	63,902,032	0.34%
State Farm Mutual Auto Insurance	40,982,700	0.22%
Washington Gas Light Company	37,556,950	0.20%
Fannie Mae	34,830,676	0.19%
First Real Estate Investment Trust	27,217,200	0.15%
Toys R Us, Inc.	26,848,666	0.14%
Writ Frederick Crossing Land LLC	24,637,066	0.13%
ABP MD (Baltimore) LLC	24,376,132	0.13%
Frederick Westview Properties LLC	22,409,400	0.12%
Buckingham's Choice, Inc.	21,865,166	0.12%
First Nationwide Mortgage Corporation	21,674,732	0.12%
Frederick Partners LLP	21,350,800	0.12%
Oakwood Atlanta, LLC	20,598,633	0.11%
Eastalco Aluminum Company ETAL	20,328,600	0.11%
FSP Presidents Court LLC	20,165,800	0.11%
M.O.R. Westview LLLP	19,780,132	0.11%
Wellington Trace Apartments LLC	18,926,100	0.10%
WDG B, LLC	<u>18,359,232</u>	<u>0.10%</u>
Total	<u>\$733,900,967</u>	<u>3.95%</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 may be 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 and municipalities. 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 and municipalities.

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:

	<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>			
2006.....	\$180,971,318	\$180,630,510	99.8%	\$180,630,510	\$458,964	0.3%
2005.....	166,952,999	166,492,845	99.7	167,050,094	545,197	0.3
2004.....	154,483,604	153,934,018	99.6	154,482,618	841,842	0.6
2003.....	146,977,222	145,762,665	99.6	146,335,512	642,409	0.4
2002.....	137,981,958	137,338,900	99.5	137,599,443	702,171	0.5

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 \$141,300,000 for fiscal year 2006 and the fiscal year income tax was \$144,199,778.

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 2007 are \$34,000,000 (including General Fund revenues of \$22,100,000) as compared to actual revenues for fiscal year 2006 of \$43,625,863 (including General Fund revenues of \$28,356,811). Actual revenues were \$39,804,705 (including General Fund revenues of \$25,892,014) in fiscal year 2005.

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 2006, amended budget for fiscal year 2007, and unaudited operations from July 1, 2006 to December 31, 2006.

Selected Grant Awards

	<u>Actual Operations Fiscal Year 2006</u>	<u>Amended Budget Fiscal Year 2007</u>	<u>Unaudited Operations July 1, 2006- December 31, 2006</u>
Highway User Revenues	\$13,068,642	\$14,000,000	\$6,794,948
Headstart Grants.....	2,133,178	2,200,024	704,876
Transit Grants.....	2,749,964	5,256,776	1,274,350
Child Support Enforcement Grants	811,571	1,131,165	465,789
Section 8 Housing Grants.....	3,358,721	3,519,941	2,263,156
Workforce Investment Act Funds	719,763	845,633	324,035
Homeland Security Grants	962,509	2,004,157	204,633
Aging Grants	847,613	990,276	450,912
Office of Children & Family Grants	1,568,611	2,183,840	141,611

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.

Eastalco Aluminum, a primary aluminum smelter, was the County's largest water system customer. The smelting facility purchased approximately 59 million gallons of potable water from the County each year. In October 2005, Eastalco notified its workforce that the primary aluminum smelting facility would shut down. Since that time Eastalco's water usage has decreased from 967,000 GPD to 161,600 GPD, based on calendar year 2006 data. Monthly revenues from this particular customer now average \$25,400. 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 reallocated and resold to other users. The County has already reallocated portions of this capacity to a major pharmaceutical manufacturing facility located in the City of Frederick (MedImmune). Beginning in November 2007 the County, through its PRWSA with the City of Frederick, will begin supplying up to 1.5 MGD of water capacity to Frederick City. The County has also been working with Fort Detrick on a water supply alternative that

could provide the Fort with water from the County's Potomac River water supply system. The County's engineering consultant recently completed an interconnection study to evaluate options that may be used to directly, or indirectly supply water to Fort Detrick.

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 2006, the Water and Sewer Enterprise Fund reported \$12,951,233 of connection fees and \$21,425,241 in developer contributions for a total capital contribution of \$34,376,474. Overall for fiscal year 2006, net assets increased \$36,257,072 consisting of \$1,682,321 in net income, \$34,376,474 in capital contributions and \$198,277 in transfers.

Per GASB 34 requirements, the Water and Sewer Enterprise Fund reported total Net Assets of \$287,357,583 for fiscal year 2006. Of this amount, \$192,576,582 was invested in capital assets, net of related debt; \$92,122,246 was unrestricted; and \$2,658,755 was restricted.

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

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The following table summarizes the revenues and expenses of the Water and Sewer Enterprise Fund for the five most recent fiscal years:

Water and Sewer Enterprise Fund
Revenues and Expenses

	2006	2005	2004	2003	2002(1)
Operating Revenues:					
Service Charges	\$19,859,068	\$18,754,046	\$18,454,801	\$15,890,183	\$16,442,207
Delinquent Fees Collected	44,165	36,916	66,273	48,907	9,416
Other Revenue	<u>411,795</u>	<u>386,858</u>	<u>359,651</u>	<u>424,375</u>	<u>544,198</u>
Total Operating Revenues	<u>20,315,028</u>	<u>19,177,820</u>	<u>18,880,725</u>	<u>16,363,465</u>	<u>16,995,821</u>
Operating Expenses:					
Personnel Services	6,372,762	6,377,460	3,821,608	3,290,505	3,325,434
Operating Expenses	4,860,792	4,425,632	6,338,648	5,794,200	7,291,231
Supplies	1,141,299	430,894	392,022	342,650	72,628
Repairs and Maintenance	1,592,781	1,237,206	880,558	697,286	411,767
Depreciation	<u>5,018,547</u>	<u>4,769,263</u>	<u>4,621,339</u>	<u>4,444,809</u>	<u>4,301,110</u>
Total Operating Expenses	<u>18,986,181</u>	<u>17,240,455</u>	<u>16,054,175</u>	<u>14,569,450</u>	<u>15,402,170</u>
Operating Income (Loss)	<u>1,328,847</u>	<u>1,937,365</u>	<u>2,826,550</u>	<u>1,794,015</u>	<u>1,593,651</u>
Non-operating Revenues (Expenses):					
Investment Earnings.....	2,770,005	2,120,888	363,962	3,731,186	3,822,444
Miscellaneous Income (Expense)	560,608	446,317	660,657	397,642	507,163
Interest Expense	(2,680,994)	(2,774,828)	(3,044,018)	(3,117,176)	(2,818,797)
Gain/(loss) on disposition of capital assets..	<u>(296,145)</u>	<u>-</u>	<u>(701,411)</u>	<u>(6,424)</u>	<u>-</u>
Non-Operating Revenues (Expenses)....	<u>353,474</u>	<u>(207,623)</u>	<u>2,720,810</u>	<u>1,005,228</u>	<u>1,510,810</u>
Net Income (Loss) before Capital Contributions and Transfers	<u>\$ 1,682,321</u>	<u>\$ 1,729,742</u>	<u>\$ 105,740</u>	<u>\$ 2,799,243</u>	<u>\$ 3,104,461</u>

(1) Restated.

Source: Frederick County Finance Division.

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The following table summarizes Water and Sewer Enterprise Fund revenues and expenses for fiscal year 2006, and amended budget and unaudited operations for fiscal year 2007.

	<u>Audited Fiscal Year 2006</u>	<u>Amended Budget Fiscal Year 2007</u>	<u>Unaudited Operations July 1, 2006 to December 31, 2006</u>
Operating Revenues:			
Water and Sewer Service Charges	\$19,859,068	\$18,329,099	\$9,533,432
Other Sources	<u>455,960</u>	<u>726,937</u>	<u>446,684</u>
Total Operating Revenues	<u>20,315,028</u>	<u>19,056,036</u>	<u>9,980,116</u>
Operating Expenses:			
Salaries and Fringes	6,372,762	7,572,822	3,314,754
Operating Expenses	4,860,792	5,795,134	2,751,302
Operating Supplies	1,141,299	725,629	296,824
Repairs and Maintenance	1,592,781	1,782,738	909,104
Depreciation	<u>5,018,547</u>	<u>5,560,510</u>	<u>2,573,823</u>
Total Operating Expenses	<u>18,986,181</u>	<u>21,436,833</u>	<u>9,845,807</u>
Operating Income (Loss)	<u>1,328,847</u>	<u>(2,380,797)</u>	<u>134,309</u>
Non-Operating Revenues (Expenses):			
Investment Earnings.....	2,770,005	3,635,000	2,827,541
Miscellaneous Income (Expense)	560,608	428,397	327,980
Interest Expense	(2,680,994)	(3,689,515)	(1,205,539)
Gain (loss) on disposition of capital assets	<u>(296,145)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues (Expenses).....	<u>353,474</u>	<u>373,882</u>	<u>1,949,982</u>
Net Income (Loss) Before Capital Contributions and Transfers.....	<u>\$1,682,321</u>	<u>(\$2,006,915)</u>	<u>\$2,084,291</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.

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The following table summarizes the revenues and expenses of the Solid Waste Management Enterprise Fund for the five most recent fiscal years:

Solid Waste Management Enterprise Fund
Revenues and Expenses

	2006	2005	2004	2003	2002(1)
Operating Revenues:					
Tipping Fee Charges	\$14,992,001	\$11,253,075	\$11,404,532	\$8,898,575	\$9,462,892
Annual Charges	-	-	-	449	2,181
Delinquent Fees	<u>36,959</u>	<u>53,240</u>	<u>50,970</u>	<u>42,407</u>	<u>35,166</u>
Total Operating Revenues	<u>15,028,960</u>	<u>11,306,315</u>	<u>11,455,502</u>	<u>8,941,431</u>	<u>9,500,239</u>
Operating Expenses:					
Salaries and Fringes	1,538,386	1,343,042	1,235,282	1,166,564	1,081,321
Operating Expenses	5,334,795	6,340,226	4,914,517	4,016,764	3,583,735
Operating Supplies	52,055	58,736	68,527	37,735	26,927
Repairs and Maintenance	193,105	244,555	93,754	95,173	72,343
Transfer Expense.....	7,438,045	-	-	-	-
Depreciation	<u>2,053,365</u>	<u>3,407,975</u>	<u>4,164,064</u>	<u>3,228,861</u>	<u>3,616,185</u>
Total Operating Expenses	<u>16,609,751</u>	<u>11,394,534</u>	<u>10,476,144</u>	<u>8,545,097</u>	<u>8,380,511</u>
Operating Income (Loss)	<u>(1,580,791)</u>	<u>(88,219)</u>	<u>979,358</u>	<u>396,334</u>	<u>1,119,728</u>
Non-Operating Revenues (Expenses):					
Investment Earnings	1,338,113	696,820	265,080	422,419	674,805
Miscellaneous Income (Expense).....	2,543				(9,560)
Interest Expense	(1,046,353)	(1,003,595)	(1,146,318)	(1,081,199)	(885,190)
Gain (loss) on disposition of capital assets ..	<u>53,201</u>	<u>(24,971)</u>	<u>14,460</u>	<u>248,221</u>	-
Total Non-Operating Revenues (Expenses)	<u>347,504</u>	<u>(331,746)</u>	<u>(866,778)</u>	<u>(410,559)</u>	<u>(219,945)</u>
Net Income (Loss) before Capital Contributions and Transfers	<u>(\$ 1,233,287)</u>	<u>(\$ 419,965)</u>	<u>\$ 112,580</u>	<u>(\$ 14,225)</u>	<u>\$ 899,783</u>

(1) Restated.

Source: Frederick County Finance Division.

The fiscal year 2006 increase in operating revenues was the result of the adoption of a revised tip fee schedule on July 1, 2005 to address the increased operating expenses attributed to the contracted waste transfer operations that began December 12, 2005.

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

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The following table summarizes Solid Waste Management Enterprise Fund actual revenues and expenses for fiscal year 2006, and amended budget and unaudited operations for fiscal year 2007.

	<u>Audited Fiscal Year 2006</u>	<u>Amended Budget Fiscal Year 2007 As of December 31, 2006</u>	<u>Unaudited Operations July 1, 2006 to December 31, 2006</u>
Operating Revenues:			
Landfill Charges	\$14,992,001	\$16,144,900	\$7,560,427
System Benefit Charge	-	2,400,000	2,422,911
Delinquent Fees	<u>36,959</u>	<u>54,000</u>	<u>25,071</u>
Total Operating Revenues	<u>15,028,960</u>	<u>18,598,900</u>	<u>10,008,409</u>
Operating Expenses:			
Salaries and Fringes	1,538,386	1,611,865	846,041
Operating Expenses	5,334,795	3,886,883	1,577,172
Operating Supplies	52,055	50,150	15,503
Repairs and Maintenance	193,105	191,500	75,354
Transfer Expense	7,438,045	13,389,984	7,622,271
Depreciation	<u>2,053,365</u>	<u>746,000</u>	<u>177,983</u>
Total Operating Expenses	<u>16,609,751</u>	<u>19,876,382</u>	<u>10,314,324</u>
Operating Income (Loss)	<u>(1,580,791)</u>	<u>(1,277,482)</u>	<u>(305,915)</u>
Non-Operating Revenues (Expenses):			
Investment Earnings	1,338,113	950,000	1,048,177
Miscellaneous Income (Expense)	2,543	-	902
Interest Expense	(1,046,353)	(1,222,470)	(480,659)
Gain (loss) on disposition of capital assets	<u>53,201</u>	<u>20,000</u>	<u>25,000</u>
Total Non-Operating Revenues (Expenses)	<u>347,504</u>	<u>(252,470)</u>	<u>593,420</u>
Net Income(Loss) before Capital Contributions And Transfers	<u>(\$1,233,287)</u>	<u>(\$1,529,952)</u>	<u>\$ 287,505</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 \$90,924,600. This represents \$24,924,600 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, 2006:

Schedule of Long-Term Loans and Bonded Indebtedness
Issued and Outstanding
As of December 31, 2006

	<u>Date of Debt Issue</u>	<u>Date of Debt Maturity</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding 12/31/06</u>
General Government Debt				
EPA Asbestos School Hazard Abatement	04/17/1992	11/30/2011	\$ 1,370,471	\$ 380,687
Maryland State Pension	06/30/1993	12/31/2013	7,036,995	4,196,755
MD Industrial Land Act Loan - Dan Jay LLC (2).....	02/11/1994	02/11/2021	630,000	453,260
MD Industrial Land Act Loan - Trading Lane (State Farm) (2).....	06/23/1995	06/23/2022	181,058	134,925
MICRF-MedImmune (2).....	12/31/1997	01/01/2017	1,436,502	828,464
Public Facilities Refunding Bonds of 1998, Series A (1).....	10/15/1998	07/01/2015	19,346,419	17,003,662
Public Facilities Bonds of 1999 (7)	08/15/1999	07/01/2009	89,631,000	11,980,428
Public Facilities Bonds of 2000 (7)	11/15/2000	12/01/2010	52,815,000	9,172,938
Public Facilities Refunding Bonds of 2001 (4)	07/15/2001	07/01/2008	6,579,486	2,411,658
Public Facilities Refunding Bonds of 2002, Series A (5).....	04/01/2002	07/01/2016	13,999,267	7,842,440
Public Facilities Bonds of 2002	11/01/2002	11/01/2022	38,200,000	19,895,576
Public Facilities and Refunding Bonds of 2003 (6)	09/01/2003	08/01/2018	41,788,860	33,595,541
Public Facilities Refunding Bonds of 2005 (7)	05/19/2005	08/01/2020	91,781,972	91,411,972
Public Facilities Bonds of 2005	11/15/2005	12/01/2020	70,350,000	66,668,176
Public Facilities and Refunding Bonds of 2006 (8)	02/01/2006	11/01/2022	12,608,476	12,608,476
Installment Purchase Agreements.....	VARIOUS	VARIOUS	<u>24,447,770</u>	<u>23,105,222</u>
Total General Government Debt			472,203,276	301,690,180
Less: Installment Purchase Agreements			<u>24,447,770</u>	<u>23,105,222</u>
Less: Notes Payable			<u>10,655,026</u>	<u>5,994,091</u>
Total Serial Bond General Government Debt			<u>437,100,480</u>	<u>272,590,867</u>
Proprietary Fund Debt (3)				
MDE 93A - Ballenger WWTP.....	VAR	02/01/2014	1,804,064	723,258
MDE 93A - Leachate Plant	VAR	02/01/2014	11,888,821	5,792,231
MDE 94A - New Market WWTP	VAR	02/01/2016	1,534,523	946,725
MDE 99 - Reichs Ford	VAR	02/01/2019	3,914,206	2,744,771
MDE 99 - Adamstown Pump Station	VAR	02/01/2019	1,457,558	1,026,403
MDE 99 - Lake Linganore Intake	VAR	02/01/2019	2,021,568	1,452,066
MDE 99 - Braddock Hts / Fountaindale WTP.....	VAR	02/01/2019	1,089,757	782,758
MDE 99B - Brad Hts / Fountaindale – WTP.....	VAR	02/01/2020	4,592,849	3,271,310
MDE 99C - East County Water Distribution.....	VAR	02/01/2021	2,924,539	2,455,251
MDE 02 - Buckeystown Sewage Conveyance System	VAR	02/01/2019	2,829,246	2,218,822
MDE 05 - Ballenger WWTP Refunding (9).....	08/01/2006	02/01/2014	5,828,992	5,286,951
MDE 06 - Cell 3 Lining & Rubblefill Capping	01/12/2006	02/01/2026	7,280,505	5,530,176
Public Facilities Refunding Bonds of 1998, Series A (1).....	10/15/1998	07/01/2015	9,143,581	8,036,338
Public Facilities Bonds of 1999 (7)	08/15/1999	07/01/2009	5,159,000	689,572
Public Facilities Bonds of 2000 (7)	11/15/2000	12/01/2010	19,185,000	3,332,062
Public Facilities Refunding Bonds of 2001 (4)	07/15/2001	07/01/2008	8,125,514	2,978,342
Public Facilities Refunding Bonds of 2002, Series A (5).....	04/01/2002	07/01/2016	8,590,733	4,812,560
Public Facilities Bonds of 2002	11/01/2002	11/01/2016	23,500,000	12,239,424
Public Facilities and Refunding Bonds of 2003 (6)	09/01/2003	08/01/2018	7,216,140	5,659,459
Public Facilities Refunding Bonds of 2005 (7)	05/19/2005	08/01/2020	15,233,028	15,233,028
Public Facilities Bonds of 2005	11/15/2005	12/01/2020	31,970,000	30,296,824

Public Facilities and Refunding Bonds of 2006 (8)	02/01/2006	11/01/2022	<u>7,756,524</u>	<u>7,756,524</u>
Total Proprietary Debt			183,046,148	123,264,855
Less MDE Loans.....			<u>47,166,628</u>	<u>32,230,722</u>
Total Serial Bond Proprietary Debt			<u>135,879,520</u>	<u>91,034,133</u>
Total Serial Bond Long-Term Indebtedness.....			<u>\$572,980,000</u>	<u>\$363,625,000</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, a loan in the original amount of \$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, was reloaned to a private user to assist in the planning and executing of industrial and commercial redevelopment project. Although it is expected that said loan will be repaid by payments made by the private user, the loan is 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, 2nd series.
- (8) The County issued \$20,365,000 Public Facilities Bonds of 2006 on 02/01/06 to refund callable maturities of the County's Public Facilities Bonds of 2002.
- (9) The County refinanced the 1992A MDE loan for the Ballenger Wastewater Treatment Plant.

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, 2006, 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 23,267,891 for three solid waste loans. As of December 31, 2006, \$1,750,329 of solid waste loan proceeds remain to be drawn. The outstanding principal on these MDE loans as of December 31, 2006 is \$32,230,722. These loans have interest rates of 1.00 – 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 is funding 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 June 30, 2006 was \$463,856. 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 June 30, 2006 was \$137,828.

Maryland Industrial and Commercial Redevelopment Fund Loans

The County has received a State loan in the amount of \$1,436,502 from the Maryland Industrial and Commercial Redevelopment Fund ("MICRF") pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Maryland Code. The outstanding balance of this loan at June 30, 2006 was \$883,986. The proceeds of this loan have been reloaned to a private user to assist in the financing of the acquisition of a 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 had also received a MICRF loan in the amount of \$113,637. This loan was paid in full during fiscal year 2006. 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.

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, 2006, is \$418,756. This is a non-interest bearing note. Semi-annual principal payments of \$38,089 are required with a final payment due on November 30, 2011.

Maryland State Pension Plan

See “COUNTY GOVERNMENT AND ADMINISTRATION – Retirement and Pension Programs – Plan Descriptions - Cost Sharing Multiple Employer Pension Plans herein.”

Other Loans and Bonds

The County issued taxable 8.16%, \$1,890,094, and 7.20%, \$1,090,000 Tax Increment Financing Bonds due serially through 2018 and 2008, respectively, to finance part of the infrastructure needed in the Dudrow Industrial Park Lot Two and Center Park Development Districts. The County 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 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 related to 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 1, 2004.

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.

Defeasance of Debt

On February 1, 2006, the County issued the General Obligation Public Facilities Refunding Bonds of 2006 in the amount of \$20,365,000. These bonds carry an average interest rate of 4.888 percent. The gross proceeds of \$22.5 million (including premium and accrued interest) were used to advance refund certain maturities in the amount of \$20.5 million of the 2002 Public Facilities Bonds. As a result certain maturities of the 2002 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 \$1.2 million. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through fiscal year 2023. The County uses the straight line method to amortize this loss. The County completed the refunding to reduce its total debt service payments through fiscal year 2023 by \$823,069 and to obtain an economic gain of \$595,639. As of June 30, 2006, there remains \$103,035,000 of outstanding defeased debt.

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, 2006.

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

Fiscal Year	General Government Debt (2)		Proprietary Debt (3)		Total Long-Term Indebtedness		Total Indebtedness
	Principal	Interest	Principal	Interest	Principal	Interest	
2007.....	\$ 70,941	\$ 5,280,648	\$ 2,621,512	\$ 2,063,512	\$ 2,692,453	\$ 7,344,160	\$ 10,036,613
2008.....	19,257,957	13,464,365	9,929,331	4,826,933	29,187,288	18,291,298	47,478,586
2009.....	19,807,157	12,660,904	10,135,255	4,469,226	29,942,412	17,130,130	47,072,542
2010.....	19,889,500	11,829,473	9,834,291	4,115,185	29,723,791	15,944,658	45,668,449
2011.....	19,573,363	10,991,533	9,883,419	3,751,992	29,456,782	14,743,525	44,200,307
2012.....	20,810,646	10,086,421	9,973,047	3,366,293	30,783,693	13,452,714	44,236,407
2013.....	21,051,991	9,142,479	8,928,099	2,998,506	29,980,090	12,140,985	42,121,075
2014.....	20,361,130	8,206,890	9,064,710	2,656,429	29,425,840	10,863,319	40,289,159
2015.....	23,412,208	7,302,051	7,686,424	2,251,896	31,098,632	9,553,947	40,652,579
2016.....	23,818,069	6,168,855	8,001,073	1,914,448	31,819,142	8,083,303	39,902,445
2017.....	19,723,100	4,977,257	7,088,724	1,582,403	26,811,824	6,559,660	33,371,484
2018.....	20,024,171	4,023,507	6,910,440	1,283,483	26,934,611	5,306,990	32,241,601
2019.....	20,827,272	3,028,603	6,760,308	962,339	27,587,580	3,990,942	31,578,522
2020.....	20,292,760	2,081,897	6,505,797	620,666	26,798,557	2,702,563	29,501,120
2021.....	13,465,519	1,301,942	6,367,693	344,377	19,833,212	1,646,319	21,479,531
2022.....	2,674,619	890,996	2,029,251	151,790	4,703,870	1,042,786	5,746,656
2023.....	7,327,368	913,967	2,109,265	70,329	9,436,633	984,296	10,420,929
2024.....	3,978,905	603,106	391,586	32,021	4,370,491	635,127	5,005,618
2025.....	3,812,880	366,024	395,502	28,105	4,208,382	394,129	4,602,511
2026.....	1,510,624	119,470	399,457	24,150	1,910,081	143,620	2,053,701
Total	<u>\$301,690,180</u>	<u>\$113,440,388</u>	<u>\$125,015,184</u>	<u>\$37,514,083</u>	<u>\$426,705,364</u>	<u>\$150,954,471</u>	<u>\$577,659,835</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.

(3) Principal debt service calculated on full amount to borrow on 2006 MDE loan. There remains \$1,750,329 to borrow.

Source: Frederick County Finance Division.

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

Fiscal Year	Total Outstanding Debt Service	Public Facilities Bonds of 2007		Total Adjusted Debt Service
		Principal	Interest(1)	
2007.....	\$10,036,613	\$ -	\$ -	\$10,036,613
2008.....	47,478,586	3,000,000	4,137,563	54,616,149
2009.....	47,072,542	3,270,000	3,826,496	54,169,038
2010.....	45,668,449	3,390,000	3,695,696	52,754,145
2011.....	44,200,307	3,515,000	3,560,096	51,275,403
2012.....	44,236,407	3,640,000	3,419,496	51,295,903
2013.....	42,121,075	3,775,000	3,273,896	49,169,971
2014.....	40,289,159	3,915,000	3,122,896	47,327,055
2015.....	40,652,579	4,065,000	2,927,146	47,644,725
2016.....	39,902,445	4,220,000	2,723,896	46,846,341
2017.....	33,371,484	4,380,000	2,512,896	40,264,380
2018.....	32,241,601	4,555,000	2,337,696	39,134,297
2019.....	31,578,522	4,735,000	2,109,946	38,423,468
2020.....	29,501,120	4,920,000	1,920,546	36,341,666
2021.....	21,479,531	5,115,000	1,723,746	28,318,277
2022.....	5,746,656	5,325,000	1,519,146	12,590,802
2023.....	10,420,929	5,540,000	1,306,146	17,267,075
2024.....	5,005,618	5,765,000	1,079,006	11,849,624
2025.....	4,602,511	6,000,000	819,581	11,422,092
2026.....	2,053,701	6,250,000	549,581	8,853,282
2027.....	-	6,505,000	268,331	6,773,331
Total.....	<u>\$577,659,835</u>	<u>\$91,880,000</u>	<u>\$46,833,807</u>	<u>\$716,373,642</u>

(1) Interest rates range from 4.00% to 5.00%.

(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 ratio of debt to assessment for the five most recent fiscal years:

Fiscal Year	General Government Debt	Property Tax Assessment (2)	Debt to Assessment	Population(1)	Debt Per Capita
					Population(1)
2006.....	317,942,554	\$18,563,200,231	1.71%	228,800	\$1,389
2005.....	257,417,883	16,233,905,646	1.58	223,000	1,154
2004.....	280,654,099	15,054,966,309	1.86	218,830	1,283
2003.....	246,686,000	14,217,161,124	1.74	213,935	1,153
2002 (2).....	201,323,688	13,354,997,500	1.51	203,966	987

(1) Population estimate as per the Frederick County Division of Planning.

(2) Beginning in 2002, property is assessed at estimated full cash value and the difference between the property tax assessment and the estimated actual value is the value of tax exempt real properties. Prior to 2002, property was assessed at 40 percent of estimated full cash value.

Source: Frederick County Finance Division.

The following table sets forth the County's General Fund debt service as a percentage of General Fund revenues for each of its five most recent fiscal years:

<u>Fiscal Year</u>	<u>General Fund Revenues</u>	<u>Debt Service Expenditures</u>	<u>Percentage</u>
2006	\$388,720,872	\$21,377,559	5.50%
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

Source: Frederick County Finance Division.

The following table sets forth the computation of direct and overlapping governmental activities debt of the municipalities within Frederick County as of June 30, 2006:

<u>Jurisdiction</u>	<u>Debt Outstanding (1)</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Brunswick	\$ 167,339	100%	\$ 167,339
Emmitsburg	338,135	100	338,135
Frederick City.....	50,901,471	100	50,901,471
Middletown	1,557,927	100	1,557,927
Myersville	3,133,600	100	3,133,600
Walkersville	3,798	100	<u>3,798</u>
Total Overlapping Debt.....			56,102,270
Frederick County Direct Debt.....			<u>322,177,676</u>
Total Direct and Overlapping Debt			<u>\$378,279,946</u>

(1) Debt repaid by general government activities

Source: Frederick County Finance Division.

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The following table sets forth the different classes of capital projects and the amounts included in the Capital Budget for fiscal year 2007 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>	2007	2008	2009	2010	2011	2012
General Government.....	\$17,559.09	\$76,962.46	\$26,169.80	\$23,693.05	\$7,139.55	\$12,129.55
Water & Sewer.....	18,802.00	-	-	39.48	632.88	-
Solid Waste.....	600.00	-	-	-	-	-
Parks and Recreation.....	10,198.12	8,725.82	5,562.15	7,889.13	5,954.98	6,629.88
Watershed Restoration.....	241.03	263.38	208.15	263.38	208.15	263.38
Roads.....	10,943.46	2,366.85	2,941.20	15,624.70	5,081.00	-
Bridges.....	3,597.64	724.30	3,725.30	2,018.00	3,155.00	-
Highways.....	11,368.74	10,445.68	10,964.08	10,700.88	9,635.28	8,924.88
Community College.....	3,458.56	19,028.65	2,498.54	8,362.95	7,976.30	13,832.52
Board of Education.....	88,196.00	14,760.00	68,829.00	25,021.01	62,991.49	24,708.50
Municipalities.....	7,478.00	6,419.33	6,824.60	20,586.00	1,000.00	556.00
Project Cost Increase Contingency.....	-	-	-	-	-	-
Total – Projects.....	\$172,442.64	\$139,696.47	\$127,722.82	\$114,198.58	\$103,774.63	\$67,044.71
Sources of Funds						
General Fund.....	\$37,720.58	\$20,286.61	\$21,300.94	\$22,365.99	\$23,484.29	\$24,658.50
General Obligation Bonds.....	36,904.57	30,777.32	54,068.51	43,633.30	46,836.30	15,461.57
Fire Tax District Bonds.....	2,368.05	18,013.03	7,888.75	-	-	-
Recordation Tax Bonds.....	1,738.95	18,458.29	1,429.00	-	-	-
Impact Fee Bonds.....	11,950.00	-	9,532.89	-	-	-
Enterprise Fund bonds.....	12,591.74	-	-	39.48	632.88	-
Grants.....	21,449.00	26,805.99	14,271.63	22,772.18	17,189.43	19,025.01
Grants (Thru City).....	6,398.00	5,211.00	3,885.00	7,644.00	488.00	542.00
Impact Fees.....	13,407.00	6,140.25	6,988.25	885.00	8,931.50	1,283.75
Building Excise Taxes.....	2,896.40	1,567.00	1,556.50	1,460.50	1,407.50	500.00
Recordation Tax – Parks.....	13,456.12	7,662.82	4,601.00	7,147.13	4,798.73	5,566.88
Recordation Tax - Nursing Home.....	-	4,262.16	487.75	-	-	-
Water & Sewer Fees.....	420.00	-	114.60	-	-	-
Solid Waste Fees.....	600.00	-	-	-	-	-
Developer Funded.....	-	-	-	-	-	-
City of Frederick.....	8,286.17	512.00	1,598.00	8,251.00	6.00	7.00
FCC Funds.....	2,256.06	-	-	-	-	-
Total - Source of Funds.....	\$172,442.64	\$139,696.47	\$127,722.82	\$114,198.58	\$103,774.63	\$67,044.71

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 \$16.6 million for fiscal year 2002; \$21.3 million for fiscal year 2003; and \$19.7 million for fiscal year 2004; \$16.4 million for fiscal year 2005 and \$23.3 million for fiscal year 2006. 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 summer of 2008.

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 2006 financial statements of the County have been audited by Linton Shafer Warfield & Garrett, P.A., independent certified public accountants. The fiscal year 2006 financial statements can be found in Appendix A or on the County's web site (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.

CERTIFICATE OF COUNTY OFFICIALS

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

CONTINUING DISCLOSURE UNDERTAKING

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

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

SALE AT COMPETITIVE BIDDING

The Bonds were offered by the County at competitive bidding on May 15, 2007 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 2006.

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.

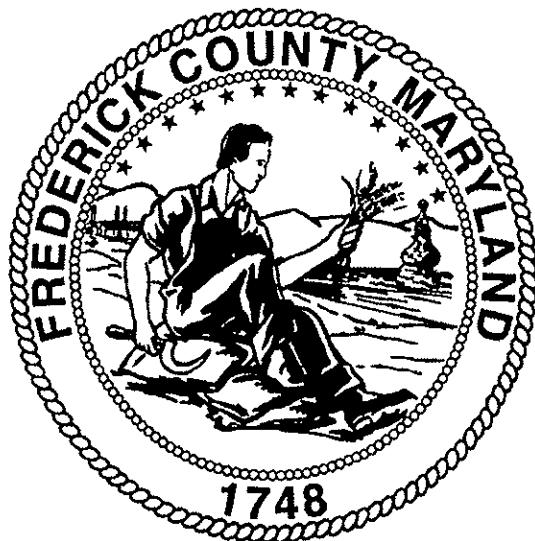
The execution of this Official Statement and its delivery have been approved by the County.

COUNTY COMMISSIONERS OF FREDERICK COUNTY

BY: /S/ JAN H. GARDNER
Jan H. Gardner
President
Board of County Commissioners of Frederick County

BY: /S/ JOHN R. KROLL
John R. Kroll
Director of Finance

Frederick County, Maryland
Comprehensive Annual Financial Report
Fiscal Year 2006
July 1, 2005 – June 30, 2006



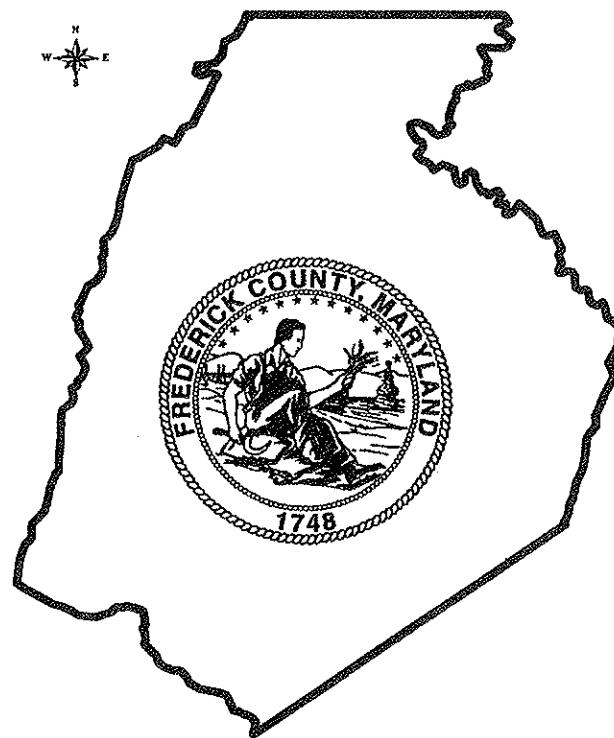
Prepared by the Finance Division

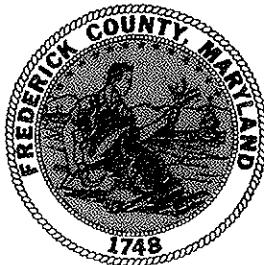
FREDERICK COUNTY, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION





FINANCE DIVISION FREDERICK COUNTY, MARYLAND

Winchester Hall • 12 East Church Street • Frederick, Maryland 21701
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www.co.frederick.md.us

December 11, 2006

COMMISSIONERS

David P. Gray
President

Charles A. Jenkins
Vice President

Jan H. Gardner

Kai J. Hagen

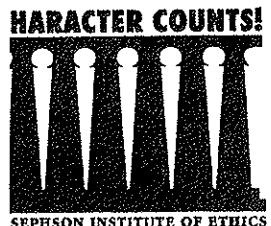
John L. Thompson, Jr.

COUNTY MANAGER

Douglas D. Browning

ACTING DIVISION DIRECTOR

Richard J. Duthoy, CPA



TRUSTWORTHINESS • RESPECT
RESPONSIBILITY • FAIRNESS
CARING • CITIZENSHIP

CHARACTER COUNTS! and the Six
Pillars of Character are service
marks of the CHARACTER
COUNTS! Coalition, a project of the

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, 2006. 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' (the "Board") 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 is 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 assurance that the financial statements of Frederick County, Maryland for the fiscal year ended June 30, 2006 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, 2006, 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 228,800. 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 60,725. 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 that serve 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.

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. Bell Court Apartments and the Water and Sewer Enterprise Funds are wholly supported through user fees. The Citizens Care and Rehabilitation Center, Montevue Home, and the Division of Permitting and Development Review are primarily supported through user fees with supplemental support from the General Fund. For FY2006, the Solid Waste Enterprise Fund received a one-time subsidy of \$1.6 million relative to the delayed implementation of the System Benefit Charge (see Subsequent Event Footnote, 4.G. in Exhibit II-A-13). 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-13.

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 most Special Revenue Funds and the 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.

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is presented for the General Fund which adopts an annual budget, and is presented in Exhibit II-A-7 as part of the basic financial statements. Budget-to-actual comparison schedules for special revenue 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 228,800 as of July 2006, a 52.3 percent increase from 1990. The growth rate for the State of Maryland for that same time period was 17 percent. The Division of Planning and Zoning estimates the growth will be steady through calendar 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 for calendar year 2001 to calendar year 2005, for a total of 19 percent of all new jobs created in the State. The civilian labor force in the County was estimated at 124,212 in June 2006. Of this number, 120,155 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 4.0 percent and the national unemployment rate of 4.6 percent. (Source: Maryland Department of Labor, Licensing and Regulation)

The County's estimated taxable property value has increased \$5.1 billion since 2001 or 38.6 percent. As of June 30, 2006, taxable assessed value totaled \$18.2 billion. The growth in the taxable assessable base from FY2005 to FY2006 was 14.3 percent. The continuation of emphasis on economic development within the County should result in above average assessable base growth in the foreseeable future although residential housing construction and resale of existing homes is slowing as evidenced by the decrease in recordation taxes.

Fort Detrick, a military installation primarily dedicated to medical research, is a stabilizing and driving economic player in the County. Fort Detrick is planning \$373 million in expansion and capital improvements over the next three years and \$3.2 billion over the next decade.

Long-term Financial Planning - Major initiatives during FY2006 were predominately in the Capital Budget area. Major general governmental projects approved in the six year Capital Improvements Program (fiscal years 2006-2011) include:

- Public Safety Training Facility, Phase III
- Thurmont Regional Library
- Oakdale High School
- Middletown Primary School
- Earth Space Science Lab Renovation/Addition
- Urbana Area Middle School
- Classroom/Student Center Building – Frederick Community College

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 \$725 million for fiscal years 2006 to 2011.

Frederick County concluded the fiscal year ended June 30, 2006, with a General Fund unreserved and undesignated fund balance of \$53.9 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 percent 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 \$332.3 million. The required balance of the reserve was \$16.6 million, an increase of \$1.0 million over FY2005. The actual unreserved, undesignated fund balance decreased \$2.7 million from the unreserved, undesignated fund balance at June 30, 2005. The June 30, 2006 unreserved, undesignated fund balance of \$53.8 million provides \$37.2 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 FY2006 General Fund earnings from these programs totaled \$5.7 million.

Risk Management - The County continues to work to keep safety programs and loss control operations working effectively. The Department 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 \$179,292. The County's modified duty policy, which returns injured workers back to the workplace during recuperation, saves in lost work time and increases productivity.

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, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

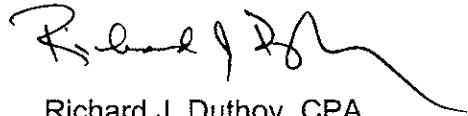
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal 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. Administration of the budget process, without which the accounting and financial reporting could not exist, is in the capable hands of John Kroll, Assistant Director of Finance, and Michael Gastley, Budget Officer, and their staff. A special thanks goes to them as well. I express my appreciation to Douglas Browning, County Manager, and to the Board of County Commissioners and their staffs for their continuing interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

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, 2005

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.



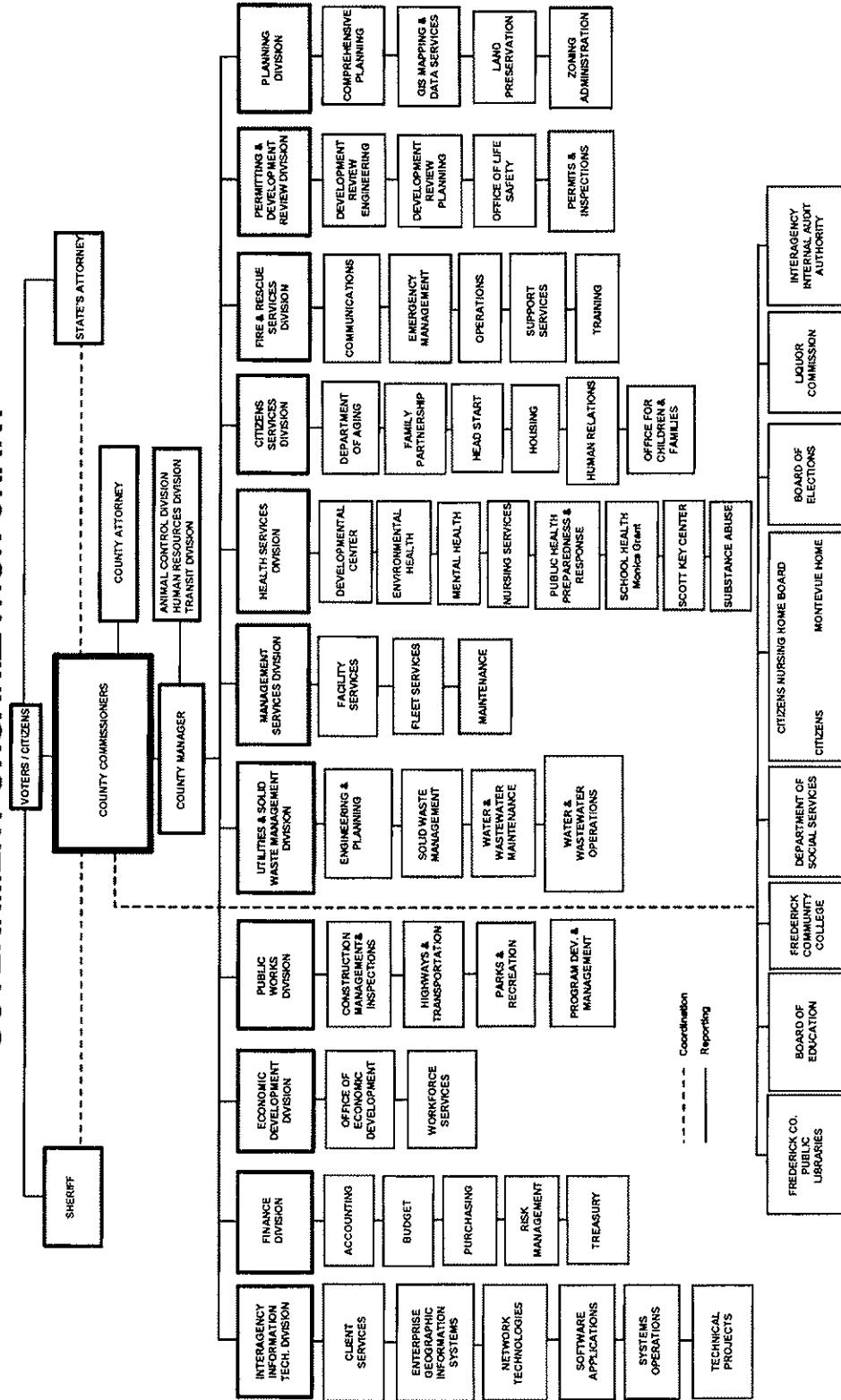
Carla E. Fudge

President

Jeffrey P. Evans

Executive Director

FREDERICK COUNTY, MARYLAND GOVERNMENT ORGANIZATION CHART



Frederick County, Maryland

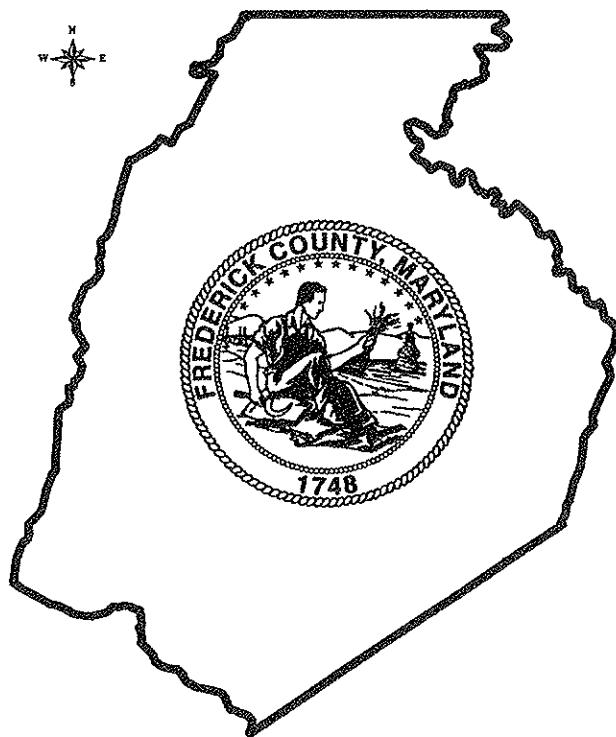
Summary of Elected and Appointed Officials

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	Douglas D. Browning
Sheriff	James W. Hagy
State's Attorney	Scott L. Rolle, Esquire
County Attorney	John S. Mathias, Esquire
Division of Animal Control	Harold L. Domer
Director of Citizens Services Division	Margaret Nusbaum
Acting Director of Finance Division	Richard J. Duthoy, CPA
Director of Fire and Rescue Services Division	Walter F. Murray
Director of Interagency Information Technologies Division	Dale R. Spangenberg
Director of Management Services Division	Austin S. Abraham
Director of Planning Division	J. Steven Kall-Ziegler, AICP
Director of Permitting & Development Review	Gary W. Hessong
Director of Public Works Division	Alan J. Hudak, P.E.
Director of Transit Division	Sherry Burford
Director of Utilities and Solid Waste Management Division	Michael G. Marshner
Health Officer - Health Services Division	Barbara A. Brookmyer, MD
Director of Department of Human Resources	Mitchell L. Hose
Director of Office of Economic Development	Marie S. Keegin
Director of Frederick County Public Libraries	Darrell L. Batson
Director of Internal Audit	Martin T. Standel

FINANCIAL SECTION





Linton Shafer Warfield & Garrett, P.A.
Certified Public Accountants & Business Consultants

EDWARD T. GARRETT, CPA
MEREDITH C. HARSHMAN, CPA
PAUL D. HEMME, CPA
KEVIN R. HESSLER, CPA
DONALD C. LINTON, CPA, CFP, PFS
JOSEPH M. McCATHRAN, CPA
BARBARA CLINE-ROMAN, CPA
RONALD W. SHAFER, CPA
DOUGLAS C. WARFIELD, CPA, CVA

**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, 2006, 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, Maryland'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 opinion.

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, 2006, 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 December 8, 2006 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, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. 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's basic financial statements. 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-14, and II-A-15, 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.

Linton Shafer Warfield & Garrett, P.A.

December 8, 2006

Linton Shafer Warfield & Garrett, P.A.
Certified Public Accountants & Business Consultants

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 this fiscal year by \$594.1 million (net assets). Approximately 50.7% of this amount is attributable to the County's business-type activities. Of total net assets, \$409.7 million is invested in capital assets, net of related debt, and \$127.1 million is restricted for specific purposes (restricted net assets). The County's total unrestricted net assets is \$57.3 million. This total unrestricted net asset amount includes a balance of \$104.8 million from business-type activities, offset by a deficit balance in unrestricted net assets from governmental activities of \$47.5 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 \$209.3 million of bonds payable, the proceeds of which have been used to fund school construction.
- The County's overall financial position has improved since the prior fiscal year. Total net assets increased by \$75.0 million or 14.5%. The governmental net assets increased by \$37.5 million, or 14.7%, primarily the result of revenues from Property Taxes, Income Taxes and Other Local Taxes. These three revenue sources increased \$27.7 million from fiscal year 2005 to fiscal year 2006. The business-type net assets increased by \$37.5 million or 14.2%, primarily the result of capital contributions in the Water and Sewer Fund.
- The governmental activities revenue totaled \$489.0 million or 84.5% of total revenue and the net results from governmental activities totaled \$37.5 million or 50.0% of the total change in net assets.

- The business-type activities revenue totaled \$90.0 million or 15.5% of total revenue and the net assets from business-type activities increased by \$37.5 million or 50.0% of the total change in net assets.
- The total cost of all County programs was \$504.0 million.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase in fund balance of \$16.9 million. At the close of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$53.9 million, or 16.2% of total General Fund expenditures. Of the total unreserved amount, \$16.6 million, is a required set-aside. Designated fund balance of the General Fund was \$51.9 million, or 49.1% of the total unreserved fund balance.
- As of June 30, 2006, the County's governmental funds reported combined fund balances of \$233.8 million, an increase of \$63.5 million. Of this increase, the General Fund increase of \$16.9 million is mainly attributable to property, income and other taxes in the general fund; \$23.5 million in the Capital Projects Fund is attributable to unspent debt proceeds; \$23.1 is attributed to associated revenue increases and expenditure savings in the non-major governmental revenue funds, primarily in the Fire/Rescue Tax Districts (property taxes), Agricultural Preservation (recordation taxes), Impact Fees (impact fees), and Parks Acquisition and Development (recordation taxes).
- Frederick County's total bonded debt increased by \$82.8 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 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, nursing homes, public housing and permitting & development review, 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 nineteen individual governmental funds: the General Fund, the Capital Projects Fund, the Grants 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, Housing Initiative 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). A budgetary comparison schedule has been prepared for the General Fund and can be found on pages 38 through 45 of this report. Budgetary schedules for the non-major special revenue funds can be found on pages 118 through 121 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 internal service funds to account for fleet services and voice services operations. Because the services of these funds benefit both the governmental and business-type functions, the change in net assets is 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-8, II-A-9, and II-A-10.

Fiduciary Funds: The Fund Financial Statements also allow the government to address its Fiduciary Funds, (See Exhibits II-A-11 and II-A-12). 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-8 and II-A-9) may be the same as the Business-type column on the Government-Wide Financial Statements (after consideration of the "Internal Balances" account), the Governmental Activities 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-4 and II-A-6. 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-13.

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-14 and II-A-15.

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 \$594.1 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, \$409.7 million or 69.0% reflects its investment in capital assets-net of depreciation (e.g. land, 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 21.4% of total net assets (an increase from FY2005 of 6.9% as a result of implementing GASB Statements 46). 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 \$57.3 million, which represents 9.6% of total net assets. The unrestricted net assets for business-type activities have a balance of \$104.8 million.

The result of these basic calculations is that the County's overall financial position has improved from FY2005 to FY2006.

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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 331,400	\$ 250,360	\$ 152,821	\$ 123,782	\$ 484,221	\$ 374,142
Capital assets	333,290	310,489	311,481	272,786	644,771	583,275
Total assets	664,690	560,849	464,302	396,568	1,128,992	957,417
Current and other liabilities	39,221	35,869	16,146	16,656	55,367	52,525
Long-term debt outstanding	332,614	269,660	146,945	116,177	479,559	385,837
Total Liabilities	371,835	305,529	163,091	132,833	534,926	438,362
Net Assets:						
Invested in capital assets, net of debt	216,474	226,722	193,225	175,358	409,699	402,080
Restricted	123,852 *	35,780	3,207	230	127,059	36,010
Unrestricted (deficit)	(47,472)	(7,182)	104,779	88,147	57,307	80,965
Total net assets	\$ 292,854	\$ 255,320	\$ 301,211	\$ 263,735	\$ 594,065	\$ 519,055

* FY06 Restricted Net Assets are significantly higher than FY05 Restricted Net Assets due to the implementation of GASB Statement #46.

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 \$75.0 million during the fiscal year. Net assets of governmental activities increased \$37.5 million in fiscal year 2006, compared to an increase of \$41.3 million for fiscal year 2005. The increase in net assets of business-type activities was \$37.5 million in fiscal year 2006, compared to an increase of \$25.4 million for fiscal year 2005.

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)

					Total	
	Governmental		Business-type		Primary	
	Activities		Activities		Government	
REVENUES	2006	2005	2006	2005	2006	2005
Program revenues						
Charges for services	\$ 24,010	\$ 23,140	\$ 51,121	\$ 45,173	\$ 75,131	\$ 68,313
Operating grants and contributions	40,428	36,100	12,951	12,810	53,379	48,910
Capital grants and contributions	3,018	5,203	21,425	10,235	24,443	15,438
General revenues						
Local property taxes	202,355	182,303	-	-	202,355	182,303
Local income taxes	158,624	142,255	-	-	158,624	142,255
Other local taxes	49,032	45,354	-	-	49,032	45,354
Investment earnings	8,787	5,517	4,226	2,848	13,013	8,365
Miscellaneous	2,722	2,694	241	466	2,963	3,160
Total revenues	488,976	442,566	89,964	71,532	578,940	514,098
EXPENSES						
Program Activities						
Primary Government						
Governmental Activities:						
General government	41,402	37,235	-	-	41,402	37,235
Public safety	68,737	58,697	-	-	68,737	58,697
Public Works	30,839	29,789	-	-	30,839	29,789
Health	20,318	15,587	-	-	20,318	15,587
Social services	7,249	5,520	-	-	7,249	5,520
Education	236,656	215,924	-	-	236,656	215,924
Parks, recreation, and culture	11,619	9,451	-	-	11,619	9,451
Conservation of natural resources	3,772	1,279	-	-	3,772	1,279
Community development and public housing	3,195	3,713	-	-	3,195	3,713
Economic development and opportunity	11,486	10,929	-	-	11,486	10,929
Interest on long term debt	9,859	9,351	-	-	9,859	9,351
Business-type Activities:						
Water and sewer	-	-	21,623	19,978	21,623	19,978
Solid waste management	-	-	17,616	12,369	17,616	12,369
Non-major proprietary funds	-	-	19,559	17,642	19,559	17,642
Total expenses	445,132	397,475	58,798	49,989	503,930	447,464
Increase in net assets before transfers	43,844	45,091	31,166	21,543	75,010	66,634
Transfers	(6,310)	(3,869)	6,310	3,869	-	-
Increase (Decrease) in Net Assets	37,534	41,222	37,476	25,412	75,010	66,634
Net Assets - Beginning	255,320	214,020	263,735	238,323	519,055	452,343
Prior Period Adjustment		78	-	-	-	78
Net Assets - Ending	\$ 292,854	\$ 255,320	\$ 301,211	\$ 263,735	\$ 594,065	\$ 519,055

*reclassified

Governmental Activities: Governmental activities increased Frederick County's net assets by \$37.5 million, thereby accounting for 50.0% of the total growth in the net assets of Frederick County. A key element of this overall increase is due to total taxes collected from all governmental sources. Total tax revenue increased by \$27.7 million or 7.2%, during fiscal year 2006.

Business-type Activities: Business-type activities increased Frederick County's net assets by \$37.5 million, accounting for 50.0% of the total growth in the government's net assets. The key element of this increase relates to contributions from developers. Capital contributions continue to provide a major revenue source for the Water and Sewer Fund during the current fiscal year, producing \$34.4 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 \$233.8 million. Approximately 87.1% of this total amount (\$203.6 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 (\$28.7 million), (2) for inventories (\$.9 million), (3) for long-term receivables (\$.3 million) or (4) dedicated for a variety of restricted purposes (\$.3 million). The reserved fund balance, at 12.9% 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 \$53.9 million, while total fund balance reached \$109.6 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 31.8% of total General Fund expenditures, while total fund balance represents 33.0% of that same amount.

The fund balance of Frederick County's General Fund increased by \$16.9 million during the current fiscal year. This increase is due primarily to increases in property, income tax and recordation taxes totaling \$19.4 million greater than expected.

The Capital Projects Fund has a total fund balance of \$38.3 million. The total increase in fund balance was \$23.5 million. This increase is primarily due to the issuance of long-term debt prior to spending for Capital Projects. Government Obligation bonds were issued on November 15, 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 \$92.1 million and unrestricted net assets in the Solid Waste Management Fund totaled \$11.2 million.

General Fund Budgetary Highlights

The final budget for the General Fund was increased \$.2 million over the original budget. During the year, revenues exceeded budgetary estimates by \$25.4 million and expenditures were less than budgetary estimates by \$14.0, eliminating the need to draw upon the appropriated fund balance of \$26.5 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 \$5.1 million due to overly conservative budget estimates for property tax credits.
- Local income tax distributions exceeded the budget by \$2.9 million. This represents 2.0% increase over the budget of \$141.3 million.
- Other local taxes, primarily recordation tax collections, exceeded the budget by \$11.6 million. These funds generated by recordation taxes charged on the recording of mortgage instruments are a result of the County's strong real estate market coupled with continued increased refinancing activity.
- Investment earnings were over budget by \$3.4 million due to improved yields on short-term investments.
- Various departmental under spending of appropriations resulted in total expenditures being under budget by \$14.0 million. The largest contribution to this savings was \$4.8 million in debt service due to delays in issuance of new bonds and the advance refunding of \$20.4 million of General Obligation Bonds.

Capital Asset and Debt Administration

Capital Assets: Frederick County Government's investments in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2006 and 2005, amount to \$644.8 million and \$583.3 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 10.5%.

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

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 34,349	\$ 30,379	\$ 6,953	\$ 6,953	\$ 41,302	\$ 37,332
Construction in prog.	27,018	15,657	72,800	42,827	99,818	58,484
Buildings, impr. & equip.	124,527	118,813	56,241	58,815	180,768	177,628
Infrastructure	147,395	145,640	175,487	164,191	322,882	309,831
Total	<u>\$ 333,289</u>	<u>\$ 310,489</u>	<u>\$ 311,481</u>	<u>\$ 272,786</u>	<u>\$ 644,770</u>	<u>\$ 583,275</u>

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, 2006
(In Thousands)

	Governmental Activities	Business-type Activities	Total
Beginning Balance	\$ 310,489	\$ 272,786	\$ 583,275
Additions	62,865	62,544	125,409
Retirement	(24,740)	(16,950)	(41,690)
Depreciation	(18,190)	(7,428)	(25,618)
Retirement*	2,865	529	3,394
Ending Balance	<u>\$ 333,289</u>	<u>\$ 311,481</u>	<u>\$ 644,770</u>

*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, but not limited to, the following projects:

Governmental Activities:

- Construction costs were incurred for the following projects:
 - Urbana Library \$6.1 million
 - Utica District Park 3.3 million
 - Quinn Road Bridge 3.0 million
 - Courthouse Phase II 2.5 million
 - Scholls Lane 1.9 million
 - Water Street Bridge 1.1 million

- Transferred to the Frederick County Board of Education for school construction:
 - Urbana Middle School \$16.8 million
 - Middletown Primary 13.2 million
 - Brunswick Middle School 7.5 million
 - Centerville Elementary 2.0 million
 - Oakdale High 1.1 million

Business-type Activities:

- New Design Water Transmission \$21.5 million
- Landfill Site B Cell III 4.7 million
- Water & Sewer Administration Building 2.8 million
- Rubblefill Capping 2.3 million

Debt Outstanding

As of year-end, the County had \$388.6 million in bonded debt outstanding compared to a total of \$305.8 million last year, a 27.1% net increase. This increase results from issuing General Obligation debt of \$122,685,000 (\$102,320,000 of new debt and \$20,365,000 of refunding debt) while retiring \$39,909,998 of General Obligation Debt.

The County maintains a debt affordability index to determine its self imposed limits for issuing long-term debt. This debt affordability index is a blend of ratios to determine the maximum debt each year and in total for its 6-year capital program. This index is reviewed periodically by the County's financial advisor.

Table 5
Outstanding Debt
(In Thousands)

	Balance	Balance
	June 30, 2006	June 30, 2005
Governmental Activities:		
Bonds and notes payable:		
General obligation bonds	\$ 290,551	\$ 234,328
Installment purchase agreements	20,751	15,767
Other notes payable	6,640	7,323
	<u>317,942</u>	<u>257,418</u>
Add remaining original issue premium	12,792	10,543
Less deferred amount on bond refundings	(9,488)	(9,401)
Total bonds and notes payable	<u>321,246</u>	<u>258,560</u>
Other liabilities:		
Capital lease obligations	4,235	4,980
Compensated absences	7,132	6,121
Total other liabilities	<u>11,367</u>	<u>11,101</u>
Governmental activities long-term liabilities	<u>\$ 332,613</u>	<u>\$ 269,661</u>
Business-type Activities:		
Bonds and notes payable:		
General obligation bonds	\$ 98,069	\$ 71,517
Other notes payable	29,602	28,918
	<u>127,671</u>	<u>100,435</u>
Add remaining original issue premium	3,753	2,181
Less deferred amount on bond refundings	(2,412)	(2,123)
Total bonds and notes payable	<u>129,012</u>	<u>100,493</u>
Other liabilities:		
Compensated absences	1,295	1,120
Landfill closure costs	16,638	14,564
Total other liabilities	<u>17,933</u>	<u>15,684</u>
Business-type activities long-term liabilities	<u>\$ 146,945</u>	<u>\$ 116,177</u>

On February 1, 2006 the County issued the General Obligation Public Facilities Refunding Bonds of 2006 in the amount of \$20,365,000. The gross proceeds of \$22.5 million were used to advance refund \$20.5 of 2002 Public Facilities Bonds. 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

Principal payments and reductions of long term debt in the amounts of \$36.5 million and \$23.4 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 3.F. on pages 82 - 93 of this report

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following summarizes some economic factors and trends:

- As of June 2006 the average unemployment rate for the County is 3.3%, while the average unemployment rate for the State of Maryland is 4.0%.
- Median household effective buying income in Frederick County is estimated at \$54,903 while the estimate for the State of Maryland is \$48,803 for calendar year 2006.
- The average annual number of jobs in Frederick County increased from 2001 to 2005 by 3.5%.
- The FY2007 property tax was reduced to \$.936 per \$100 of assessed valuation. The tax rate is based on a full market value assessment of \$21,674,223,000.

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 nonmajor funds.

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2006

Exhibit II-A-1

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Community College	
			Total	Board of Education
Assets				
Cash	\$ 310,423	\$ 2,005,168	\$ 2,315,591	\$ 10,477,976
Equity in pooled invested cash	154,583,319	9,441,223	164,024,542	44,041
Total cash and cash equivalents	154,893,742	11,446,391	166,340,133	10,522,017
Investments	72,013,272	127,132,936	199,146,208	4,151,022
Receivables, net of allowance for uncollectibles:				
Property taxes	446,040	-	446,040	-
Accounts	5,249,688	9,739,940	14,989,628	2,217,964
Intergovernmental	74,754,483	87,229	74,841,712	2,421,828
Internal balances	1,045,676	(1,045,676)	-	-
Due from primary government	-	-	-	-
Due from component units	29,058	-	29,058	5,770,093
Inventory	1,178,638	268,870	1,447,308	903,215
Prepaid items	1,629,525	4,500	1,634,025	51,823
Deferred charges	1,568,082	589,316	2,157,398	-
Long-term receivables, net of allowance for uncollectibles	3,614,971	-	3,614,971	-
Cash and cash equivalents - restricted	14,976,488	4,597,977	19,574,465	-
Capital assets:				
Land	34,349,385	6,953,179	41,302,564	35,684,545
Buildings and improvements	123,729,654	88,498,599	212,228,263	465,954,485
Equipment	68,696,934	31,029,046	99,725,980	58,932,819
Library collection	-	-	-	-
Infrastructure	285,276,834	204,529,504	489,806,338	2,722,366
Construction in progress	27,018,283	72,799,779	99,818,062	1,733,586
Accumulated depreciation	(205,781,235)	(92,329,145)	(298,110,380)	(186,836,095)
Total assets	664,689,518	464,302,445	1,128,991,963	499,175,803

(continued)

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College
Liabilities					Public Libraries
Accounts payable	\$ 6,006,618	\$ 2,702,770	\$ 8,709,388	\$ 13,378,267	\$ 285,292
Accrued liabilities	12,860,174	4,387,602	17,247,776	22,704	222,296
Payroll and benefit deductions	2,358,073	1,381,794	3,739,867	10,235,096	160,002
Property taxes payable	677,837	-	677,837	-	308,844
Due to third parties	732,511	-	732,511	-	-
Due to other governmental units	530,147	-	530,147	-	-
Due to component units	7,583,805	-	7,583,805	-	-
Unearned revenues	4,120,847	2,090,400	6,211,247	74,186	1,051,309
Performance and security deposits	-	8,569	8,569	-	172,580
Other liabilities	4,351,499	5,575,401	9,926,900	-	-
Noncurrent liabilities:					
Due within one year	21,453,497	10,151,491	31,604,988	6,648,881	8,594
Due in more than one year	311,160,138	136,793,305	447,953,443	15,597,955	297,686
Total liabilities	<u>371,835,146</u>	<u>163,091,332</u>	<u>534,926,478</u>	<u>45,957,089</u>	<u>875,070</u>
Net Assets					
Investment in capital assets, net of related debt	216,474,001	193,225,382	409,699,383	472,383,425	32,866,728
Restricted for:					3,653,599
School and library construction	26,693,964	-	26,693,964	-	-
Additional or expanded road facilities	7,745,043	-	7,745,043	-	-
Capital Projects	12,152,096	1,949,370	14,101,466	-	-
Parks acquisition	20,325,053	-	20,325,053	-	-
Agricultural preservation	25,296,878	-	25,296,878	-	-
County code required set-aside	16,624,972	-	16,624,972	-	-
Other purposes	15,013,887	1,257,612	16,271,499	-	-
Unrestricted (Deficit)	(47,471,522)	104,778,749	57,307,227	(19,164,711)	5,051,193
Total net assets	<u>\$ 292,854,372</u>	<u>\$ 301,211,113</u>	<u>\$ 594,065,485</u>	<u>\$ 453,218,714</u>	<u>\$ 46,653,504</u>

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, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government Business-type Activities		Component Units	
			Governmental Activities	Capital Grants and Contributions	Governmental Activities	Total	Board of Education	Community College
Primary government:								
Governmental activities:								
General Government	\$ 41,402,131	\$ 13,070,811	\$ 947,145	\$ 39,324	\$ (27,344,851)	\$ (27,344,851)	\$ -	\$ -
68,737,26	4,259,470	4,571,311	588,682	(59,307,742)	(59,307,742)			
30,839,056	838,845	16,616,360	2,378,921	(11,944,930)	(11,944,930)			
Public safety								
Public works								
Health								
Social services								
Education								
Parks, recreation and culture								
Conservation of natural resources								
Community development and public housing								
Economic development and opportunity								
Interest on long term debt								
Total governmental activities	\$ 445,131,726	\$ 24,010,272	\$ 40,427,661	\$ 3,018,316	\$ (377,675,477)	\$ (377,675,477)		
Business-type activities:								
Water and Sewer	21,623,009	20,315,028	12,951,233	21,425,241	-	33,068,493	33,068,493	-
Solid Waste Management	17,615,383	15,028,960	-	-	-	(2,586,923)	(2,586,923)	-
Nursing Homes	14,691,041	11,101,735	-	-	-	(3,589,306)	(3,589,306)	-
Public Housing	105,859	84,584	-	-	-	(22,275)	(22,275)	-
Permitting & Development Review	4,761,715	4,596,051	-	-	-	(171,064)	(171,064)	-
Total business-type activities	\$ 58,798,507	\$ 51,120,058	\$ 12,951,233	\$ 21,425,241	\$ 26,698,925	\$ 26,698,925		
Total primary government	\$ 503,930,233	\$ 75,131,730	\$ 53,378,894	\$ 24,443,557	\$ (377,675,477)	\$ (350,976,552)		
General Revenues:								
Local property taxes								
Local income taxes								
Recordation taxes								
Excise taxes								
Hotel Motel Tax								
Admission and amusement tax								
Agriculture transfer tax								
Grants and contributions not restricted to specific programs								
Investment earnings								
Miscellaneous								
Transfers								
Total general revenues and transfers								
Change in net assets								
Net assets - beginning of year								
Total net assets - end of year								

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

FREDERICK COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 42,323	\$ 32,281,676	\$ 268,100	\$ 310,423
Equity in pooled invested cash	\$ 42,992,223	\$ 32,281,676	\$ 76,148,248	\$ 151,422,147
Total cash and cash equivalents	<u>43,034,546</u>	<u>32,281,676</u>	<u>76,446,348</u>	<u>151,732,570</u>
Investments	62,082,570	-	9,930,702	72,013,272
Receivables, net of allowance for uncollectibles:				
Property taxes	396,684	-	49,356	446,040
Accounts	3,854,891	-	1,207,651	5,062,542
Intergovernmental	70,410,700	692,522	3,651,260	74,754,482
Prepays	1,548,876	-	39,579	1,588,455
Due from other funds	1,271,388	-	-	1,271,388
Due from component units	28,436	-	-	28,436
Inventories	915,780	-	-	915,780
Long-term receivables, net of allowance for uncollectibles:				
Loans to property owners	194	-	-	194
Employee salary advances	161,016	-	-	161,016
MILAN/MCRF loans	-	-	1,425,124	1,425,124
Fire/Rescue loans	-	-	110,226	110,226
Non profit organization loans	75,150	-	235,635	310,785
Small business loans	-	-	112,937	112,937
Housing loans	-	-	1,494,689	1,494,689
Cash and cash equivalents - restricted	<u>1,400,076</u>	<u>12,152,096</u>	<u>1,424,316</u>	<u>14,976,488</u>
Total assets	<u>\$ 185,180,307</u>	<u>\$ 45,126,294</u>	<u>\$ 96,097,823</u>	<u>\$ 326,404,424</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,017,130	\$ 4,296,334	\$ 253,775	\$ 5,567,239
Accrued liabilities	5,176,317	77,917	2,528,415	7,781,749
Payroll and benefit deductions	1,755,839	55,163	547,071	2,358,073
Property taxes payable	677,837	-	-	677,837
Due to third parties	576,093	-	156,428	732,511
Due to other governmental units	-	-	530,147	530,147
Due to other funds	-	-	1,273	1,273
Due to component units	7,566,276	10,291	-	7,576,567
Other liabilities	-	2,369,494	1,982,005	4,351,499
Deferred revenue	58,842,000	-	4,193,798	63,035,798
Total liabilities	<u>75,611,482</u>	<u>6,808,299</u>	<u>10,192,912</u>	<u>92,612,593</u>
Fund balances:				
Reserved	3,825,762	25,814,750	534,949	30,175,461
Unreserved:				
Designated for:				
Subsequent year's expenditures	48,180,855	-	15,056,258	63,237,113
Other purposes - General fund	3,705,055	-	-	3,705,045
Other purposes - Special revenue funds	-	-	44,354,805	44,354,805
Undesignated:				
General fund	53,857,163	12,503,245	-	53,857,163
Capital projects fund	-	-	-	12,503,245
Special revenue funds	-	-	-	25,958,899
Total fund balances	<u>109,568,855</u>	<u>38,317,995</u>	<u>85,904,911</u>	<u>233,791,731</u>
Total liabilities and fund balances	<u>\$ 185,180,307</u>	<u>\$ 45,126,294</u>	<u>\$ 96,097,823</u>	<u>\$ 326,404,424</u>

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, 2006

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

\$ 233,791,731

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	\$ 34,349,385
Buildings and Improvements	123,729,655
Equipment	68,696,933
Infrastructure	285,276,834
Construction in Progress	27,018,283
Less Accumulated Depreciation	<u>(205,781,235)</u>
	\$ 333,289,855

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	(281,062,629)
Accrued Bond Interest	(4,909,773)
Installment Purchase Agreements	(20,751,405)
Notes Payable	(6,840,103)
Capital Lease Obligations	(4,235,122)
Unamortized Premium on Bonds Payable	(12,791,939)
Compensated Absences	(7,132,437)
Recognition of Deferred Revenue	58,914,951
	<u>(278,608,457)</u>

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	1,342,334
Deferred Issuance Costs - IPAs	181,733
Deferred Issuance Costs - Capital Leases	44,015

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)	\$ 292,854,372
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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, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 181,637,755	\$ -	\$ 20,755,486	\$ 202,393,241
Local income taxes	144,199,778	-	19,737,937	144,199,778
Other local taxes	31,155,892	-	-	30,893,829
Licenses and permits	831,982	-	-	831,982
Grants from federal government	-	2,191,615	10,758,693	12,950,308
Grants from state government	16,749,216	86,488	13,623,906	30,450,610
Charges for services	3,766,588	-	17,574,469	21,341,057
Fines and forfeitures	203,011	-	105,507	308,518
Interest from loans	8,837	-	10,675	19,512
Investment earnings	5,777,700	-	2,923,104	8,700,804
Miscellaneous	2,098,034	55,002	482,213	2,635,249
Total revenues	386,419,793	2,333,105	85,971,930	474,724,888
Expenditures				
Current:				
General government	22,682,754	-	1,623,807	24,306,561
Public safety	41,949,299	-	22,551,125	64,500,424
Public works	14,431,428	-	4,552,750	18,984,178
Health	7,294,089	-	12,851,592	20,145,681
Social services	5,018,633	-	1,457,950	6,476,583
Education	196,563,412	-	-	196,563,412
Parks, recreation and culture	10,528,919	-	-	10,528,919
Conservation of natural resources	542,472	-	1,854,619	2,397,091
Community development and public housing	900,028	-	2,291,557	3,191,585
Economic development and opportunity	2,149,521	-	9,433,919	11,583,440
Miscellaneous	4,229,897	-	-	4,229,897
Intergovernmental	5,454,453	-	-	5,454,453
Debt service	20,515,215	82,714,041	5,974,132	26,489,347
Capital projects	<u>332,260,120</u>	<u>82,714,041</u>	<u>62,591,451</u>	<u>477,565,612</u>
Total expenditures	54,159,673	(80,350,936)	23,380,539	(2,840,724)
Excess (deficiency) of revenues over expenditures				
Other financing sources (uses)				
Transfers in from general fund	-	23,291,840	8,429,500	31,721,340
Transfers in from special revenue funds	-	10,536,300	-	10,536,300
Transfers out to:				
Capital projects fund	(23,291,840)	-	(10,556,300)	(33,848,140)
Special revenue funds	(8,429,500)	-	-	(8,429,500)
Enterprise funds	(6,141,358)	(541,600)	-	(6,682,958)
Internal service funds	(1,663,131)	-	(27,786)	(1,690,917)
Refunding bonds issued	12,608,476	-	-	12,608,476
General obligation bonds issued	-	70,350,000	-	70,350,000
Premium on debt	3,403,578	226,800	1,120,949	4,751,327
Payment to refunded bond escrow agent	(13,710,975)	-	-	(13,710,975)
Capital leases	-	-	731,000	731,000
Sale of capital assets	-	-	14,550	14,550
Total other financing sources and (uses)	<u>(37,224,750)</u>	<u>103,883,340</u>	<u>(28,087)</u>	<u>66,370,503</u>
Net change in fund balances	16,934,923	23,532,404	23,092,452	63,529,779
Fund balances - July 1	92,633,902	14,815,591	62,812,459	110,261,952
Fund balances - June 30	<u>\$ 109,568,825</u>	<u>\$ 38,377,995</u>	<u>\$ 85,904,911</u>	<u>\$ 233,791,731</u>

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, 2006

\$ 63,529,779

Net change in fund balances - total governmental funds (See Exhibit II-A-5)

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	\$ 5,398,071
Depreciation Expense	(18,189,852)
Adjusted for Internal Service Fund Depreciation	<u>2,486,407</u>

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

Donation of Capital Assets	4,021,504
Additions to Construction in Progress	30,108,166
Asset Replacements, Retirements and Deletions	<u>(3,132,695)</u>

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	56,798,185
Income Taxes - Recognized as Income in the Prior Year	(42,374,004)
Other Revenues - Deferred in the Funds Statements	2,116,766
Other Revenues - Recognized as Income in the Prior Year	<u>(2,359,305)</u>

(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, 2006

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 government 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	\$ (82,958,477)
Issuance of IFAs	(5,357,003)
Capital Lease Financing	(731,000)
Bond Premiums	(4,363,394)
Deferred Loss on Bond Refunding	723,349
Deferred Charge for Issuance Costs	461,304
Principal Payments on General Obligation Debt	26,735,403
Principal Payments on Installment Purchase Agreements	372,931
Principal Payments on Notes Payable	682,474
Principal Payments on Capital Leases	1,476,167
Amortization of Bond Premiums	2,114,144
Amortization of Deferred Loss on Refunding	(636,284)
Amortization of Issuance Costs	(126,659)
	<hr/>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Accrued Interest - Prior Year	3,582,650
Accrued Interest - Current Year	(4,909,773)
Compensated Absences Accrual	(985,197)
	<hr/>
Internal service funds are used by management to charge the costs of motor pool services to individual funds.	
Change in net assets of governmental activities (See Exhibit II-A-2)	\$ 37,534,491
	<hr/>
The notes to the financial statements are an integral part of this statement.	3,050,834

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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Local property taxes				
Real property (inc. additions & abatements)	\$ 178,800,000	\$ 178,800,000	\$ 180,351,819	\$ 1,551,819
Public utilities	7,800,000	7,800,000	7,868,015	68,015
Payments in lieu of taxes	168,000	217,000	50,482	(166,538)
Total levy	<u>186,768,000</u>	<u>186,817,000</u>	<u>188,270,296</u>	<u>1,453,296</u>
Tax credit - state reimbursement	1,500,000	1,500,000	2,331,029	831,029
Tax credits and refunds	(12,272,750)	(12,272,750)	(9,629,917)	2,642,833
Interest - delinquent taxes	1,500,000	1,500,000	1,785,960	285,900
Discounts allowed on taxes	(1,050,000)	(1,050,000)	(1,119,553)	(69,553)
Total adjustments	<u>(10,322,750)</u>	<u>(10,322,750)</u>	<u>(6,632,541)</u>	<u>3,690,209</u>
Total property taxes	<u>176,445,250</u>	<u>176,494,250</u>	<u>181,637,756</u>	<u>5,143,506</u>
Local income taxes				
	<u>141,300,000</u>	<u>141,300,000</u>	<u>144,199,778</u>	<u>2,899,778</u>
Other local taxes				
Admission and amusement	600,000	600,000	937,249	337,249
Recondation	17,000,000	17,000,000	28,356,811	11,356,811
911 fees - local	1,850,000	1,850,000	1,778,175	(71,825)
Trailer parks	85,000	85,000	82,522	(2,478)
Security interest filing fees	700	700	1,135	435
Total other local taxes	<u>19,535,700</u>	<u>19,535,700</u>	<u>31,155,892</u>	<u>11,620,192</u>
Licenses and permits				
Alcoholic beverage licenses	205,000	205,000	127,282	(77,718)
Traders' licenses	180,000	180,000	201,635	21,635
Zoning permits	180,000	180,000	205,299	25,299
Driveway permits	30,000	30,000	33,857	3,857
Grading permits	175,000	175,000	201,786	26,786
Septic/well permits	11,000	11,000	150	(10,850)
Animal licenses	19,000	19,000	41,593	22,593
Marriage fees	14,000	14,000	15,050	1,050
Forest resource ordinance	5,000	5,000	4,530	(470)
Miscellaneous licenses and permits	~	~	800	800
Total licenses and permits	<u>819,000</u>	<u>819,000</u>	<u>831,982</u>	<u>12,982</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Grants from federal government				
Federal payments in lieu of taxes:				
Parks	\$ 18,000	\$ -	\$ -	\$ -
Housing	<u>31,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total grants from federal government	<u>49,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grants from state government				
Police protection	1,000,000	1,000,000	981,071	(18,929)
Aid for fire, rescue and ambulance services	357,000	357,000	360,108	3,108
County inmate housing	1,200,000	1,200,000	2,206,000	1,006,000
Highway user revenues	12,139,470	12,139,470	13,068,642	929,172
Parks	60,000	60,000	124,395	64,395
Total grants from state government	<u>14,756,470</u>	<u>14,756,470</u>	<u>16,740,216</u>	<u>1,983,746</u>
Charges for services				
Planning and zoning fees	76,200	76,200	152,772	76,572
Data processing services	2,020	2,020	-	(200)
Court costs, fees and charges	1,176,000	1,176,000	1,143,027	304
Scott Key Center	203,200	203,200	153,433	(32,973)
Other general government	377,500	377,500	464,657	(49,767)
Public safety	145,000	145,000	222,459	87,157
Transportation services	83,951	83,951	86,872	77,459
Job Training Agency	77,000	77,000	99,726	22,726
Frederick County Developmental Center	940,000	940,000	886,624	(53,376)
Mental health	481,000	481,000	554,694	73,694
Recreation				
Total charges for services	<u>3,562,071</u>	<u>3,562,071</u>	<u>3,766,588</u>	<u>204,517</u>
Fines and forfeitures				
Court	150,000	150,000	92,531	(57,469)
Alcoholic beverages	10,000	10,000	13,350	3,350
Other fines and forfeitures	<u>102,500</u>	<u>102,500</u>	<u>97,130</u>	<u>(5,370)</u>
Total fines and forfeitures	<u>262,500</u>	<u>262,500</u>	<u>203,011</u>	<u>(59,489)</u>
Investment earnings				
Miscellaneous revenues				
Rents and concessions	1,009,450	1,158,244	1,438,706	280,462
Contributions and donations	-	35,627	12,717	(22,910)
Sale of property	10,000	10,000	11,832	1,832
Other miscellaneous revenues	<u>707,000</u>	<u>720,350</u>	<u>634,779</u>	<u>(85,571)</u>
Total miscellaneous revenues	<u>1,726,450</u>	<u>1,924,221</u>	<u>2,098,034</u>	<u>173,813</u>
Total revenues	<u>360,856,441</u>	<u>361,054,212</u>	<u>386,419,793</u>	<u>25,365,581</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
General government				
Legislative and executive				
County commissioners	\$ 638,116	\$ 647,277	\$ 633,353	\$ 13,924
County manager	693,812	706,539	667,546	38,993
Boards and commissions	13,230	13,230	12,865	365
Total legislative and executive	<u>1,345,158</u>	<u>1,367,046</u>	<u>1,313,764</u>	<u>53,282</u>
Judicial				
Circuit court	819,907	826,432	761,380	65,052
Orphans court	25,684	25,684	23,745	1,939
States attorney	4,177,857	4,197,640	4,187,412	10,228
Grand jury	68,860	68,860	62,638	6,222
Other judicial	500	500	—	500
Total judicial	<u>5,092,808</u>	<u>5,119,116</u>	<u>5,035,175</u>	<u>83,941</u>
Elections				
Board of supervisors of elections	588,751	588,751	608,405	(19,654)
Financial administration				
Accounting	2,577,120	2,598,212	2,529,078	69,134
Independent auditing	36,200	36,200	37,796	(1,596)
Budgeting	420,229	422,188	377,562	44,626
Purchasing	502,514	507,529	492,490	15,039
Treasury	674,315	700,879	630,542	70,337
Total financial administration	<u>4,210,378</u>	<u>4,265,008</u>	<u>4,067,468</u>	<u>197,540</u>
Legal				
County attorney	776,269	775,673	727,435	48,238
Personnel administration				
Personnel	741,626	791,757	773,376	18,381
Planning and zoning				
Planning	1,890,147	1,974,994	1,846,629	128,365
Board of zoning appeals	10,629	10,629	8,472	2,157
Total planning and zoning	<u>1,900,776</u>	<u>1,985,623</u>	<u>1,855,101</u>	<u>130,522</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Management services				
Interagency information Technologies	\$ 4,625,536	\$ 4,813,955	\$ 4,726,325	\$ 87,630
General services	199,131	201,146	147,175	53,971
Logistical services	194,225	195,900	193,095	2,805
Maintenance	6,671,976	6,464,353	5,927,159	537,194
Custodial services	2,000,356	1,805,505	1,712,673	92,832
Total management services	<u>13,691,224</u>	<u>13,480,859</u>	<u>12,706,427</u>	<u>774,432</u>
Other general government				
Internal audit	414,066	424,998	460,032	(35,034)
Board of liquor license commissioners	215,554	216,363	196,468	19,895
Total other general government	<u>629,620</u>	<u>641,361</u>	<u>656,500</u>	<u>(15,139)</u>
Total general government	<u>28,976,610</u>	<u>29,015,194</u>	<u>27,743,651</u>	<u>1,271,543</u>
Public safety				
Sheriff	18,161,892	18,019,824	17,212,548	807,276
Fire protection	585,135	536,887	469,387	67,500
Fire/rescue state grant allocation	357,000	357,000	360,108	(3,108)
Fire inspection	308,458	309,660	221,639	88,021
Fire and rescue services	5,304,791	5,303,141	4,997,975	305,166
Advanced life support	465,656	402,759	401,228	1,531
Detention center	10,788,089	10,865,187	10,546,453	318,734
Work release center	1,927,565	1,947,043	1,934,156	12,887
Alternative sentencing	675,815	686,157	660,185	25,972
Emergency management	269,332	272,190	227,640	44,560
Animal control	1,278,776	1,295,346	1,241,584	53,762
Emergency communications	3,393,774	3,417,620	3,259,756	157,864
Public safety director	494,556	498,307	441,104	57,203
Total public safety	<u>44,010,619</u>	<u>43,911,121</u>	<u>41,973,763</u>	<u>1,937,358</u>
Public works				
Highways	11,359,239	11,264,901	11,159,437	105,464
Public works administration	297,484	300,575	254,406	46,169
Project management	319,559	326,126	254,163	71,963
Construction management	1,370,050	1,368,485	885,008	483,477
Development review	955,493	912,369	873,357	39,012
Program development and management	392,670	395,041	390,464	4,577
Transportation engineering	1,209,802	1,255,075	1,104,933	150,142
Total public works	<u>15,904,297</u>	<u>15,822,572</u>	<u>14,921,768</u>	<u>900,804</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Health				
County administrator	\$ 149,738	\$ 150,816	\$ 116,177	\$ 34,639
School health program	4,390,822	4,436,786	3,925,364	511,422
Detention center substance abuse	115,137	115,137	115,137	-
Mental health	1,409,869	1,405,352	1,148,019	257,333
Mosquito control	8,000	8,000	3,210	4,790
Frederick County Developmental Center	1,995,271	2,027,855	1,828,703	199,152
ARC of Frederick County	37,000	37,000	37,000	-
Counseling Services	24,000	24,000	24,000	-
Mental Health Association hotline	50,000	50,000	50,000	-
Child Abuse Prevention-Mental Health Association	6,500	6,500	6,500	-
Alzheimer's Association of Frederick County	10,000	10,000	10,000	-
Central Maryland Catholic Charities	18,000	18,000	18,000	-
Hepatitis Clinic	19,000	19,000	19,000	-
Total health	<u>8,233,337</u>	<u>8,308,446</u>	<u>7,301,110</u>	<u>1,007,336</u>
Social services				
Contribution to Department of Social Services	1,215,849	1,232,020	1,052,699	179,321
Department of Aging	580,414	517,109	400,435	116,674
Office of Children and Families	296,153	328,754	282,553	46,201
Transit	299,323	313,299	261,676	51,623
Family Partnership	244,614	214,680	163,408	51,272
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	-
The Volunteer Center - United Way	20,000	20,000	20,000	-
Community Foundation	-	40,000	40,000	-
Community Action Agency	60,000	60,000	60,000	-
Big Brother, Big Sister	10,000	10,000	10,000	-
Up-County Family Center	28,500	28,500	28,500	-
Character counts	3,500	3,500	3,500	-
American Red Cross	-	15,000	15,000	-
Emergency foodfield/shelter	160,000	160,000	160,000	-
Healthy Family/Heartly House	22,500	22,500	22,500	-
CASA of Frederick County	5,000	5,000	5,000	-
Scott Key Center	2,216,368	2,243,705	2,271,487	(27,782)
Other social services	124,071	124,071	121,207	2,864
Total social services	<u>5,395,806</u>	<u>5,447,652</u>	<u>5,027,479</u>	<u>420,173</u>
Education				
Hood College	100,000	100,000	100,000	-
Maryland School for the Blind	2,000	2,000	2,000	-
Frederick County Board of Education	185,117,485	184,993,233	184,882,852	110,381
Frederick Community College	11,604,497	11,604,497	11,580,560	23,937
Total education	<u>196,823,982</u>	<u>196,699,730</u>	<u>196,563,412</u>	<u>136,318</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Parks, recreation and culture				
Frederick County Public Libraries	\$ 6,584,049	\$ 6,641,209	\$ 6,613,979	\$ 27,230
Parks	3,275,469	3,171,798	2,982,974	188,824
Recreation programs	961,011	1,004,756	819,894	184,865
Recreation grants	40,000	40,000	40,000	-
Historical Society of Frederick County	12,530	12,530	12,530	-
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	10,000	10,000	10,000	-
Weinbert Center for the Arts	10,000	10,000	10,000	-
115th Infantry Regiment	10,000	10,000	10,000	-
Community libraries	5,589	5,589	5,589	-
Total parks, recreation and culture	<u>10,919,643</u>	<u>10,916,892</u>	<u>10,515,963</u>	<u>400,919</u>
Conservation of natural resources				
Extension service	304,584	305,878	307,530	(1,652)
Soil conservation	212,137	212,137	206,975	5,162
Gypsy moth control	54,800	54,800	25,467	29,333
Forestry Board	2,000	2,000	2,000	-
Western Maryland Resources Conservation and Development Council	500	500	500	-
Total conservation of natural resources	<u>574,021</u>	<u>575,315</u>	<u>542,472</u>	<u>32,843</u>
Community development and public housing				
Housing administration	261,685	236,839	209,036	27,803
Affordable housing council	200,000	—	—	—
Total community development and public housing	<u>461,685</u>	<u>236,839</u>	<u>209,036</u>	<u>27,803</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Economic development and opportunity				
Office of economic development	\$ 937,531	\$ 948,102	\$ 861,658	\$ 86,444
Frederick Municipal Airport	49,500	49,500	49,500	-
Citizens services administration	208,662	210,020	214,948	(4,928)
Job Training Agency	629,538	645,770	648,140	(2,370)
Head Start	45,360	85,214	85,214	81
Human relations	159,156	159,965	160,399	(434)
Jeanne Bussard Center	40,000	40,000	40,000	-
Commission for Women	4,858	4,858	4,858	-
Commission for Disabilities	1,450	1,450	1,363	87
Seton Center	24,000	24,000	24,000	-
Emmitsburg Child Care Center	23,625	23,525	23,625	-
Child Care Consortium	30,000	30,000	30,000	-
Total economic development and opportunity	<u>2,153,680</u>	<u>2,222,585</u>	<u>2,143,705</u>	<u>78,880</u>
Non-departmental				
Property and liability insurance	1,085,800	1,085,800	860,650	225,150
Health insurance - retirees	1,850,000	1,850,000	2,531,589	(681,589)
Other employee benefits and taxes	1,512,582	402,022	663,451	(261,429)
Other miscellaneous	158,238	<u>(744,395)</u>	<u>(4,468,268)</u>	<u>3,723,873</u>
Total miscellaneous	<u>4,606,620</u>	<u>2,593,427</u>	<u>(412,578)</u>	<u>3,006,005</u>
Intergovernmental				
Financial corporations grant to municipalities	50,000	50,000	49,273	727
Tax rebate to municipalities	5,405,180	<u>5,405,180</u>	<u>5,405,180</u>	<u>-</u>
Total Intergovernmental	<u>5,455,180</u>	<u>5,455,180</u>	<u>5,454,453</u>	<u>727</u>
Debt service				
Principal - general obligation debt	12,479,934	12,479,934	12,481,309	(1,375)
Principal - state loans	89,192	89,192	89,180	12
Interest - general obligation debt	12,807,014	12,731,805	7,935,903	4,795,897
Interest - state loans	8,538	<u>8,538</u>	<u>8,818</u>	<u>(280)</u>
Total debt service	<u>25,384,678</u>	<u>25,309,469</u>	<u>20,515,215</u>	<u>4,794,254</u>
Total expenditures	<u>348,900,163</u>	<u>346,514,412</u>	<u>332,499,449</u>	<u>14,014,963</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, 2006

	Original Budget	Amended Budget	Actual	Variance- Positive (Negative)
Other financing sources (uses)				
Refunding bonds issued	\$ -	\$ 12,608,476	\$ 12,608,476	\$ -
Premium on debt	-	1,962,199	3,403,578	2,341,379
Payment to refunded bond escrow agent	-	(13,710,975)	(13,710,975)	-
Transfers out to				
Grants revenue fund	(8,263,447)	(8,277,830)	(6,906,776)	1,371,054
Agriculture preservation fund	(1,062,128)	(1,063,784)	(1,063,784)	-
Housing initiatives appropriation	-	(458,940)	(458,940)	-
Capital projects fund	(22,642,560)	(23,291,840)	(23,291,840)	-
Enterprise fund - Solid Waste	(1,650,000)	(1,650,000)	(1,650,000)	-
Enterprise fund - Citizens Care & Rehabilitation Center	(1,907,223)	(1,933,970)	(1,933,970)	-
Enterprise fund - Montevue Home	(1,520,995)	(1,545,848)	(1,545,848)	-
Enterprise fund - Permitting and Development Review	(989,603)	(1,011,540)	(1,011,540)	-
Internal service fund - Fleet services	-	(1,345,427)	(1,260,819)	84,608
Internal service fund - Voice services	(402,312)	(402,312)	(402,312)	-
Total other financing sources (uses)	(38,438,269)	(41,021,791)	(37,224,750)	3,797,041
Budgeted usage of fund balance	<u>26,481,991</u>	<u>26,481,991</u>	<u>26,481,991</u>	<u>-</u>
Change in fund balance	\$ -	\$ -	\$ 43,177,585	\$ 43,177,585
Net change in reserves and adjustments to GAAP basis			(26,242,662)	
Fund balance - beginning			92,633,902	
Fund balance - ending			\$ 109,568,825	

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

FREDERICK COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds	
	Water and Sewer	Solid Waste Management	Total			
			Nonmajor Enterprise Funds	Total		
Assets						
Current assets:						
Cash	\$ 1,858,171	\$ 2,600	\$ 144,397	\$ 2,005,168	\$ 3,161,172	
Equity in pooled invested cash	3,811,531	1,688,324	3,941,368	9,441,223	3,161,172	
Total cash and cash equivalents	5,669,702	1,690,924	4,085,765	11,446,391		
Restricted cash and cash equivalents	2,658,755	1,562,044	377,178	4,597,283		
Short-term investments	41,831,716	15,235,222	12,345	57,079,283		
Receivables, net of allowance for uncollectibles	6,229,303	1,959,821	1,550,816	9,739,940	187,146	
Intergovernmental receivables	-	37,229	-	87,229		
Due from component units	-	-	-	-	622	
Inventories	238,635	-	30,215	268,870	262,558	
Prepaid items	-	-	4,500	4,500	41,070	
Total current assets	56,628,131	20,555,240	6,080,819	83,241,190	3,852,888	
Noncurrent assets:						
Long-term investments	51,239,867	18,813,786	-	70,053,653	-	
Capital Assets:						
Land	3,469,873	2,837,164	646,142	6,953,179		
Buildings and improvements	47,287,973	30,189,036	11,031,580	88,490,599	1,833,133	
Equipment	24,446,219	4,484,328	2,098,459	31,029,046	22,553,751	
Other improvements	204,529,504	-	-	204,529,504		
Accumulated depreciation	(58,192,943)	(28,495,109)	(5,671,033)	(92,329,145)	(11,027,346)	
Construction in progress	59,467,670	12,273,348	1,058,761	72,798,779		
Deferred bond issue expense	414,497	158,259	18,560	589,316		
Total noncurrent assets	332,672,720	40,288,812	9,182,399	382,123,931	13,459,238	
Total assets	389,300,851	60,804,052	15,243,218	465,346,121	16,812,206	
Liabilities						
Current liabilities:						
Accounts payable	2,314,145	275,728	112,897	2,702,770	439,379	
Payroll and benefit deductions	437,324	100,366	84,104	1,381,794	112,742	
Accrued expenses	2,127,360	2,089,609	170,633	4,387,602	55,910	
Due to other funds	-	-	1,270,115	1,270,115		
Deferred revenues	741,636	9,934	1,358,880	2,090,400		
Security deposits	-	-	8,569	8,569		
Other liabilities	4,727,255	786,364	61,782	5,575,401		
Current portion landfill closure and postclosure liability	-	278,059	-	278,059		
Current portion general obligation bonds and notes	7,191,122	2,368,990	217,194	9,775,306		
Current portion of compensated absences	23,346	9,073	65,707	98,126	1,443	
Total current liabilities	17,552,158	5,916,123	4,029,631	27,566,142	609,374	
Noncurrent liabilities:						
Long term portion landfill closure and postclosure liability	83,909,406	16,360,230	-	16,360,230	-	
Long term portion general obligation bonds and notes	471,674	31,201,995	4,124,647	11,197,027	123,214	
Liability for compensated absences	34,331,080	96,071	629,282	136,793,305	123,214	
Total noncurrent liabilities		47,656,296	4,753,929			
Total liabilities	101,943,265	53,574,419	8,843,760	164,361,447	732,688	
Net Assets						
Invested in capital assets, net of related debt	192,576,582	(4,173,198)	4,821,998	193,225,382	13,159,538	
Restricted for:						
Capital projects	1,949,370	-	-	1,949,370		
Other purposes	703,385	171,049	377,178	1,257,612		
Unrestricted	92,122,246	11,231,782	1,200,282	104,554,310	2,920,180	
Total net assets	\$ 287,357,881	\$ 7,229,633	\$ 6,359,458	\$ 300,385,674	\$ 16,079,718	
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					224,439	
Net assets of business-type activities					\$ 301,211,113	

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, 2006

	Business-type Activities-Enterprise Funds			Governmental-Activities-Internal Service Funds
	Water and Sewer	Solid Waste Management	Total	
			Nonmajor Enterprise Funds	
Operating revenues				
Service charges	\$ 19,859,068	\$ 14,992,001	\$ -	\$ 34,851,069
Charges for health care services, net of contractual adjustments	-	-	10,869,637	10,869,637
License and permit revenue	-	-	2,925,905	2,925,905
Fee revenue	-	-	1,662,246	1,662,246
Rental charges	-	-	84,336	84,336
Total net charges for services	19,859,068	14,992,001	15,542,124	50,393,193
Delinquent fees collected	44,165	36,959	3,733	84,857
Other revenues	411,795	-	231,113	642,908
Total operating revenues	20,315,028	15,028,960	15,776,970	51,120,958
Operating expenses				
Personal services	6,372,762	1,538,386	14,000,884	21,912,032
Operating expenses (including administrative overhead)	4,860,792	12,772,840	3,911,647	21,545,279
Supplies	1,141,299	52,055	1,262,132	2,455,486
Repairs and maintenance	1,592,781	193,105	42,434	1,828,320
Depreciation expense	5,018,547	2,053,365	356,287	547,315
Total operating expenses	18,986,181	16,809,751	19,573,384	7,428,199
Operating income (loss)	1,328,847	(11,580,791)	(3,796,414)	55,169,316
				10,063,799
Nonoperating revenues (expenses)				
Donations	-	-	11,378	11,378
Investment earnings	2,770,005	1,338,113	118,057	4,226,175
Miscellaneous income (expense)	560,608	2,543	-	563,151
Interest expense	(2,680,994)	(1,046,353)	(88,203)	(3,815,550)
Gain (loss) on disposition of capital assets	(296,145)	53,201	(2,718)	(245,662)
Total nonoperating revenues (expenses)	353,474	347,504	38,514	739,492
Net income (loss) before contributions and transfers	1,682,321	(1,233,287)	(3,757,900)	(3,308,866)
				429,382
Capital contributions				
Transfers in	34,376,474	-	34,376,474	665,709
Transfers out	541,600	1,650,000	4,491,358	6,682,958
Total contributions and transfers	(343,323)	(29,097)	-	(372,420)
Change in net assets	34,574,751	1,620,903	4,491,358	40,687,012
				41,264
Net assets - July 1	251,100,511	6,842,017	5,666,000	37,378,146
Net assets - June 30	\$ 287,357,583	\$ 7,229,633	\$ 6,339,458	3,158,428
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				12,921,290
Change in net assets of business-type activities				\$ 16,079,718
				98,156
				\$ 37,476,302

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, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds	
	Water and Sewer	Solid Waste Management	Total	Nonmajor Enterprise Funds	Total	Governmental Activities-Internal Service Funds
Cash flows from operating activities						
Cash received from residents and customers	\$ 18,595,934	\$ 14,787,313	\$ 15,623,303	\$ 49,006,550	\$ 11,118,005	
Cash paid for interfund services	(5,281,219)	(9,930,779)	(1,694,459)	(1,694,459)	-	
Cash paid to suppliers	(6,239,378)	(1,431,936)	(5,142,763)	(20,354,761)	(5,360,600)	
Cash paid to employees	-	-	(13,602,829)	(21,274,143)	(1,844,366)	
Other	-	-	248	248	-	
Net cash provided (used) by operating activities	<u>7,075,337</u>	<u>3,424,598</u>	<u>(4,816,500)</u>	<u>5,683,435</u>	<u>3,913,039</u>	
Cash flows from noncapital financing activities						
Transfers in	-	1,620,903	1,940,761	3,561,664	2,081,337	
Cash received from donations	-	-	11,378	11,378	-	
Cash received (paid to) from patient and resident funds	-	-	(4,642)	(4,642)	-	
Cash paid to memorial and employee funds	-	-	(1,052)	(1,052)	-	
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>1,620,903</u>	<u>1,946,445</u>	<u>3,567,348</u>	<u>2,081,337</u>	
Cash flows from capital and related financing activities						
Acquisition and construction of capital assets	(40,497,342)	(7,462,979)	(33,395)	(47,993,716)	(4,262,393)	
Recoveries for damages	-	27,596	-	27,596	27,046	
Proceeds from sale of capital assets	-	38,980	2,718	41,678	182,102	
Proceeds from debt issues	34,668,566	10,900,221	3,278,566	48,847,353	-	
Payment of bond and note principal	(17,147,741)	(3,973,286)	-	(21,121,007)	-	
Loss on disposal of capital assets	-	-	(2,718)	(2,718)	-	
Interest paid on bonds	(3,051,903)	(1,037,401)	(102,814)	(4,192,118)	-	
Contributed capital	34,574,751	-	-	34,574,751	32,579	
Net cash provided (used) by capital & related financing activities	<u>8,546,331</u>	<u>(1,506,869)</u>	<u>3,142,357</u>	<u>10,181,819</u>	<u>(4,020,666)</u>	
Cash flows from investing activities						
Purchase of investments	(177,329,063)	(35,797,266)	(187,854)	(213,314,183)	-	
Proceeds from the sale of investments	156,864,853	-	-	158,864,853	-	
Interest received on investments	3,534,376	1,142,682	118,057	4,795,115	96,604	
Net cash provided (used) by investing activities	<u>(14,929,834)</u>	<u>(34,654,584)</u>	<u>(69,797)</u>	<u>(49,654,215)</u>	<u>96,604</u>	
Net increase (decrease) in cash and cash equivalents	<u>691,834</u>	<u>(31,115,952)</u>	<u>202,505</u>	<u>(30,221,613)</u>	<u>2,070,314</u>	
Cash and cash equivalents, July 1 (restated)	<u>4,977,868</u>	<u>32,806,876</u>	<u>3,883,260</u>	<u>41,668,004</u>	<u>1,090,858</u>	
Cash and cash equivalents, June 30	<u>\$ 5,669,702</u>	<u>\$ 1,690,924</u>	<u>\$ 4,085,765</u>	<u>\$ 11,446,391</u>	<u>\$ 3,161,172</u>	

(continued)

FREDERICK COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities: Enterprise Funds			Governmental Activities-Internal Service Funds		
	Water and Sewer	Solid Waste Management	Total	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 1,328,847	\$ (1,580,791)	\$ (3,796,414)	\$ (4,048,358)	\$ 388,118	
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	5,018,547	2,053,365	356,288	7,428,200	2,331,940	2,485,679
Landfill closing costs	-	2,331,940	-	-	-	-
Miscellaneous non operating income	562,063	148	805	563,016	-	5,479
Change in assets and liabilities:						
(Increase) decrease:						
Accounts receivable	(515,666)	(241,647)	(114,636)	(871,949)	19,323	(150,716)
Bad debt allowance	-	20,888	(1,565)	-	-	-
Intergovernmental receivables	-	-	-	-	-	-
Inventory	(105,686)	-	-	21,613	(84,073)	20,151
Prepaid items	-	-	(4,500)	(4,500)	(4,500)	(41,070)
Increase (decrease):						
Accounts payable	1,698,832	200,471	99,772	1,999,075	271,073	
Accrued expenses	(162,966)	887,712	(88,434)	636,312	55,910	
Deferred revenues	(264,251)	4,106	115,304	(144,841)	-	
Liability for compensated leave	87,254	6,084	289,909	383,247	61,737	
Due to other funds	-	-	(1,694,459)	(1,694,459)	-	
Closure liability	-	(257,678)	-	(257,678)	-	
Other liabilities	(571,637)	-	(183)	(571,820)	-	
Net cash provided (used) by operating activities	\$ 7,075,337	\$ 3,424,598	\$ (4,816,500)	\$ 5,683,435	\$ 3,913,039	

Noncash investing, capital, and financing activities:
Included in interest income in the Water and Sewer Fund is an unrealized loss of \$1,075,272. Included in interest income in the Solid Waste Fund is an unrealized loss of \$169,871.

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

Exhibit II-A-11

FREDERICK COUNTY, MARYLAND
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

	Pension Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 40,660	\$ 151,265
Equity in pooled invested cash	15,177,506	3,317,453
Investments:		
Fixed income securities	40,051,017	-
Equity securities	102,494,266	-
Accounts receivable	2,420	-
Interest receivable	465,078	-
Prepaid items	138,946	-
Total assets	<u>158,369,893</u>	<u>\$ 3,468,718</u>
LIABILITIES		
Accounts payable	209,975	\$ -
Accrued payroll	229	-
Due to third parties	-	174,714
Performance deposits	-	3,294,004
Retirement benefit deductions	55,349	-
Total liabilities	<u>265,553</u>	<u>\$ 3,468,718</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 158,104,340</u>	

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

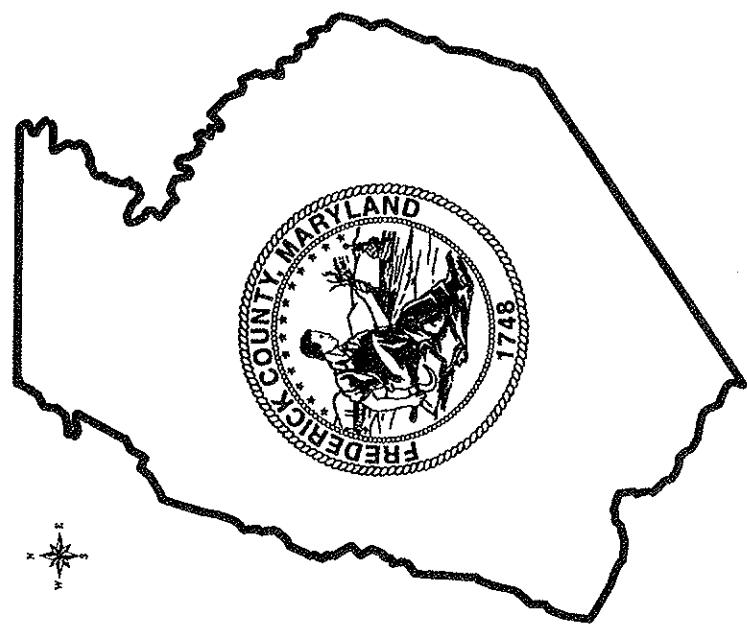
Exhibit II-A-12

FREDERICK COUNTY, MARYLAND
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Pension Trust
Additions		
Contributions		\$ 11,736,171
Employer contributions		4,046,182
Member contributions		<u>15,782,353</u>
Investment income		
Net appreciation (depreciation) in fair value of plan investments		7,165,824
Interest and dividends		4,469,993
Investment expense		<u>(666,898)</u>
Net investment income		<u>10,968,919</u>
Total additions		<u>26,751,272</u>
Deductions		
Benefits and refunds paid to plan members and beneficiaries		5,056,769
Administrative expenses		348,031
Total deductions		<u>5,404,800</u>
Change in net assets		21,346,472
Net assets held in trust for pension benefits, July 1		<u>136,757,868</u>
Net assets held in trust for pension benefits, June 30		<u>\$ 158,104,340</u>

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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

FREDERICK COUNTY, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

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.

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.

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).

Finally, 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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 Budget-to-Actual Comparison Statement: 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 budget-to-actual comparison statement 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 this statement.

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 *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:

- The *Grants Fund* – This 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
- *Fire/Rescue Tax Districts Fund* – This fund primarily 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, a nursing home facility.
- *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, equipment, land, or buildings.
- *Loan Activities* – These funds accounts for the loan activities associated with four loan funds – Housing Initiative Loans, Non-Profit Organization Loans, Fire/Rescue Loans and Economic Development Loans.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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, a nursing home facility.
- *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 Funds* account for fleet and voice 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 states 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds 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.

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. Discounts of one percent and one-half percent are granted for the property taxes paid during July and August respectively.

¹The County bills and collects its own property taxes and those of the State and local municipalities. County property tax revenues are recognized when levied to the extent that they result in current receivables. State and municipal property taxes collected are accounted for as liabilities in the General Fund of the County.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Total assessed value on which levies were made for the year ended June 30, 2006, was \$18,097,131,800. 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 99.8% of taxes levied in the current year. The receivable portion of the current year property tax levy, including fire and lighting tax districts, is \$387,722 and is included in total property taxes receivable \$446,040 on the Statement of Net Assets. This compares to the current portion of the prior year levy of \$521,875 included in the total property taxes of \$790,478 as of June 30, 2005.

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.

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The capital asset accounting policies for BOE, FCC and FCPL 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	FCC	FCPL
Buildings and Improvements	20 - 40	10 - 40	20 - 40
Site Improvements	n/a	15	15
Library Collection	n/a	3	5
Furniture and equipment	5 - 15	5 - 10	5 - 15

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 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 due and 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, discounts, and deferred losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond premium or discount. All debt issue costs are deferred and amortized over the life of the debt issue using the straight-line method.

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

8. Estimates

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The budget document is a comprehensive financial plan showing all revenues and expenditures for the operating budget, the capital budget and the Capital Improvements Program. The Capital Improvements Program sets forth clearly the plan for proposed capital projects to be undertaken in the ensuing fiscal year and the next five years. Budgets are adopted on an annual cycle for all governmental funds except the Sheriff's Drug Enforcement, the Sheriff's Office, the Narcotics Task Force and the Inmate Canteen Special Revenue 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 Sheriff's Drug Enforcement, Sheriff's Office Fund, Narcotics Task Force, Inmates Canteen, Fire/Rescue Loan and Non-Profit Organizations Loan), Capital Projects, Enterprise Funds, Internal Service Funds and Pension Trust Fund. No budgets are in place for the Special Revenue Funds individually noted.
- (9) During the operating year, inter-departmental budget transfers must be approved by the Board of County Commissioners.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

- Encumbrances are treated as expenditures for budgetary accounting purposes. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
- Inventories are recorded as expenditures at the time of purchase.
- The use of prior years' fund balance is reported as another financing source.

B. Reconciliation of Budgetary Basis to GAAP Basis

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

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

General Fund				
	Revenues	Expenditures	Other Financing Sources (Uses)	Net change in Fund Balance
Budgetary Basis	\$ 386,419,793	\$ 332,499,449	\$ (10,742,759)	\$ 43,177,585
Basis Adjustments:				
Encumbrance adjustment	-	271,066	-	(271,066)
Use of prior year fund balance to balance	-	-	-	-
FY2006 budget	-	-	-	-
Inventory adjustment	-	(510,395)	-	(510,395)
Net affect of basis adjustments	\$ 386,419,793	\$ (239,329)	\$ (26,481,991)	\$ (26,242,662)
GAAP Basis	<u><u>\$ 386,419,793</u></u>	<u><u>\$ 332,260,120</u></u>	<u><u>\$ (37,224,750)</u></u>	<u><u>\$ 16,934,923</u></u>

*includes budgeted usage of fund balance

NOTES TO FINANCIAL STATEMENTS
(Continued)

The following departments over expended their FY2006 budgets:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
	\$	\$	\$
Board of Elections	588,751	608,405	19,654
Internal Audit	424,998	460,032	35,034
Extension Service	305,878	307,530	1,652
Employee Benefits	2,252,022	3,195,040	943,018

Variances are due to shortfalls in collections for the Board of Elections and Internal Audit, unanticipated telephone charges for Extension Service, higher than anticipated costs for retiree benefits and budgeted recoveries for salary savings in the Employee Benefits. Salary savings are budgeted in Employee Benefits (nondepartmental) and actual savings are reported in individual departments.

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 (\$697,145) and the bank balance was \$5,174,477. This negative carrying amount is due to out-standing checks in the amount of \$6.9 million. 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)	\$ 1,460,278
National Credit Union Administration (NCUA)	2,778
Held by the government's agent, in the government's name	3,209,909
Unspent lease proceeds held in escrow	501,512
Total Bank Balance	\$ 5,174,477

Certain lease proceeds of the County's 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, 2006, totaled \$385,060,806 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	\$ 2,588,356
Equity in Pooled Invested Cash	164,024,542
Investments	199,146,208
Restricted Cash and Cash Equivalents	19,301,700
Total	\$ 385,060,806
<i>Deposit & Investment Summary:</i>	
Investments	\$ 390,321,021
Cash on Hand	13,941
Deposits	(697,145)
Less: Component Units and Agency Fund Cash Equivalents	
Retirement Fund	(1,082,633)
Frederick County Public Libraries	(25,661)
Agency Funds	(3,468,717)
Total	\$ 385,060,806

NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Trust Fund

At the year-end, the carrying amount of the Pension Trust Fund's deposits was \$40,660 and the bank balance was \$96,608. The deposits of the Pension Trust Fund were not exposed to custodial risk at June 30, 2006.

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, 2006, BOE's cash on hand for petty cash was \$17,475. The carrying amount of the Board's deposits was \$12,721,814 and the bank balance was \$17,646,144. The deposits of the Board were not exposed to custodial risk at June 30, 2006.

At June 30, 2006, FCC's cash on hand for petty cash was \$4,350. The carrying amount of the College's deposits was \$81,943 and the bank balance was \$499,660. The deposits of the college were not exposed to custodial credit risk at June 30, 2006. 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, 2006, the carrying amount and bank balance of FCPL's deposits was \$5,661.

2. Investments

Primary Government

As of June 30, 2006, 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>> 24 Month Maturities</u>
U. S. Treasuries	\$ 14,284,289	\$ 2,527,050	\$ 1,007,890	\$ 10,749,349
Repurchase Agreements	5,832,886	5,832,886	-	-
MD Local Government Investment Pool	92,194,413	92,194,413	-	-
Federal Agency Securities	278,009,433	217,792,580	56,374,041	3,842,812
Total Fair Value	\$ 390,321,021	\$ 318,346,929	\$ 57,381,931	\$ 14,592,161

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 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 following ratings:

<u>Investment</u>	<u>Fair Value</u>	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch Ratings</u>
MLGIP	\$ 92,194,413		AAAm	
Repurchase Agreement	5,832,886	Aa2	Aa-	
FHLB	123,059,687	Aaa	AAA	
FNMA	54,962,490		AAA	
FHLMC	82,309,954		AAA	
FAMC	3,690,618		AAA	Not rated
Farm Credit	3,363,189			Not rated

The repurchase agreement is collateralized with Small Business Administration (SBA) securities and are explicitly guaranteed by the U.S. Government. 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 and Local Government Investment Pool (MLGIP) and federal agency securities. 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	\$ 14,284,289	3.660 %
Repurchase Agreements	5,832,886	1.494
MD Local Government Investment Pool	92,194,413	23.620
Money Market Funds	10,623,495	2.722
Federal Home Loan Bank (FHLB)	123,059,687	31.528
Federal National Mortgage Assoc. (FNMA)	54,962,490	14.081
Federal Home Loan Mortgage Corp (FHLMC)	82,309,954	21.088
Federal Agriculture Mortgage Corp. (FAMC)	3,690,618	0.946
Federal Farm Credit Bank	3,363,189	0.861
Total Fair Value	<u><u>\$ 390,321,021</u></u>	<u><u>100.000 %</u></u>

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	Fair Value
U.S. Government Securities	\$ 19,467,260	\$ -	\$ -	\$ 19,467,260
Corporate Bonds and Notes	20,583,757	-	-	20,583,757
Common Stocks	69,704,933	-	-	69,704,933
	\$ 109,755,950	\$ -	\$ -	\$ 109,755,950
Investment in Money Market Mutual Funds		14,135,532		
Investment in Equity Mutual Funds		32,789,333		
		\$ 156,680,815		

Component Units

The Board of Education's investments at June 30, 2006 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	\$ 4,149,022	\$ 4,149,022	\$ -	\$ -	-
Certificates of Deposit	85,537	85,537	-	-	4.93%
	\$ 4,234,559	\$ 4,234,559	\$ -	\$ -	Various

Investment income includes the following for the year ended June 30, 2006:

Total net investment income per statement of activities \$622,669

FCC's investments at June 30, 2006 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	\$ 9,854,308	\$ 9,854,308	\$ -	\$ -	-
	\$ 9,854,308	\$ 9,854,308	\$ -	\$ -	4.93%

NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment income includes the following for the year ended June 30, 2006:

Total net investment income per statement of activities: **\$663,809**

The Frederick Community College Foundation investments at June 30, 2006 are:

Investment Type	Market Value at June 30, 2006	% of Total	Annualized * Income Projection	Projected Yield as a % of Market Value
Cash Equivalents	\$ 420,007	8%	\$ 20,118	4.79 %
Bond Funds	1,659,340	33%	80,478	4.85 %
Equity funds	2,972,043	59%	31,504	1.06 %
Total	\$ 5,051,390	100%	132,100	2.62 %
Less: Estimated Annual Management Fee			(23,742)	(0.47) %
Estimated Net Annual Yield			\$ 108,358	2.15 %

*Annualized estimates based on amounts and rates as of June 30, 2006.

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, 2006		June 30, 2005	
	Cost	Market	Cost	Market
U.S. Treasury Note & Bonds	\$ 330,520	\$ 321,070	\$ 54,513	\$ 56,208
U.S. Agencies	478,316	470,091	385,511	397,938
Corporate Bonds	880,175	868,179	985,909	1,023,212
Total Debt Securities	1,689,011	1,659,340	1,425,933	1,477,358
Equity Securities	3,002,311	2,972,043	2,627,712	2,553,716
Total Investments	\$ 4,691,322	\$ 4,631,383	\$ 4,053,645	\$ 4,031,074

NOTES TO FINANCIAL STATEMENTS
(Continued)

FCPL's investments at June 30, 2006 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			<u>Interest Rate At June 30</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	
State Investment Pool	\$ 171,369	\$ 171,369	\$ -	\$ -	4.93%
Certificates of Deposit	\$ 170,000	\$ 160,000	\$ 10,000	\$ -	Various
	<u><u>\$ 341,369</u></u>	<u><u>\$ 331,369</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ -</u></u>	

Investment income includes the following for the year ended June 30, 2006:

Total net investment income per statement of activities: \$11,774

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 AAA by Standard and Poor's, 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, 2006, 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	\$232,284
Water and Sewer	1,092
Solid Waste	75,957
Citizen's Nursing Home	49,086
Montevue Home	56,704

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, 2006, are reconciled as follows:

	BOE	FCC	FCPL	TOTAL
Due from component units per Primary Government	\$ 448	\$ 28,610	\$ -	\$ 29,058
Less: Payable recorded by component unit in FY07	(448)	(28,610)	-	(29,058)
Due to primary government per Component Units	\$ -	\$ -	\$ -	\$ -
	BOE	FCC	FCPL	TOTAL
Due to component units per Primary Government	\$ 5,770,093	\$ 10,291	\$ 1,803,421	\$ 7,583,805
Less: Receivables recorded by component unit in FY06	-	-	-	-
Due from primary government per Component Units	\$ 5,770,093	\$ 10,291	\$ 1,803,421	\$ 7,583,805

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, 2006 is as follows:

	Primary Government				
	Beginning Balance	Additions	Retirements	Ending Balance	
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 30,378,862	\$ 6,201,301	\$ (2,230,778)	\$ 34,349,385	
Construction in progress	15,656,825	30,108,166	(18,746,708)	27,018,283	
Total capital assets at historical cost not being depreciated	<u>46,035,687</u>	<u>36,309,467</u>	<u>(20,977,486)</u>	<u>61,367,668</u>	
Capital assets being depreciated:					
Buildings and improvements	116,827,349	6,902,306	-	123,729,655	
Equipment	62,724,040	9,382,422	(3,409,529)	68,696,933	
Infrastructure	275,358,915	10,271,418	(353,499)	285,276,834	
Total capital assets at historical cost being depreciated	<u>454,910,304</u>	<u>26,556,146</u>	<u>(3,763,028)</u>	<u>477,703,422</u>	
Less accumulated depreciation for:					
Buildings and improvements	35,456,216	2,751,415	-	38,207,631	
Equipment	25,282,497	7,252,225	(2,843,138)	29,691,584	
Infrastructure	129,718,634	8,186,212	(22,826)	137,882,020	
Total accumulated depreciation	<u>190,457,347</u>	<u>18,189,852</u>	<u>(2,865,964)</u>	<u>205,781,235</u>	
Total capital assets being depreciated, net of accumulated depreciation	<u>264,452,957</u>	<u>8,366,294</u>	<u>(897,064)</u>	<u>271,922,187</u>	
Governmental activities capital assets, net	<u>\$ 310,488,644</u>	<u>\$ 44,675,761</u>	<u>\$ (21,874,550)</u>	<u>\$ 333,289,855</u>	
Depreciation expense was charged to governmental functions as follows:					
General government				\$ 2,413,072	
Public works				1,303,707	
Social services				1,083,328	
Health				248,928	
Rec and culture				1,071,743	
Public safety				3,882,863	
Infrastructure				8,186,211	
Total depreciation expense				<u>\$ 18,189,852</u>	

NOTES TO FINANCIAL STATEMENTS
(Continued)

	Primary Government		
	Beginning Balance	Additions	Retirements
Business-type activities:			
Capital assets not being depreciated:			
Land	\$ 6,953,179	\$ 45,866,465	\$ (15,893,854)
Construction in progress	42,827,168		
Totals capital assets at historical cost not being depreciated	49,780,347	45,866,465	(15,893,854)
Capital assets being depreciated:			
Buildings and improvements	88,315,338	226,387	(43,126)
Equipment	29,443,657	2,248,874	(663,485)
Infrastructure	190,676,035	14,202,874	(349,405)
Total capital assets at historical cost being depreciated	308,435,030	16,678,135	(1,056,016)
Less accumulated depreciation for:			
Buildings and equipment	58,944,172	4,777,336	(435,116)
Infrastructure	26,485,269	2,650,864	(93,380)
Total accumulated depreciation	85,429,441	7,428,200	(528,496)
Total capital assets being depreciated, net of accumulated depreciation	223,005,589	9,249,935	(527,520)
Business-type activities capital assets, net of accumulated depreciation	\$ 272,785,936	\$ 55,116,400	\$ (16,421,374)
Depreciation expense was charged to business-type functions as follows:			
Citizens Nursing Home			\$ 138,624
Montevue Home			43,829
Bell Court			62,596
Permitting & Development Review			111,239
Solid Waste			2,053,364
Water & Sewer			5,018,547
Total depreciation expense			\$ 7,428,199

NOTES TO FINANCIAL STATEMENTS
(Continued)

Component units' capital asset activity for the year ended June 30, 2006 was as follows:

	Retirements/ Reclassifications				Ending Balance
	Beginning Balance	Additions			
Capital assets not being depreciated:					
Land	\$ 35,006,527	\$ 949,638	\$		\$ 35,956,165
Construction in progress	150,805,432	52,065,913	(103,482,225)		99,389,120
Totals capital assets at historical cost not being depreciated	185,811,959	53,015,551	(103,482,225)		135,345,285
Capital assets being depreciated:					
Library collection	11,290,002	1,740,801	(691,004)		12,339,799
Building and improvements	428,508,633	86,507,330	(91,138)		514,924,825
Furniture and equipment	62,910,223	5,542,828	(6,725,626)		61,727,425
Totals capital assets at historical cost being depreciated	502,708,858	93,790,959	(7,507,768)		588,992,049
Less accumulated depreciation for:					
Library collection	7,986,365	1,261,889	(691,004)		8,557,750
Building and improvements	152,474,644	12,474,170	(89,973)		164,858,841
Furniture and equipment	41,843,963	5,283,302	(5,750,141)		41,387,124
Total accumulated depreciation	202,305,472	19,029,361	(6,531,118)		214,803,715
Total capital assets being depreciated, net of accumulated depreciation	300,403,386	74,761,598	(976,650)		374,188,334
Component units capital assets, net of accumulated depreciation	\$ 486,215,345	\$ 127,777,149	\$ (104,458,875)	\$	\$ 509,533,619

NOTES TO FINANCIAL STATEMENTS
 (Continued)

D. Interfund Receivables, Payables and Transfers

1. Primary Government Interfund Receivables and Payable Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>			<u>Total</u>
	<u>Nonmajor Proprietary</u>	<u>Nonmajor Governmental</u>	<u>Due from Other Funds</u>	
General Fund	\$ 1,270,115	\$ 1,273	\$ 1,271,388	
Total Due to Other Funds	\$ 1,270,115	\$ 1,273	\$ 1,271,388	

Interfund balances due from the nonmajor proprietary funds include \$1,270,115 from Citizens Care and Rehabilitation Center. The amount due from Citizens Care and Rehabilitation Center is primarily the additional cash amounts needed during the year ended June 30, 2006, 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 balance in the nonmajor governmental fund is the 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, 2006, consists of the following:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>	
	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service Funds</u>	<u>Transfers to Other Funds</u>
General Fund	\$ 23,291,840	\$ 8,429,500	\$ 541,600	\$ 1,650,000	\$ 4,491,358	\$ 1,663,131	\$ 39,525,829
Capital Projects	-	-	-	-	-	-	541,600
Nonmajor governmental	10,556,300	-	-	-	-	-	10,584,036
Water and Sewer	-	-	-	-	-	343,323	343,323
Solid Waste	-	-	-	-	-	29,097	29,097
Total Transfers in from Other Funds	\$ 33,848,140	\$ 8,429,500	\$ 541,600	\$ 1,650,000	\$ 4,491,358	\$ 2,063,337	\$ 51,023,935

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 2006 were approximately \$853,000.

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

<u>Fiscal Year</u>	<u>Total Payment</u>
2007	\$ 624,552
2008	287,792
2009	174,768
2010	170,148
2011	133,875
2012-2016	606,000
2017-2021	606,000
2022-2026	606,000
2027-2031	326,000
2032-2036	270,000
2037-2041	9,000
Total	\$ 3,814,135

The County subleases a portion of one of these buildings to other companies and government agencies, this does not, however, release the County from the lease obligation. Lease revenues for fiscal year 2006 totaled \$124,611.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The future minimum lease revenues for the subleases for the next five years are as follows:

Years Ending June 30,	
2007	\$ 127,549
2008	36,842
2009	9,388
2010	-
2011	-
2012-and thereafter	<u>\$ 173,779</u>

The County is committed under various rental lease agreements as lessor. All leases are considered for accounting purposes to be collectable leases. Lease revenues for fiscal year 2006 totaled \$181,989.

Future minimum lease revenues for these rentals are as follows:

Years Ending June 30,	
2007	\$ 233,223
2008	126,422
2009	630
2010	-
2011	-
2012-and thereafter	<u>\$ 360,275</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Non-Current Liabilities

1. Changes in Non-Current Liabilities

	Balance July 1, 2005	Additions	Principal Repayments & Reductions	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 234,327,973	\$ 82,958,476	\$ (26,735,403)	\$ 290,551,046	\$ 17,960,179
Unamortized Premium on Bonds	10,542,690	4,751,328	(2,502,079)	12,791,939	1,590,003
Installment Purchase Agreements	15,767,333	5,357,003	(372,931)	20,751,405	-
Notes Payable	7,322,577	-	(682,474)	6,640,103	716,954
Capital Lease Obligations	4,980,289	731,000	(1,476,167)	4,235,122	1,623,805
Compensated Absences	6,121,098	6,331,195	(5,319,856)	7,132,437	314,153
Deferred Loss on Bond Refunding	(9,401,353)	(723,349)	636,285	(9,488,417)	(778,885)
Total Governmental Activity- Long Term Liabilities	<u>\$ 269,660,607</u>	<u>\$ 99,405,653</u>	<u>\$ (36,452,625)</u>	<u>\$ 332,613,635</u>	<u>\$ 21,426,209</u>

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 83% 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 Funds predominantly serve the governmental funds. Accordingly, long-term liabilities related to the Internal Service Funds are included as part of the above totals for governmental activities. At June 30, 2006, Internal Service Funds compensated absences totaling \$124,657 are included in the above amounts.

NOTES TO FINANCIAL STATEMENTS
(Continued)

	Balance July 1, 2005	Additions	Principal Repayments & Reductions	Balance June 30, 2005	Due Within One Year
Business-type Activities:					
Bonds Payable	\$ 71,517,028	\$ 39,726,524	\$ (13,174,595)	\$ 98,068,957	\$ 7,034,824
Unamortized Premium on Bonds	2,181,486	2,360,388	(789,302)	3,752,572	485,255
Notes Payable	28,917,294	8,730,622	(8,045,740)	29,602,176	2,621,512
Landfill Closure Costs	14,564,027	2,331,318	(257,056)	16,638,289	278,059
Compensated Absences	1,120,366	1,402,964	(1,228,176)	1,295,154	98,127
Deferred Loss on Bond Refundings	(2,123,236)	(429,690)	140,574	(2,412,352)	(253,904)
Total Business-type Activities - Long Term Liabilities	<u>\$ 116,176,965</u>	<u>\$ 54,122,126</u>	<u>\$ (23,354,295)</u>	<u>\$ 146,944,796</u>	<u>\$ 10,263,873</u>

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

The debt limit for the primary government's water, sewer and solid waste activities at June 30, 2006 was \$1,113,792,014 and the legal debt margin was \$986,120,881.

Component Units:

	Balance July 1, 2005	Net Changes	Balance June 30, 2006	Due Within One Year
Board of Education				
Capital lease obligations	\$ 1,194,762	\$ (568,419)	\$ 626,343	\$ 550,287
Compensated absences	4,998,074	601,170	5,599,244	4,470,416
Termination benefits payable	15,421,801	589,448	16,021,249	1,628,178
Board of Education - Long-term Liabilities	\$ 21,614,637	\$ 632,199	\$ 22,246,836	\$ 6,648,881
Frederick Community College				
Compensated absences	\$ 1,236,906	\$ 22,569	\$ 1,259,475	\$ -
Frederick Community College - Long-term Liabilities	\$ 1,236,906	\$ 22,569	\$ 1,259,475	\$ -
Frederick County Public Libraries				
Compensated absences	\$ 275,418	\$ 30,862	\$ 306,280	\$ 8,594
Frederick County Public Libraries - Long-term Liabilities	\$ 275,418	\$ 30,862	\$ 306,280	\$ 8,594

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$98,428,674 which \$32,428,674 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, 2006.

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.

Governmental Activities	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Range of Interest Rates		Amount of Original Issue	Amount Outstanding 6/30/06
				Interest Rates	Interest Rates		
Public Facilities Bonds	General	10/15/98	Due serially to 07/1/2015	3.30-5.00%	\$ 19,346,419	\$ 18,521,	
Public Facilities Refunding Bonds of 1998, Series A	General	08/15/99	Due serially to 07/1/2009	5.22-5.31%	\$ 59,116,000	10,305,	
Public Facilities Bonds of 1999	Impact Fee	08/15/99	Due serially to 07/1/2009	5.22-5.31%	\$ 30,515,000	5,319,	
Public Facilities Bonds of 1999	General	11/15/00	Due serially to 12/1/2010	5.00%	\$ 36,161,520	7,676,	
Public Facilities Bonds of 2000	Impact Fee	11/15/00	Due serially to 12/1/2010	5.00%	\$ 16,653,480	3,535,	
Public Facilities Bonds of 2000	General	07/15/01	Due serially to 07/1/2008	3.448-4.00%	\$ 6,579,486	3,557,	
Public Facilities Refunding Bonds of 2001	General	04/01/02	Due serially to 07/1/2016	5.0000%	\$ 13,998,267	9,438,	
Public Facilities Refunding Bonds of 2002, Series A	General	11/01/02	Due serially to 11/1/2022	2.00-4.68%	\$ 38,200,000	21,353,	
Public Facilities Bonds of 2002	General	09/01/03	Due serially to 08/1/2018	2.00-4.25%	\$ 33,013,847	28,502,	
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	2,227,	
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	5,572,	
Public Facilities and Refunding Bonds of 2003	General	05/19/05	Due serially to 08/1/2020	3.50-5.00%	\$ 62,517,782	62,317,	
Public Facilities and Refunding Bonds of 2003	Impact Fee	05/19/05	Due serially to 08/1/2020	3.50-5.00%	\$ 29,264,191	29,264,	
Public Facilities and Refunding Bonds of 2005	General	11/15/05	Due serially to 12/01/2020	3.50-5.00%	\$ 47,817,130	47,817,	
Public Facilities Refunding Bonds of 2005	CCRC	11/15/05	Due serially to 12/01/2020	3.50-5.00%	\$ 810,000	810,	
Public Facilities Refunding Bonds of 2005	Fire Tax	11/15/05	Due serially to 12/01/2020	3.50-5.00%	\$ 270,000	270,	
Public Facilities Bonds of 2005	Impact Fee	11/15/05	Due serially to 12/01/2020	3.50-5.00%	\$ 21,452,870	21,452,	
Public Facilities Refunding Bonds of 2006	General	02/01/06	Due serially to 11/01/2022	4.00-5.25%	\$ 12,608,476	12,608,	
						\$ 437,100,481	\$ 290,551,

NOTES TO FINANCIAL STATEMENTS
(Continued)

The annual requirements to amortize governmental activities bond debt as of June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Public Facilities Bonds	
	Principal	Interest
2007	\$ 17,960,179	\$ 12,719,366
2008	18,497,209	11,995,883
2009	18,999,057	11,238,943
2010	19,030,630	10,458,282
2011	18,660,054	9,674,780
2012-2016	99,568,991	35,096,647
2017-2021	92,361,863	11,426,493
2022-2023	5,473,064	238,116
	\$ 290,551,047	\$ 102,848,510

Business Type Activities	Paying Fund	Date of Debt Issue	Date of Debt Maturity	Range of Interest Rates	Amount of Original Issue	Amount Outstanding
						6/30/06
Public Facilities Bonds						
Public Facilities Refunding Bonds of 1998, Series A	W&S	10/15/98	07/01/15	3.30-5.00%	\$ 2,849,000	\$ 2,727,500
Public Facilities Refunding Bonds of 1998, Series A	SW	10/15/98	07/01/15	3.30-5.00%	6,294,581	6,026,139
Public Facilities Bonds of 1999	W&S	08/15/99	07/01/09	5.22-5.31%	5,159,000	899,383
Public Facilities Bonds of 2000	W&S	11/15/00	12/01/10	5.00%	14,185,000	3,011,258
Public Facilities Bonds of 2000	SW	11/15/00	12/01/10	5.00%	5,000,000	1,061,459
Public Facilities Refunding Bonds of 2001	W&S	07/15/01	07/01/08	3.448-4.00%	8,125,514	4,392,916
Water and Sewer Refunding Bonds of 2002, Series A	W&S	04/01/02	07/01/16	5.00%	8,590,733	5,791,805
Public Facilities Bonds of 2002	W&S	11/01/02	11/01/17	2.00-4.68%	16,680,000	9,324,039
Public Facilities Bonds of 2002	SW	11/01/02	11/01/17	2.00-4.68%	6,820,000	3,812,347
Public Facilities and Refunding Bonds of 2003	W&S	09/01/03	08/01/18	2.00-4.25%	7,216,140	6,062,459
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
Public Facilities Bonds of 2005	DPDR	11/15/05	12/01/20	3.50-5.00%	4,150,000	4,150,000
Public Facilities Bonds of 2005	W&S	11/15/05	12/01/20	3.50-5.00%	22,320,000	22,320,000
Public Facilities Bonds of 2005	SW	11/15/05	12/01/20	3.50-5.00%	5,500,000	5,500,000
Public Facilities Refunding Bonds of 2006	W&S	02/01/06	11/01/22	4.00-5.25%	5,505,482	5,505,482
Public Facilities Refunding Bonds of 2006	SW	02/01/06	11/01/22	4.00-5.25%	2,251,042	2,251,042
					\$ 135,879,520	\$ 98,068,957

NOTES TO FINANCIAL STATEMENTS
(Continued)

The annual requirements to amortize business-type bond debt as of June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Public Facilities Bonds	
	Principal	Interest
2007	\$ 7,034,824	\$ 4,194,768
2008	7,227,790	3,919,126
2009	7,350,943	3,632,994
2010	6,964,370	3,352,876
2011	6,924,947	3,066,035
2012-2016	30,961,002	11,040,066
2017-2021	28,238,144	4,121,950
2022-2023	3,366,937	146,483
	<hr/> <u>\$ 98,068,957</u>	<hr/> <u>\$ 33,474,298</u>

3. Agricultural Preservation Instalment 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 6/30/06
Installment Purchase Agreements					
Instalment Purchase Agreement #02-04	Ag Pres	06/15/03	05/15/23	4.95%	\$ 494,567
Instalment Purchase Agreement #02-08	Ag Pres	05/15/03	05/15/13	3.82%	181,052
Instalment Purchase Agreement #02-07 (a)	Ag Pres	05/15/03	05/15/15	4.16%	236,504
Instalment Purchase Agreement #02-07 (b)	Ag Pres	05/15/03	05/15/15	4.16%	281,104
Instalment Purchase Agreement #02-19	Ag Pres	07/14/03	05/15/13	3.84%	706,048
Instalment Purchase Agreement #02-03	Ag Pres	07/14/03	05/15/23	5.03%	1,273,527
Instalment Purchase Agreement #02-10	Ag Pres	10/08/03	05/15/23	5.52%	696,992
Instalment Purchase Agreement #02-24	Ag Pres	12/11/03	05/15/23	5.46%	753,565
Instalment Purchase Agreement #02-28	Ag Pres	12/11/03	05/15/15	4.76%	405,748
Instalment Purchase Agreement #02-22	Ag Pres	12/11/03	05/15/23	5.46%	1,320,273
Instalment Purchase Agreement #02-01	Ag Pres	02/25/04	05/15/24	5.20%	174,701
Instalment Purchase Agreement #02-11	Ag Pres	02/25/04	05/15/24	5.20%	695,412
Instalment Purchase Agreement #02-21	Ag Pres	05/04/04	05/15/14	4.76%	221,896
Instalment Purchase Agreement #02-18	Ag Pres	06/15/04	05/15/24	5.73%	99,717
Instalment Purchase Agreement #04-10	Ag Pres	06/15/04	05/15/24	5.73%	388,192
Instalment Purchase Agreement #04-15	Ag Pres	06/18/04	05/15/14	4.87%	447,207
Instalment Purchases Agreement #04-06	Ag Pres	06/29/04	05/15/24	5.61%	252,395
Instalment Purchase Agreement #02-13	Ag Pres	06/29/04	05/15/24	5.61%	261,769
Instalment Purchahse Agreement #02-15	Ag Pres	08/03/04	05/15/14	5.43%	303,656
Instalment Purchase Agreement #04-16	Ag Pres	08/03/04	05/15/24	5.43%	592,631
Instalment Purchase Agreement #04-11	Ag Pres	08/03/04	05/15/24	5.43%	225,942
Instalment Purchase Agreement #04-12	Ag Pres	08/03/04	05/15/24	5.43%	208,592
Instalment Purchase Agreement #04-03	Ag Pres	08/03/04	05/15/24	5.43%	194,975
Instalment Purchase Agreement #04-01	Ag Pres	08/03/04	05/15/24	5.25%	262,012
Instalment Purchase Agreement #04-08	Ag Pres	08/31/04	05/15/24	5.25%	234,717
Instalment Purchase Agreement #04-05	Ag Pres	08/31/04	05/15/24	5.25%	308,768
Instalment Purchase Agreement #04-09	Ag Pres	08/31/04	05/15/24	5.25%	87,850
Instalment Purchase Agreement #05-29	Ag Pres	03/29/05	05/15/25	4.98%	684,624
Instalment Purchase Agreement #05-30	Ag Pres	03/29/05	05/15/25	4.98%	488,538
Instalment Purchase Agreement #05-31	Ag Pres	03/29/05	05/15/25	4.98%	432,746
Instalment Purchase Agreement #05-32	Ag Pres	04/19/05	05/15/15	4.28%	416,975
Instalment Purchase Agreement #05-33	Ag Pres	04/19/05	05/15/15	4.28%	243,940
Instalment Purchase Agreement #05-34	Ag Pres	04/19/05	05/15/25	4.74%	686,271
Instalment Purchase Agreement #05-35	Ag Pres	04/19/05	05/15/15	4.28%	637,168
Instalment Purchase Agreement #05-36	Ag Pres	05/19/05	05/15/20	4.44%	544,114
Instalment Purchase Agreement #05-37	Ag Pres	05/19/05	05/15/20	4.44%	92,894
Instalment Purchase Agreement #05-38	Ag Pres	05/19/05	05/15/15	4.12%	282,021
Instalment Purchase Agreement #05-40	Ag Pres	05/19/05	05/15/15	4.12%	372,079

NOTES TO FINANCIAL STATEMENTS
(Continued)

Paying Fund	Date of Debt Issue	Date of Debt Maturity	Interest Rate	Amount of Original Issue	Amount Outstanding 6/30/06
Installment Purchase Agreements					
Instalment Purchase Agreement #05-41	Ag Pres	07/20/05	05/15/25	4.52%	541,512
Instalment Purchase Agreement #05-42	Ag Pres	07/20/05	05/15/15	4.20%	76,572
Instalment Purchase Agreement #05-43	Ag Pres	07/20/05	05/15/25	4.52%	407,493
Instalment Purchase Agreement #05-44	Ag Pres	07/20/05	05/15/25	4.52%	256,901
Instalment Purchase Agreement #05-45	Ag Pres	10/11/05	05/15/20	4.58%	281,600
Instalment Purchase Agreement #05-46	Ag Pres	10/11/05	05/15/25	4.63%	229,033
Instalment Purchase Agreement #05-47	Ag Pres	10/11/05	05/15/25	4.63%	363,222
Instalment Purchase Agreement #05-49	Ag Pres	12/13/05	05/15/25	4.78%	316,811
Instalment Purchase Agreement #06-50	Ag Pres	02/28/06	05/15/21	4.66%	315,016
Instalment Purchase Agreement #06-51	Ag Pres	02/28/06	05/15/26	4.61%	436,923
Instalment Purchase Agreement #06-52	Ag Pres	05/18/06	05/15/21	5.28%	144,632
Instalment Purchase Agreement #06-54	Ag Pres	05/18/06	05/15/26	5.27%	385,833
Instalment Purchase Agreement #06-55	Ag Pres	06/15/06	05/15/16	5.03%	690,505
Instalment Purchase Agreement #06-56	Ag Pres	06/15/06	05/15/21	5.20%	286,027
Instalment Purchase Agreement #06-57	Ag Pres	06/15/06	05/15/16	5.03%	541,971
Instalment Purchase Agreement #06-58	Ag Pres	06/15/06	05/15/21	5.20%	82,952
					75,000
					\$ 21,736,185
					\$ 20,751,405

The annual requirements to amortize in installment purchase agreement debt as of June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Installment Purchase Agreements		
	Principal	Interest	Interest
2007	\$ -	\$ 935,629	\$ 935,629
2008	-	1,017,804	1,017,804
2009	-	1,017,804	1,017,804
2010	-	1,017,804	1,017,804
2011	-	4,933,823	4,933,823
2012-2016	6,082,618	3,741,765	3,741,765
2017-2021	1,689,283	2,420,324	2,420,324
2022-2026	12,979,504		
		\$ 20,751,405	\$ 16,102,757

NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 8,686,872			
Less: Accumulated depreciation		(2,356,029)		
Total:			\$ 6,330,843	

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

	Ending June 30,	Total Payment
	2007	\$ 1,734,600
	2008	1,360,681
	2009	882,760
	2010	344,734
	2011	126,066
		4,448,841
Less: amount representing interest		(213,719)
Present value-net minimum lease payments		\$ 4,235,122

NOTES TO FINANCIAL STATEMENTS
(Continued)

Component Unit

The BOE has various capital lease agreements for the purchase of buses and food service equipment. Payments, including interest, during fiscal year 2006 were \$50,676 for the food service equipment, and \$570,643 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><u>(4,589,861)</u></u>	<u><u>(317,108)</u></u>
Total	<u><u>\$ 4,072,563</u></u>	<u><u>\$ 8,908</u></u>

As of June 30, 2006, the minimum obligation under capital leases were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fiscal Year		
2007	\$ 527,152	\$ 50,677
2008	27,151	24,976
2009	-	28,389
2010	-	-
2011	-	-
Total Obligations	<u><u>554,303</u></u>	<u><u>104,042</u></u>
Less: Portion representing interest	<u><u>(23,443)</u></u>	<u><u>(8,559)</u></u>
Present value of lease obligation	<u><u>\$ 530,860</u></u>	<u><u>\$ 95,483</u></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 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

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2006 was \$463,856. The proceeds of this loan have been rebanned 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 money 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, 2006 was \$137,828.

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, which loans have been approved by DBED. The outstanding balance of this loan at June 30, 2006 was \$883,986. The proceeds of this loan have been rebanned to Medimmune, Inc. to assist in the financing of the acquisition of certain redevelopment projects in Frederick County. Although it is expected that said loan will be repaid by payments made by the private user, the loan is a full faith and credit obligation of the County.

The County had received a MiCRF loan in the amount of \$113,637. This loan was paid in full in FY2006. The proceeds of this loan were rebanned by the County to the Frederick Sports Arena Limited Partnership (the "Partnership") in financing a commercial development project. The loan was 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 Authorization 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, 2006, is \$418,756. This is a non-interest bearing note. Semi-annual principal payments of \$38,069 are required, with a final payment due on November 30, 2011.

Maryland State Retirement System

Effective June 30, 1993, the County withdrew from the Maryland State Retirement System for all hires after June 30, 1993. The State calculated a net unfunded amount due from the County, which is further explained in Note 4.D. The original amount of this liability was \$7,036,995 and the balance due at June 30, 2006 is \$4,735,677.

NOTES TO FINANCIAL STATEMENTS
 (Continued)

Governmental Activity:	Paying Fund	Amount of Original Issue	Date of Debt Issue	Date of Debt Maturity	Annual Rate/ Payment Frequency	Amount Outstanding 06/30/06
MD Industrial Land Act Loan - Dan Jay LLC	Econ Dev	\$ 630,000	02/11/94	02/11/21	5.23%/Quarterly	\$ 463,856
MD Industrial Land Act Loan - State Farm	General	181,058	06/23/95	06/23/22	5.93%/Quarterly	137,828
MICRF - Medimmune	Econ Dev	1,436,502	12/31/97	12/31/16	3.00%/Quarterly	883,986
EPA Asbestos School Hazard Abatement	General	1,370,471	8/5/1992	11/30/11	0.00%/Semi-annually	418,756
Maryland State Retirement System	General	7,036,995	06/30/93	12/31/13	7.5%/Annually	4,735,677
Total Notes Payable		\$ 10,655,026				\$ 6,640,103

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

	Principal	Interest
2007	\$ 716,954	\$ 380,988
2008	760,748	336,817
2009	808,101	289,464
2010	858,871	238,694
2011	913,309	184,256
2012-2016	2,300,445	257,735
2017-2021	281,675	35,847
	\$ 6,640,103	\$ 1,723,801

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

The County has been a participant in the MDE's loan program since fiscal year 1992. As of June 30, 2006, 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 \$23,267,891 for three solid waste loans. As of June 30, 2006, \$28,254,105 of the water and sewer loan proceeds and \$18,704,657 of the solid waste loan proceeds have been drawn. The remaining funds are anticipated to be drawn by the end of fiscal year 2007. The outstanding principal balance on these loans as of June 30, 2006 is \$29,602,176. 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 2006, \$257,056 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 \$20,407 to reflect the variance between estimated and actual costs. This increase is recognized in the \$2,331,318 of additions to landfill closure costs for fiscal year 2006 as previously noted in Note 3.F.1. The total remaining estimated costs for closure and post closure care of Site A is \$4,413,059 as of June 30, 2006. This entire amount is reported as a liability for Site A.

As of June 30, 2006, the Site B landfill had capacity used of 1,699,974 tons which is 70.25% of total capacity of 2,419,980 tons. The total estimated costs for closure and post closure care of Site B is \$17,403,097, and the resulting liability is \$12,225,230, with \$5,177,867 remaining to be recognized. The current operating strategy includes the utilization of a temporary transfer station which became operational in December 2005. Under this strategy, Site B has an estimated remaining life of 43 years.

The Solid Waste Enterprise Fund has a total liability for closure and post closure care of \$16,638,289 as of June 30, 2006. 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 February 1, 2006, the County issued the General Obligation Public Facilities Refunding Bonds of 2006 in the amount of \$20,365,000. These bonds carry an average interest rate of 4.888 percent. The gross proceeds of \$22.5 million (including premium and accrued interest) were used to advance refund certain maturities in the amount of \$20.5 million of the 2002 Public Facilities Bonds. As a result certain maturities of the 2002 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 \$1.2 million. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through fiscal year 2023. The County uses the straight line method to amortize this loss. The County completed the refunding to reduce its total debt service payments through fiscal year 2023 by \$823,069 and to obtain an economic gain of \$595,639. As of June 30, 2006, there remains \$103,035,000 of outstanding defeased debt.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

As of June 30, 2006, fund balances were reserved as follows:

	General Fund	Capital Projects	Nonmajor Governmental Funds
Reserved			
For encumbrances	\$ 2,636,848	\$ 25,814,750	\$ 282,028
For inventories	915,780	-	-
For long-term receivables	273,134	-	-
For drug investigations	-	-	103,968
For Agricultural Preservation	-	-	-
Compliance monitoring	-	-	148,953
Total reserved fund balances	\$ 3,825,762	\$ 25,814,750	\$ 534,949

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

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

As of June 30, 2006, Unreserved Fund Balance designations are as follows:

	General Fund	Nonmajor Governmental Funds
Unreserved - Fund Balances		
Designated for:		
Subsequent years' expenditures	\$ 46,780,779	\$ 15,056,258
Bond rating enhancement	2,978,637	-
Capital Projects	-	25,058,625
Loans	-	4,147,849
Snow Removal	726,408	-
Equipment purchases under capital leases	-	501,512
Inmates purchases	-	112,990
Rural Legacy	-	2,734,366
Debt service	1,400,076	11,799,463
Total designated fund balances	\$ 51,885,900	\$ 59,411,063

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Designated for use in FY07 budget	\$ 43,095,887
Designated for retiree health plan benefits	3,133,261
Designated for LOSAP (Length of Service Award Program)	551,631
Total General Fund Fund Balance - Unreserved-designated for subsequent years' expenditures	\$ 46,780,779

3. Governmental Activities with Unreserved, Undesignated Fund Balances

The General Fund has unreserved, undesignated fund balance at June 30, 2006 totaling \$53,857,163. 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, 2006 the required balance is \$16,624,972. The actual balance exceeds the required 5% set-aside, as described above, in the amount of \$37,232,191 and is available as a funding source in the County's FY08 budget.

The ordinance stipulates that the 5% set-aside, noted above, be included in the unreserved, undesignated General Fund balance in the governmental fund statements. Also due to the restricting nature of the set-aside, the 5% is reported as restricted net assets in the governmental activities column of the government-wide Statement of Net Assets.

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, 2006, the balance of these reserves are \$102,236,220 (detailed below). These reserves are a part of the \$287,357,583 Net Asset balance.

Reserved for:	
Operating Reserves	\$ 1,396,763
3 R Reserves	22,276,046
Tap Credits	2,890,342
Working Capital	12,172,639
Cash Funding of Capital Projects	9,209,160
System Development	54,291,270
Total Water and Sewer Reserves	\$ 102,236,220

NOTES TO FINANCIAL STATEMENTS
*(Continued)***5. Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation represent accumulated net assets attributed to revenue sources, such as taxes and fees, which are restricted for specified purposes in the County Code. These amounts, which are included with restricted net assets in the government wide Statement of Net Assets, are as follows at year end:

Governmental activities	\$ 109,011,007
Business-type activities	—
Total Net Assets Restricted by	<hr/>
Enabling Legislation	<u>\$ 109,011,007</u>

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4. OTHER INFORMATION

A. Commitments and Contingencies

1. Construction Commitments

As of June 30, 2006, the County had the following commitments with respect to unfinished capital projects:

	Total Project Budget	Total Expenditures	Amount Funded	Required Future Funding
General government	\$ 71,584,647	\$ 32,398,423	\$ 31,479,181	\$ 40,105,466
Roads and Bridges	43,610,046	22,411,504	26,759,717	16,850,329
Board of Education	103,517,308	84,382,747	88,648,056	14,869,252
Frederick Community College	8,023,702	4,898,751	6,935,142	1,088,560
Parks and recreation	18,166,818	6,681,612	14,467,743	3,699,075
Watershed Restoration	825,100	158,461	825,100	-
Municipal	<u>6,635,000</u>	<u>6,305,281</u>	<u>3,725,500</u>	<u>2,909,500</u>
	<u>\$ 252,362,621</u>	<u>\$ 157,236,779</u>	<u>\$ 172,840,439</u>	<u>\$ 79,522,182</u>

2. Federal Financial Assistance

The County participates in a number of federally assisted programs, principal of which are the Older American Programs, Child Support Enforcement, Mass Transit Programs, Section 8 Housing, Head Start, COPS, Workforce Investment Act Programs, Capitalization Grants for State Revolving Fund and State Domestic Preparedness Programs. Audits of these programs are conducted according to the Federal Office of Management and Budget Circular A-133. The Single Audit Report for the year ended June 30, 2006 is issued under separate cover.

The grant programs are subject to audit by the grantor, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits, in the opinion of management, is believed to be immaterial.

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, 2006.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Economic Dependency

Two non-major enterprise funds 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 (58.48%), Private Pay Residents (10.72%) and Medicare (11.84%).

The Solid Waste Enterprise Fund has three customers which account for 41.52% of total operating revenues. Two commercial haulers accounted for \$4,776,291, or 31.78%, of the fiscal year 2006 operating revenues. A single municipality accounted for \$1,463,856 or 9.74% of the fiscal year 2006 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.

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.

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 rebuttable arbitrage to report at June 30, 2006.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

<u>Payee</u>	<u>Amount of Original Issue</u>	<u>Date of Debt Issue</u>	<u>Date of Debt Maturity</u>	<u>Interest Rate</u>	<u>Payment Frequency</u>	<u>Amount Outstanding 6/30/2006</u>
MedImmune	\$ 1,090,000	10/30/98	11/01/08	7.20%	Annually	\$ 501,140
Emergent Biologics	300,000	03/31/05	12/01/10	4.08%	Annually	244,046
Toys'R-Us	1,890,094	09/26/96	09/15/18	8.16%	Annually	1,460,863
	<u>\$ 3,280,094</u>					<u>\$ 2,206,049</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, 2006, was as follows:

	<u>Uniformed</u>	<u>Non-Uniformed</u>	<u>Non-Vested</u>	<u>Terminations</u>	<u>Vested</u>	<u>Terminations</u>
Retirees and beneficiaries currently receiving benefits	70	258	-	151	-	111
Terminated employees entitled to benefits	-	-	-	-	-	-
Active employees	464	1,337	-	-	-	-

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 FY2006 was 15.2%. 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, gross of investment expenses, (b) projected salary increases from 4.00% to 10.00% per year compounded annually, including 3.00% per year attributable to inflation, and the remainder of merit/seniority, and (c) 1.00% cost of living benefit increase.

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 FY2005, caused primarily by investment performance, which was less than the assumption for three out of the last five fiscal years, and pay increases that were higher than the assumption. Note that the Actuarial Value of Assets is less than the Market Value of Assets for the first time in several years, indicating that there are more asset gains than losses to recognize in the future.

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, 2006 there are two plan change bases which are currently outstanding – the COLA plan change (22 years remaining) and the July 1, 2000 plan improvements for all employees (24 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
		100%	\$ 0
2006	\$ 11,736,171		
2005	9,785,642		
2004	8,459,701		

At June 30, 2006, the plan's reserve for employees' retirement system was \$158,104,340, 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, 2006 was \$4,735,677. Interest and principal payments due to maturity as of June 30, 2006, are \$6,036,048. The County has chosen to make 7 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 BOE's share of contributions for teachers and administrative employees is primarily the responsibility of the State. During the fiscal year ended June 30, 2006, the State paid \$288,685 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 \$16,443,791 in fiscal year 2006. 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. During the year ended June 30, 2006 total contributions of \$40,000 had been made to the plan by Frederick County Public Schools.

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 \$955,913. This amount has been recorded as a revenue and expenditure in the financial statements. The other retirement plan, provided through TIAA/CREF, 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 TIAA/CREF, 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 FY2006 were \$588,840. 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 2006, LOSAP provided 110 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 \$254,220 in fiscal year 2006 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, 408 retirees are receiving post-employment health care benefits. It is estimated that less than 12 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 \$2,531,589 were recognized for post-employment health care. As of June 30, 2006, \$3,133,281 is available for future post employment health care benefits as listed in Note 4.G.2.

F. Deferred Compensation

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

The deferred compensation plan is available to all full-time and permanent part-time employees of the County. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. During the fiscal year 2006 approximately 26.07 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 457b 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. Subsequent Events

The Board of County Commissioners of Frederick County approved and adopted an ordinance establishing a Solid Waste System Benefit Charge that shall apply to all taxable years beginning on or after June 30, 2006. This System Benefit Charge will pay a portion of the reasonably anticipated capital and operating costs for the Solid Waste Enterprise Fund.

H. New Governmental Accounting Standards Board (GASB) Standard

The County adopted the provisions of two Governmental Accounting Standards Board Statements; Statement No. 44, "Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1," and Statement No. 46, "Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34." Statement No. 44 establishes five categories of information to be covered in the Statistical Section; financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. The Statistical Section, starting on page 137, has been modified to include the required information. Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as public interest groups, citizens, or the judiciary – can compel a government to honor. Adoption of this standard has resulted in higher restricted net assets, and a disclosure of the portion of net assets restricted by enabling legislation was added (see note 3.G.5).

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		Annual Covered Payroll	Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll
			of Plan Assets as a Percentage of the Actuarial Accrued Liability	Unfunded Actuarial Liability		
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
07/01/05	134,532,516	173,960,143	77.3	39,427,627	75,072,119	52.5

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
		\$		
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
2006	11,736,171	11,736,171		100

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

May ___, 2007

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 Bonds of 2007, in an aggregate principal amount of \$91,880,000 (the "Bonds") dated May 15, 2007.

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 558 of the Laws of Maryland of 2000, as amended (the "2000 Act"), Chapter 37 of the Laws of Maryland of 2003, as amended (the "2003 Act"), Chapter 145 of the Laws of Maryland of 2005, as amended (the "2005 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1979) as amended (the "Water and Sewer Act"), Sections 5-601 through 5-604 of the Education Volume of the Annotated Code of Maryland, as amended (together, the "Acts"), Resolution No. 07-15 of the County adopted on May 1, 2007 and Resolution No. 07-____ of the County adopted on _____, 2007 (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,

Appendix C

NOTICE OF SALE

\$91,880,000
FREDERICK COUNTY, MARYLAND
General Obligation
Public Facilities Bonds of 2007
Dated May 15, 2007

Sealed proposals or electronic bids via *PARTY*
will be received until 11 o'clock A.M., local Frederick, Maryland Time, on
Tuesday, May 15, 2007
Winchester Hall, 12 East Church Street, 3rd Floor Hearing Room
Frederick, Maryland 21701

Sealed proposals or electronic bids via **PARTY** will be received at the offices of the County for the purchase of the \$91,880,000 General Obligation Public Facilities Bonds of 2007 (the "Bonds"). The Bonds will be dated May 15, 2007 and bear interest payable semi-annually beginning on December 1, 2007 and thereafter on the first days of June 1 and December 1 until maturity or redemption.

The Bonds are issued pursuant to the authority of Chapter 558 of the Laws of Maryland of 2000, as amended (the "2000 Act"), Chapter 537 of the Laws of Maryland of 2003, as amended (the "2003 Act"), Chapter 145 of the Laws of Maryland of 2005, as amended (the "2005 Act"), Chapter 2-13 of the Code of Public Local Laws of Frederick County (1979) as amended (the "Water and Sewer Act") and Sections 5-601 through 5-604 of the Education Volume of the Annotated Code of Maryland, as amended (together, the "Acts") and in accordance with Resolution No. 07-15 adopted by the Board on May 1, 2007.

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

Year of Maturity	Annual Amount Maturing	Year of Maturity	Annual Amount Maturing
2008.....	\$3,000,000	2018.....	\$4,555,000
2009.....	3,270,000	2019.....	4,735,000
2010.....	3,390,000	2020.....	4,920,000
2011.....	3,515,000	2021.....	5,115,000
2012.....	3,640,000	2022.....	5,325,000
2013.....	3,775,000	2023.....	5,540,000
2014.....	3,915,000	2024.....	5,765,000
2015.....	4,065,000	2025.....	6,000,000
2016.....	4,220,000	2026.....	6,250,000
2017.....	4,380,000	2027.....	6,505,000

The proceeds of the bonds will be used to provide funds for the design, planning, renovation and construction of public schools, county buildings, county parks, water and sewer facilities, solid waste facilities and a tourism center.

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 June 1 and December 1, commencing December 1, 2007, 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.

Optional Redemption

Bonds that mature on or after June 1, 2018 are subject to redemption on or after June 1, 2017, as a whole or in part on any date thereafter, at the option of the County, at redemption price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

If less than all of the Bonds are called for redemption, the particular series and maturities of the Bonds to be redeemed shall be selected by the County. If less than all of the Bonds of any one maturity of a series are called for redemption, the particular Bonds to be redeemed from such maturity shall be selected by lot by the Registrar, except that so long as The Depository Trust Company ("DTC") or its nominee is the sole registered owner of the Bonds, the particular Bonds or portion to be redeemed shall be selected by lot by DTC, in such manner as DTC shall determine. Each \$5,000 portion of a Bond shall be treated as a separate Bond in the selection by lot of Bonds to be redeemed.

In case part but not all of a Bond shall be selected for redemption, then, upon the surrender thereof, there shall be issued without charge to the registered owner thereof a Bond or Bonds of the same series in any authorized denomination as specified by the registered owner. The aggregate principal amount of the Bond or Bonds so issued shall be equal to the unredeemed balance of the principal amount of the Bond surrendered.

If the County elects to redeem all or a portion of the Bonds outstanding, it shall deliver a redemption notice to DTC not less than 30 days prior to the date fixed for redemption as prescribed in the Resolution (hereinafter defined). If the book-entry system is discontinued for the Bonds, the County shall give a redemption notice by letter mailed first class, postage prepaid, to the registered owners of the Bonds to be redeemed at their last addresses appearing on the registration books maintained by the Registrar (the "Bond Register") not less than 30 days prior to the redemption date. Failure to deliver or mail any such notice with respect to a particular Bond or any defect in such notice, or in the delivery or mailing thereof, shall not affect the validity of the redemption proceedings. From and after the date fixed for redemption, if funds sufficient for the payment of the redemption price of the Bonds called for redemption are held by the Paying Agent on such date, the Bonds so called for redemption shall become due and payable at the redemption price provided for the redemption of such Bonds on such date, interest on the Bonds shall cease to accrue and the registered owners of such Bonds so called for redemption shall have no rights in respect thereof except to receive payment of the redemption price thereof from such monies held by the Paying Agent. Upon presentation and surrender of a Bond called for redemption in compliance with the redemption notice, the Paying Agent shall pay the appropriate redemption price of such Bond. If Bonds so called for redemption are not paid upon presentation and surrender as described above, such Bonds shall continue to bear interest at the rates stated therein until paid.

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 May 15, 2007.

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 May 15, 2007. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via **PARITY**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **PARITY** to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on **PARITY** shall constitute the official time.

Written Sealed Bids

Written bids will also be accepted in written form on the form of Proposal for Bonds attached to this Notice until 11:00 a.m. local Frederick, Maryland time at the place specified above. Written bids must be submitted on the prescribed form provided for that purpose by the Director of Finance and must be enclosed in a sealed envelope marked "Proposal for Bonds" and addressed to County Commissioners, 3rd Floor Hearing Room, Winchester Hall, 12 East Church Street, Frederick, Maryland 21701.

Bid Specifications

Bidders shall state in their proposals the rate or rates of interest to be paid 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 3%. The highest rate of interest permitted may not exceed 5.50% 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 \$918,800 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.**

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 May 31, 2007, 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 and or time 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 BONDS OF 2007**

May 15, 2007

County Commissioners of Frederick County
3rd Floor, Hearing Room
Winchester Hall
12 East Church Street
Frederick, Maryland 21701

Commissioners:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale, which is made a part of this Proposal, we offer to purchase the Public Facilities Bonds of 2007 (the "Bonds") of County Commissioners of Frederick County, described in such Notice of Sale, such Bonds dated May 15, 2007 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.

Year of Maturity	Annual Amount Maturing	Interest Rate	Year of Maturity	Annual Amount Maturing	Interest Rate
2008.....	\$3,000,000	___%	2018.....	\$4,555,000	___%
2009.....	3,270,000	___%	2019.....	4,735,000	___%
2010.....	3,390,000	___%	2020.....	4,920,000	___%
2011.....	3,515,000	___%	2021.....	5,115,000	___%
2012.....	3,640,000	___%	2022.....	5,325,000	___%
2013.....	3,775,000	___%	2023.....	5,540,000	___%
2014.....	3,915,000	___%	2024.....	5,765,000	___%
2015.....	4,065,000	___%	2025.....	6,000,000	___%
2016.....	4,220,000	___%	2026.....	6,250,000	___%
2017.....	4,380,000	___%	2027.....	6,505,000	___%

We will pay an amount equal to the par value of the Bonds **\$91,880,000**
plus a dollar premium in the amount of + **\$**
Total **\$**

We will pay accrued interest on the Bonds from May 15, 2007 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 \$918,880 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 \$918,880 in accordance with the Official Notice of Sale.

If this proposal is accepted, said good faith deposit is to be held as security for the performance of this proposal, and is to be applied to the purchase price of the Bonds when the Bonds are delivered and paid for under the terms of this proposal, or is to be retained as and for full liquidated damages in case we fail so to take up and pay for the Bonds.

(NOTE: Not part of proposal. The following information is requested to expedite and facilitate prompt determination of the best bid. The omission or inaccuracy of these figures will not affect the validity of the proposal. The aggregate amount of interest from the date of the Bonds to final maturity is \$_____. The true interest cost calculated in accordance with the Notice of Sale is ____ %.)

WE UNDERSTAND THAT (A) WE ARE TO PROVIDE A CERTIFICATION REGARDING THE PUBLIC SALE OF THE BONDS AS DESCRIBED IN THE NOTICE OF SALE ON OR PRIOR TO THE CLOSING DATE AND (B), IF NOTIFIED THAT WE ARE THE SUCCESSFUL BIDDER FOR THE BONDS, WE WILL BE REQUIRED TO ADVISE THE COUNTY OF THE INITIAL REOFFERING PRICES (AS DESCRIBED IN THE NOTICE OF SALE) FOR EACH MATURITY OF THE BONDS AT THE TIME OF SUCH NOTIFICATION. In this regard, you may contact and rely on the information provided by _____ whose telephone number is _____.

Bidder

By: _____

Title: _____

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by **COUNTY COMMISSIONERS OF FREDERICK COUNTY** (the "Issuer") in connection with the issuance of \$_____ Frederick County, Maryland General Obligation Public Facilities Bonds of 2007 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. ____ adopted on _____, 2007 (the "Resolution"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the holders and the beneficial owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The County's obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 of this Disclosure Agreement.

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

BLOOMBERG MUNICIPAL REPOSITORY
100 Business Park Drive
Skillman, New Jersey 08558
Ph: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
E-Mail: munis@bloomberg.com

STANDARD & POOR'S J.J. KENNY REPOSITORY
55 Water Street - 45th Floor
New York, NY 10041
Ph: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-Mail: [nrmrirs@sandp.com](mailto:nrmsir_repository@sandp.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: [nrmrirs@dpcdata.com](mailto:nrmsir@dpcdata.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: [nrmrirs@FTID.com](mailto:nrmsir@FTID.com)

"Official Statement" shall mean the Official Statement dated May 15, 2007 relating to the Issuer's \$91,880,000 Frederick County, Maryland General Obligation Public Facilities Bonds of 2007.

"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, 2007.

(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, 2007, 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: _____, 2007

ATTEST:

Douglas D. Browning, County Manager

COUNTY COMMISSIONERS OF
FREDERICK COUNTY

By: _____
Jan H. Gardner, President
Board of County Commissioners
of Frederick County