

COUNTY OF FREDERICK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005

- Introductory Section -

COUNTY OF FREDERICK, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
JUNE 30, 2005**

Issued by

Cheryl B. Shiffler, Finance Director

Winchester, Virginia

COUNTY OF FREDERICK, VIRGINIA

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2005

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COUNTY OF FREDERICK, VIRGINIA

**DIRECTORY OF PRINCIPAL OFFICIALS
FISCAL YEAR ENDED JUNE 30, 2005**

BOARD OF SUPERVISORS

Richard C. Shickle, Chairman
Gary W. Dove, Vice-Chairman

Bill M. Ewing
Gene E. Fisher

Gina A. Forrester

Barbara E. Van Osten
Lynda J. Tyler

COUNTY SCHOOL BOARD

Lawrence K. Van Hoose, Chairman
Dr. John Lamanna, Vice-Chairman

Donald A. Butler
Richard Howett

Patricia D. Stiles

Stuart A. Wolk
David Zerull

BOARD OF SOCIAL SERVICES

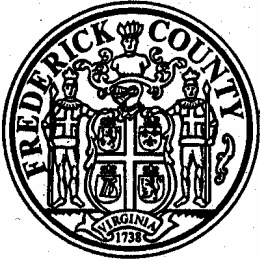
Judith A. Morris, Chairman
Kristen Goff, Vice-Chairman

Lorene Carter
Richard Crane

Philip Roby
Linda Smith

OTHER OFFICIALS

John R. Riley, Jr. County Administrator
Kris C. Tierney Assistant County Administrator
Cheryl B. Shiffler Finance Director
Harvey E. Strawsnyder, Jr. Engineering and General Service Director
Gary A. DuBrueler Fire and Rescue Services Director
Debra E. Didawick Personnel Director
Charles B. Tyson Information Services Director
Eric R. Lawrence Planning and Development Director
Patrick E. Barker Economic Development Director
James M. Doran Parks and Recreation Director
Ellen E. Murphy Commissioner of the Revenue
C. William Orndoff, Jr. County Treasurer
Lawrence R. Ambrogi Commonwealth Attorney
Robert T. Williamson Sheriff
John Prosser Judge of the Circuit Court
John E. Wetsel, Jr. Judge of the Circuit Court
David S. Whitacre Judge of the General District Court
Elizabeth Kellas Judge of the Juvenile and Domestic Relations Court
Rebecca Hogan Clerk of the Circuit Court
Scott Anderson Court Services Director
Gwen Monroe Social Services Director
David Crabtree Health Department District Administrator
James T. Anderson Sanitation Authority Chairman
Wellington H. Jones Engineer/Director Sanitation Authority
Cynthia D. Marston Frederick County Extension Agent
Richard S. Miller Central Registrar
William C. Dean, Ph.D. Superintendent of Schools



John R. Riley, Jr.
County Administrator

540/665-5666
Fax 540/667-0370
E-mail:

jriley@co.frederick.va.us

December 1, 2005

Board of Supervisors
County of Frederick
Winchester, Virginia

To the Board Members:

The comprehensive annual financial report of the County of Frederick, Virginia for the fiscal year ended June 30, 2005 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial and statistical. The introductory section includes the transmittal letter, the County's organization chart and a list of principal officials. The financial section includes the general purpose financial statements and schedules, as well as the auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The County is required to undergo an annual single audit in conformity with the provision of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of federal awards, findings and recommendations, and auditor's report on the internal control structure and compliance with applicable laws and regulations are included in the compliance section of this report. This report includes all funds of the County.

Management's Discussion and Analysis (MD&A) immediately follows the Independent Auditors' Report and provides a narrative introduction, overview, and analysis of the basic financial statements. Management's Discussion and Analysis complements this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The County's Comprehensive Annual Financial Report (CAFR) includes all organizations which have significant operational or financial relationships with the County. Organizations which are included in the CAFR as component units of the County are the Frederick County School Board and the Frederick County Industrial Development Authority. The organizations are presented as discretely presented component units of the County to emphasize that they are legally separate from the County.

Organizations which are regional governments or other multi-governmental arrangements that are governed by representation from each participant, and for which the participants do not retain an ongoing financial responsibility, are considered to be jointly governed organizations. These organizations are not included in the CAFR. The organizations which have not been included are the Handley Regional Library Board, the Northwestern Regional Jail Authority, the Winchester Regional Airport Authority, the Frederick-Winchester Service Authority and the Northwestern Community Services Board.

The Frederick County Sanitation Authority was created by the Board of Supervisors to operate the County's water and sewer systems. The Board of Supervisors appoints all six members of the Authority Board of Directors. However, other than appointing the Board of Directors, the County does not participate or is involved in the day-to-day management operations, nor is the Authority financially accountable to the County. The Authority was included as a part of the reporting entity prior to the 2000 fiscal year primarily due to the significance of outstanding advanced owed to the County. However, based on further review and evaluation of the Authority and County relationships, the Authority is no longer considered to be a component unit of the County.

ECONOMIC CONDITIONS AND OUTLOOK

Frederick County, at the tip of the Northern Shenandoah Valley, is 72 miles northwest of Washington, D.C., and in the northernmost corner of the state of Virginia.

In 2004, the provisional population of the County was estimated at 66,300 based on the Weldon Cooper Center for Public Service. The County, which covers 424 square miles and borders the West Virginia line, was established in 1738. Its county administrator form of government was established in 1971.

In the southeastern portion of the county, there are two incorporated towns – Stephens City and Middletown. The projected per capita income in the County was \$22,654 in 2004, the last year for which the information is available, according to the Economic Development Commission.

The area is served by the Winchester Regional Airport, a 376-acre, all-weather general aviation airport. It is the only general aviation airport in the state manned and open for service 24 hours a day that has a U.S. customs service on call 24 hours a day. It's the official airport of the Virginia Inland Port Authority.

Local Economy

Frederick County continues to be faced with the same concerns as surrounding localities. Our neighboring counties in Northern Virginia continue to infiltrate our job market while they attempt to offer solutions for their employee shortages with enticing salaries.

Frederick County currently experiences a comparably low tax rate and continues to offer the citizens quality education, public safety and a high level of government services. The combination of low tax rates and high quality of life makes the county appealing to neighboring residents.

The ability to maintain an affordable tax rate requires a tax base that encourages industrial development to offset residential costs, while continuing to preserve our history and recognizing the rights and needs of the citizens. Frederick County has been successful in balancing the needs of the citizens in the past and strives to continue to offer quality and affordability to its residents in the future.

Initiatives

The following are the more significant initiatives considered by the County in its proposed budgetary and planning processes.

General Fund

- Fourteen new positions to be added to the departments of County Administrator (position to be shared with the Finance and Personnel Departments), G. I. S., Registrar, Sheriff, Inspections, Public Safety Communications, Engineering, Animal Shelter, Parks and Recreation and Shawneeland.
- Twenty-five new vehicles for various departments (eighteen for the Sheriff's Office)
- Funding for the purchase of laptop computers for the Board of Supervisors to move towards a paperless agenda for Board meetings.
- Updating the G. I. S. mapping of the county.
- 5% Cost of Living Adjustment included for county employees.

School Board

- Sixty new positions, including forty-one for the opening of Admiral Richard E. Byrd Middle School, start-up staffing for the eleventh elementary school, special education needs and enrollment growth.
- An average 4.3% increase is included to enhance teacher salary scales and 3%-5.4% increase is to enhance administration and support salary scales.
- A 7% increase in health insurance premiums.
- An allocation of \$1,000,000 for capital funding is included.

A PROFILE OF FREDERICK COUNTY

History

Frederick County was created from western Orange County by the House of Burgesses on December 21, 1738 and was named after the Prince of Wales. James Wood, County Surveyor for Orange County, platted a town at the county seat which he named Winchester after his birthplace. Eventually, eleven other counties would be created from the 3,824 square miles included in the original Frederick County.

George Washington was associated with Winchester and Frederick County between the years of 1748 and 1765. Early during those years he maintained a surveying office in Winchester. During the French and Indian War he was given a Commission and later made Commander in Chief of the colonial forces with headquarters in Winchester. Washington held his first elective offices representing Frederick County, having been elected to the House of Burgesses in 1758 and 1761.

During the eighteenth and early nineteenth centuries life in the current Frederick County area centered around small family farms. During this period wheat production became the center of the local economy along with cattle production. In 1820 there were fifty flour mills in Frederick County along with numerous sawmills, tanneries, and other business activities.

Frederick County played a significant part in the Civil War. The northern Shenandoah Valley supplied food, livestock, horses, and soldiers to the southern cause. The Valley was also important because of its strategic location in relation to Washington, D.C. The City of Winchester, which is surrounded by Frederick County, changed hands 70 times throughout the duration of the war.

Industrial activity slowly resumed after the Civil War. According to one source, by 1890 Frederick County had 37 mills, eight woolen factories and mills, a steam elevator, two iron foundries, four glove factories, a boot and shoe factory, ten broom factories, four tanneries, a large paper mill, three newspapers, a book bindery, eight cigar factories, three marble yards, and two furniture factories.

In the early twentieth century there was rapid industrial growth in Frederick County. There was a phenomenal rise in apple production with apples replacing wheat as the primary cash crop. Later in the twentieth century the local economy had diversified to include a range of different industrial activities. Activities continue to be based on the accessibility of the area and on north-south travel along the route that was once the Great Wagon Road and is now Route 11 and Interstate 81.

Physical Characteristics

The County can be viewed in terms of three physical areas. The eastern portion of the County contains a band running north-south along the length of the County which is underlain by Martinsburg shale. Much of the land is used either as pasture land or is developed for residential or urban uses.

The second area is underlain by limestone-carbonate bedrock and consists of a band that runs north-south through the County between Interstate 81 and Little North Mountain. Much of this area is currently used for agriculture and contains the bulk of prime agriculture soil in the County. Most of the orchards in the County are located in this area.

The third area is large western Valley and Ridge area that is underlain by a variety of shale, sandstone, and limestone formations. This area consists of alternating valleys and ridges that run north-south through the County. Most of the area is forested. The ridges tend to be very steep and the highest elevations in the County are in this area.

Population

In 2004 the population estimate for Frederick County was 66,300. Since the turn of the century the population has more than tripled, growing from 13,239 people in 1900 to 45,723 in 1990. By 2010, it is projected that the population of Frederick County will be approximately 72,300.

Frederick County's low tax rate and proximately to the Washington, D.C. metropolitan area, continues to lure commuters who are willing to commute in trade for a high quality of life at a lower cost.

Public School System

The Frederick County Public School System is composed of ten elementary schools serving students in grades kindergarten through fifth grade; four middle schools serving grades six through eight; three high schools serving grades nine through twelve. The Northwest Regional Educational Program provides services to some of its special education population. NREP provides services for any child between the ages of 2 and 21 who has a combination of disabilities and cannot be accommodated.

In 1996, student enrollment was 9,632. In the fall of 2004, student enrollment was 11,742, which represents an increase of 2,110 students, or 22%, since 1996. The structure of the school division is designed to support the needs of the 12,044 students projected for the school year 2005-2006.

Employment Trends

Annual statistics showed that Winchester and Frederick County had a total of 47,008 jobs in 2003. The average unemployment rate rose to almost 8% during that time period, but has since dropped to the annual 2004 unemployment rate of 2.7%.

Quality of Life

Higher Education Lord Fairfax Community College, located in Frederick County, offers two-year programs for an associate degree in Art and Sciences and Applied Science, Career Studies, and Certificate Programs with a school enrollment of full time and part-time of 5,019 students.

Shenandoah University offers four-year undergraduate and graduate programs with a school enrollment of 2,500 students. The schools include Harry F. Byrd, Jr. School of Business, Health Professions, Arts and Sciences, Pharmacy and Conservatory. The John Marsh Institute of Public Policy is also located at the University.

There are 22 colleges and universities within a 125 mile radius of Frederick County.

Cost of Living The cost of living in the Winchester-Frederick County area is about 110.9% of the national average. The average detached home sold for approximately \$245,103 in 2004 compared to Northern Virginia average sales price of \$423,138. This low cost of living in such a close proximity to Washington, D.C., attributes to the attractiveness of the area to many working families.

Crime The latest FBI report (data for 2003) gives the crime rate per 100,000 people for the USA as 4,063. The crime rate for Frederick County was 2,960 in 2003.

Medical Care Winchester Medical Center is a 403-bed, nonprofit, real referral hospital offering a full range of inpatient and outpatient diagnostic, medical, surgical and rehabilitative services to residents of the northern Shenandoah Valley. The Medical Center anchors a 150-acre campus with an imaging center, outpatient diagnostic and surgery facilities, cancer center, retail pharmacy, medical office building, adult and adolescent behavioral health centers and a 250 seat conference center. Maintaining a breadth of quality services at a reasonable cost has been a point of pride for Winchester Medical Center.

Library Services Library service is provided to Frederick County through the Handley Regional Library located in downtown Winchester, the Mary Jane and James L. Bowman Library located in Stephens City and the Clarke County Library located in Berryville. Currently, there are approximately 28,368 active registered library card holders in Frederick County. During the 2005 fiscal year, Frederick County residents checked out 380,456 items from the library system.

Parks Frederick County currently operates two regional parks, four community parks, and three community/recreation centers (includes a new facility in the eleventh elementary school). Clearbrook Park, located five miles north of Winchester, is a 55 acre regional park with both passive and active recreational amenities which include four lighted baseball/softball fields, a stocked lake, a 25 yard swimming pool, nine picnic shelters, horseshoe pits, playground areas, and a sand volleyball court. Sherando Park, located two miles east of Stephens City on Route 277, is a 330 acre regional park which has six soccer fields, six lighted baseball/softball fields, a stocked lake, a 25 yard swimming pool, six picnic shelters, horseshoe pits, playground areas, a sand volleyball court, an eighteen hole disc golf course, and a 2.45 mile bike trail. Sherando Park is adjacent to Sherando High School which boasts four lighted outdoor basketball and eight tennis courts.

The four community parks, Gainesboro, Round Hill, Reynolds Store, and Frederick Heights, contain playground equipment for area children to enjoy.

The Community Center is located in Sherando High School. This center contains a fitness room, two racquetball courts, and a 2,400 square foot multi-purpose room for meetings and various activities. The Recreation Center located in Orchard View Elementary School offers a full-sized gymnasium. The Recreation Center located in the eleventh elementary school will provide Frederick County residents a full-sized gymnasium and two multi-purpose activity rooms.

Frederick County citizens also utilize each Frederick County Public School in accordance with a Cooperative Use Agreement between the Frederick County Parks and Recreation Department and the Frederick County Public Schools.

FINANCIAL INFORMATION

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled and allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reliable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial assistance the County also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management of the County.

As a part of the County's single audit described earlier, tests are made to determine the adequacy of the internal control structure including that portion related to federal financial assistance programs, as well as to determine that the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2005, are included in the Compliance Section.

Budgeting Controls

In addition, the County maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County's governing body. Activities of the general fund and special revenue funds, and the funds of the component unit School Board are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within an individual fund. Open encumbrance amounts, as of June 30, 2005, have been determined and the amount of these encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances generally are reappropriated as part of the following year's budget.

OTHER INFORMATION

Independent Audit

State statutes require an annual audit by independent certified public accountants. The accounting firm of Robinson, Farmer, Cox Associates was selected by the Board of Supervisors. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act of 1984 and the related requirements of OMB Circular A-133. The auditor's report on the financial statements and schedules is included in the financial section.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the nineteenth consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

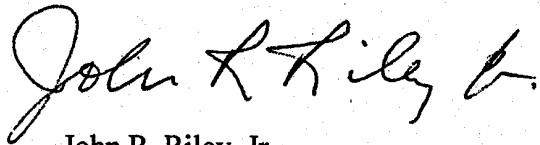
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the County also received GFOA's Award for Distinguished Budget Presentation for its fiscal year beginning 2004 and nineteen prior fiscal year annual budgets. In order to qualify for the Distinguished Budget Presentation Award, the County's budget was judged to be proficient in several categories including policy documentation, financial planning and organization.

Acknowledgments

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated services of the entire staff of the finance department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the Frederick County Board of Supervisors and the Finance Committee, preparation of this report would not have been possible.



John R. Riley, Jr.
County Administrator



Cheryl B. Shiffler
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Frederick,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



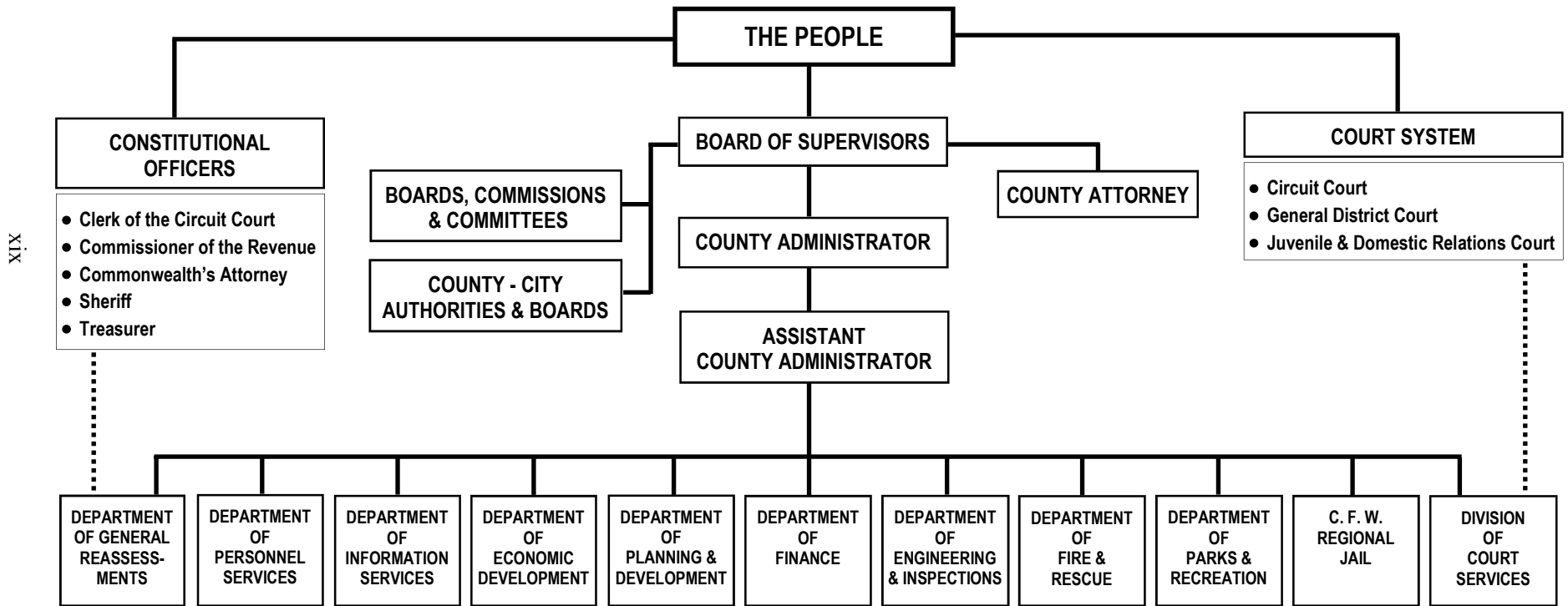
Nancy L. Ziehl

President

Jeffrey R. Emmer

Executive Director

FREDERICK COUNTY ORGANIZATIONAL CHART



- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the Board of Supervisors County of Frederick, Virginia

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 the County of Frederick, Virginia (the "County"), as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Frederick, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005, on our consideration of the County of Frederick, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the County of Frederick, Virginia, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County of Frederick, Virginia. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Jarmer, Cox Associates

Charlottesville, Virginia
October 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights for Fiscal Year 2005:

- On a government-wide basis for governmental activities the County had expenses net of program revenues of \$87.3 million, which was approximately \$4.0 million less than the general revenues of \$91.3 million.
- On a government-wide basis, the general activities total net assets totaled \$46.1 million.
- The fund financial statements reflect unreserved fund balance of \$28.9 million.
- Property taxes of \$52.8 million equaled to just over half of the total \$104.2 million in revenues in the governmental funds.
- The net change in fund balance for the general fund of the prior year was approximately \$5.0 million.

Using the Comprehensive Annual Financial Report:

Over the past two decades, the primary focus of local government financial statements has been summarized by fund type. The approach was changed for the first time in the Fiscal Year Ending 2002 financial statements. The County's current financial statements now present two different statements, with two different approaches and view of the County's finances. The government-wide statements provide information on the overall financial status of the County. This method is more comparable to the method used in private industry. The fund financial statements, which is the method that has been used in the past, focuses on the individual funds of the County government, reporting the operations in more detail than the government-wide statements. When presented in one report, both types of statements will give the user a more broaden basis of comparison and enhance the County's accountability.

Government-Wide Statements:

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. These statements include all assets and liabilities using the accrual method of accounting. All of the year's revenue and expenses are taken into account regardless of when cash is received or paid.

The two government-wide statements, the Statement of Net Assets and the Statement of Activities, report the County's net assets and changes in them. The County's net assets can be thought of as the difference between assets and liabilities, which is one way to measure the County's financial position. Over time, increases and decreases in net assets can be one indicator that the County's financial health is improving or deteriorating.

The Statement of Net Assets presents information on all the County's assets and liabilities. As discussed earlier, the difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets-net of related debt, restricted and unrestricted. To accurately use changes as an indicator of the County's financial health, the factors that contribute to the increases and decreases must be analyzed. Other factors such as the County's tax rate and the condition of other capital assets must also be considered when using the Statement of Net Assets as a financial indicator.

Government-Wide Statements: (continued)

The Statement of Activities provides information on how the net assets changed during the year. Since the government-wide financial statements use the accrual method of accounting, changes in net assets are recognized when an event occurs, regardless of the timing of cash. This will result in revenues and expenses being reported in this statement for some items that will not impact cash flow until a later time in another fiscal period.

The Statement of Net Assets and the Statement of Activities are divided into the following types of activities:

- **Governmental Funds:** These activities are supported primarily by property taxes and report the County's basic services such as general administration, public safety, parks and recreation, and community development.
- **Business-Type Activities:** These activities charge fees to customers to help cover the costs of the service. The County's landfill fund is a business type activity.
- **Component Units:** The Frederick County Public Schools and Industrial Development Authority are component units of the County. Component units are legally separate, but are reported since the County is financially accountable and provide funding for them.

Fund Financial Statements:

Fund financial statements are the traditional governmental financial statements. They focus on the County's most significant funds instead of the County as a whole.

The County has three kinds of funds:

1. **Governmental Funds:** The governmental funds report most of the County's basic services. The governmental funds serve essentially the same function as the governmental activities in the government-wide statements. The governmental fund financial statements focus on near-term cash flows and the amount of spendable resources available at the end of the fiscal year. It provides the reader a short-term view of the financial position. Since the information provides a narrow focus, the government-wide statements will provide additional information. A reconciliation from the fund statements is provided to facilitate this comparison.
2. **Proprietary Funds:** The County of Frederick maintains two types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds report the same functions as the business-type activities in the government-wide financial statements. Internal service funds account for the goods and services provided by one department or agency to other departments or agencies of the County. The County's Central Stores fund accounts for the operations of duplicating, postage, gasoline, and office supplies. Revenue is derived from sales to user departments. The Health Insurance fund accounts for funds to pay health insurance premiums and claims. The Volunteer Fire and Rescue Fund accounts for length of service stipends to be paid to volunteer fire and rescue personnel. The Maintenance Insurance Fund accounts for maintenance contracts.
3. **Fiduciary Funds:** Fiduciary funds are used to report assets held in trustee or agency capacity for others and cannot be used to support the governments own programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Fund Financial Statements: (continued)

- The County of Frederick has several private purpose trust funds. These funds are restricted to build a chapel, provide textbooks for indigent students, and to provide scholarships to deserving students.
- Frederick County has six agency funds. These funds include entities for which the County has assumed fiscal agency status: the Northwestern Regional Jail Authority and the Winchester Regional Airport.

Notes to the Financial Statements:

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements, the transmittal letter, and the management’s discussion and analysis.

Financial Analysis of the County as a Whole:

Statement of Net Assets: The following table reflects a comparative condensed Statement of Net Assets.

Summary Statement of Net Assets								
June 30, 2005								
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Component Units</u>	
	2005	2004	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 54,248,047	\$ 48,157,516	\$ 29,011,591	\$ 25,919,239	\$ 83,259,638	\$ 74,076,755	\$ 30,293,389	\$ 28,190,254
Capital Assets (net)	123,486,262	117,409,969	10,988,036	11,368,389	134,474,298	128,778,358	40,636,112	35,445,620
Total Assets	\$ 177,734,309	\$ 165,567,485	\$ 39,999,627	\$ 37,287,628	\$ 217,733,936	\$ 202,855,113	\$ 70,929,501	\$ 63,635,874
Long-term Liabilities	\$ 125,129,427	\$ 117,743,453	\$ 8,009,956	\$ 7,373,897	\$ 133,139,383	\$ 125,117,350	\$ 1,156,742	\$ 1,009,528
Other Liabilities	6,449,977	5,691,329	89,810	94,139	6,539,787	5,785,468.00	23,454,060	23,106,620
Total Liabilities	\$ 131,579,404	\$ 123,434,782	\$ 8,099,766	\$ 7,468,036	\$ 139,679,170	\$ 130,902,818	\$ 24,610,802	\$ 24,116,148
Net Assets:								
Invested in Capital Assets, net of related debt	\$ 13,041,140	\$ 13,064,455	\$ 10,988,036	\$ 11,368,389	\$ 24,029,176	\$ 24,432,844	\$ 40,636,112	\$ 35,445,620
Restricted for Capital Projects	-	767,224	-	-	-	767,224	2,747,565	102,324
Unrestricted	33,113,765	28,301,024	20,911,825	18,451,203	54,025,590	46,752,227	2,935,022	3,971,782
Total Net Assets	\$ 46,154,905	\$ 42,132,703	\$ 31,899,861	\$ 29,819,592	\$ 78,054,766	\$ 71,952,295	\$ 46,318,699	\$ 39,519,726

The County’s combined net assets increased to \$78,054,766 from \$71,952,295. This net increase in the amount of \$6,102,471 can be attributed to an increase in governmental activities in the amount of \$4,022,202 and an increase in business-type activities in the amount of \$2,080,269. Further details of these contributing factors are explained below.

Financial Analysis of the County as a Whole: (continued)

County of Frederick's Changes in Net Assets For the Fiscal Year Ended June 30, 2005

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues:								
Program Revenues								
Charges for Services	\$ 5,978,785	\$ 5,153,516	\$ 6,467,692	\$ 5,512,103	\$ 12,446,477	\$ 10,665,619	\$ 2,769,804	\$ 2,556,276
Operating Grants & Contributions	9,970,097	10,204,992	-	-	9,970,097	10,204,992	52,068,899	44,735,630
General Revenues								
Real Estate & Personal Property	53,911,011	50,311,064	-	-	53,911,011	50,311,064	-	-
Other Taxes	23,453,552	18,007,559	-	-	23,453,552	18,007,559	-	-
Payments from Primary Government	-	-	-	-	-	-	56,295,440	42,472,835
Non-restricted Grants	12,068,887	13,139,573	-	-	12,068,887	13,139,573	-	-
Use of Money and Property	664,258	271,292	487,814	224,013	1,152,072	495,305	679,725	427,442
Miscellaneous	1,241,876	1,136,151	80,969	88,006	1,322,845	1,224,157	69,865	108,427
Total Revenues	\$ 107,288,466	\$ 98,224,147	\$ 7,036,475	\$ 5,824,122	\$ 114,324,941	\$ 104,048,269	\$ 111,883,733	\$ 90,300,610
Expenses:								
General Government	\$ 6,206,202	\$ 4,378,251	\$ -	\$ -	\$ 6,206,202	\$ 4,378,251	\$ -	\$ -
Judicial Administration	2,505,547	2,157,129	-	-	2,505,547	2,157,129	-	-
Public Safety	15,733,331	13,523,075	-	-	15,733,331	13,523,075	-	-
Public Works	2,139,170	1,963,687	-	-	2,139,170	1,963,687	-	-
Health / Welfare	6,833,696	7,893,895	-	-	6,833,696	7,893,895	-	-
Education	58,152,208	41,222,957	-	-	58,152,208	41,222,957	104,586,323	96,850,993
Parks, Recreation & Culture	4,403,978	4,159,533	-	-	4,403,978	4,159,533	-	-
Community Development	1,787,426	3,124,706	-	-	1,787,426	3,124,706	-	-
Interest on Long-term Debt	5,504,706	5,025,809	-	-	5,504,706	5,025,809	-	-
Landfill Operations	-	-	4,956,206	3,839,664	4,956,206	3,839,664	-	-
Industrial Development Authority	-	-	-	-	-	-	498,437	1,302,239
Total Expenses	\$ 103,266,264	\$ 83,449,042	\$ 4,956,206	\$ 3,839,664	\$ 108,222,470	\$ 87,288,706	\$ 105,084,760	\$ 98,153,232
Change in Net Assets	\$ 4,022,202	\$ 14,775,105	\$ 2,080,269	\$ 1,984,458	\$ 6,102,471	\$ 16,759,563	\$ 6,798,973	\$ (7,852,622)
Net Assets, July 1, 2004, as restated	42,132,703	27,357,598	29,819,592	27,835,134	71,952,295	55,192,732	39,519,726	47,372,348
Net Assets, June 30, 2005	\$ 46,154,905	\$ 42,132,703	\$ 31,899,861	\$ 29,819,592	\$ 78,054,766	\$ 71,952,295	\$ 46,318,699	\$ 39,519,726

Revenues:

- Governmental Activities: For the fiscal year ended June 30, 2005, revenues from governmental activities totaled \$107,288,466. Property tax revenues, which include real estate tax revenues and the local paid portion of personal property taxes account for almost \$54 million of the total revenues received. The amount of personal property taxes paid by the State under the provisions of PPTRA are included in nonrestricted grants.

Other local taxes include sales tax, utilities tax, gross receipts tax, business license, bank stock taxes, franchise tax, hotel and meals tax, and motor vehicle licenses. This category increased over last fiscal year by \$3.6 million.

- Business-Type Activities: The Regional Landfill is the only category that is classified as a business-type activity. Fees generated from usage of the landfill are recorded along with interest earnings as revenue. The landfill increased net assets by \$2.08 million in FY05. A portion of these funds will be reserved for future development and funds that are required to be placed in a trust fund for future landfill closing costs.
- Component Units: Program revenues would include direct revenues such as charges for services and operating grants. Operating grants include state and federal funding that is primarily comprised of categorical funding.

Expenses:

- **Governmental Activities:** For the fiscal year ended June 30, 2005, expenses related to governmental activities totaled \$103,266,264. Net assets related to governmental activities increased by \$4.0 million. The expenditures for education reflect an adjustment for unexpended bond proceeds, school board fixed asset activity, and depreciation.

Financial Analysis of the Fund Financial Statements:

- **Governmental Funds:** Reported combined ending fund balance is \$35,531,118, an increase of \$5,299,478 in comparison with the prior year. Approximately 84% (\$29,877,985) of the combined ending fund balance is unreserved, which is available for spending at the government's discretion. The FY06 budget appropriates over \$6.3 million from fund balance to balance the budget. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to (1) liquidate purchase orders (encumbrances) of the prior period and subsequent years expenditures, (2) non-current loans and capital projects (\$2,321,361), (3) debt service (\$214,000), and (4) historical markers and prepaid items (\$18,435).

The County's major funds are the General and Shawneeland Sanitary District Funds.

-- The General Fund is the chief operating fund of the County of Frederick. The fund balance of the County's General Fund increased by \$5,059,934 during the 2004-05 fiscal year. Some key factors were:

- Unbudgeted revenue for local sales tax of \$2,194,337.
- Unbudgeted Business License tax of \$960,696.
- Unbudgeted recordation tax of \$1,146,971.

-- The Shawneeland Sanitary District utilizes special property tax assessments to provide services for residents of the District. Revenues exceeded expenditures by \$194,946 for FY 2005.

- **Proprietary Funds:** The County's proprietary funds consist of the landfill fund and internal service funds. The Landfill Fund is operated like a business (enterprise) fund and the internal service funds include the County's Health Insurance, Central Stores, Unemployment, and Volunteer Fire and Rescue Funds. The Landfill Fund reflected an increase in net assets of \$2,080,269, while the internal service funds recognized a decrease in net assets in the amount of \$331,910. The Landfill Fund purchased capital assets in the amount of \$996,947 and posted operating income of \$1,592,455. The Internal Service Funds had a operating loss of \$366,377.

General Budgetary Highlights:

Differences between the original budget and the final budget resulted in an increase of \$26,885,354 in additional appropriations. Highlights of the budget amendments are as follows:

- \$20,558,748 in budget amendments for school construction.
- \$221,000 in budget amendments for pre-construction costs of an animal shelter.
- \$127,000 in carry-forward funds for the completion of an animal shelter.
- \$127,728 in budget amendments to become fiscal agent for the clerk of the courts' payroll.
- \$150,000 budget amendment to appropriate proffers for parks and recreation playground equipment.

General Budgetary Highlights: (continued)

- \$397,250 towards the Lord Fairfax Community College Science Building.
- \$365,688 to purchase 18 patrol cars.
- \$120,000 in courthouse renovations.
- \$201,797 for a Homeland Security Grant.
- \$167,000 for installation of a sewer line at Clearbrook Park.

Capital Assets:

At the end of the Fiscal Year 2005, Governmental Activities had invested \$123,486,262 and the Component Unit School Board had invested \$40,636,112 in capital assets net of depreciation. School Board capital assets are jointly owned by the County (Primary Government) and the Component Unit School Board to the extent of the proportion of general obligation debt owed on such assets by the County. The County reports depreciation on these assets as an element of its share of the costs of the public school system. The County and School Board have no infrastructure capital assets, such as roads and bridges, because all such items have been transferred to and are maintained by the Commonwealth of Virginia. The following two schedules reflect the capital assets of the Governmental Activities and Component Unit School Board. Additional information on capital assets can be found in Note 8 in this report.

	Capital Assets					
	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Capital Assets not being depreciated:						
Land and Land Improvements	\$ 1,408,159	\$ 1,408,159	\$ 2,338,875	\$ 2,253,875	\$ 3,747,034	\$ 3,662,034
Construction in Progress	408,787	200,022	-	139,026	408,787	339,048
School Construction in Progress	22,364,029	19,037,864	-	-	22,364,029	19,037,864
Total Capital Assets not being depreciated	<u>\$ 24,180,975</u>	<u>\$ 20,646,045</u>	<u>\$ 2,338,875</u>	<u>\$ 2,392,901</u>	<u>\$ 26,519,850</u>	<u>\$ 23,038,946</u>
Other Capital Assets:						
Building and Improvements	\$ 21,363,688	\$ 21,201,825	\$ 650,222	\$ 495,003	\$ 22,013,910	\$ 21,696,828
Landfill Improvements	-	-	15,018,962	14,916,485	15,018,962	14,916,485
School Building & Improvements	87,802,691	84,123,332	-	-	87,802,691	84,123,332
Furniture, Equipment & Vehicles	6,819,005	6,376,212	3,636,661	2,952,384	10,455,666	9,328,596
Total Other Capital Assets	<u>\$ 115,985,384</u>	<u>\$ 111,701,369</u>	<u>\$ 19,305,845</u>	<u>\$ 18,363,872</u>	<u>\$ 135,291,229</u>	<u>\$ 130,065,241</u>
Less: Accumulated Depreciation	<u>16,680,097</u>	<u>14,937,445</u>	<u>10,656,684</u>	<u>9,388,384</u>	<u>27,336,781</u>	<u>24,325,829</u>
Net Capital Assets	<u>\$ 123,486,262</u>	<u>\$ 117,409,969</u>	<u>\$ 10,988,036</u>	<u>\$ 11,368,389</u>	<u>\$ 134,474,298</u>	<u>\$ 128,778,358</u>

	Component Unit School Board Capital Assets	
	2005	2004
Capital Assets not being depreciated:		
Land and Land Improvements	\$ 4,121,136	\$ 4,121,136
Construction in Progress	22,382,342	19,056,177
Construction in Progress Allocated to County	<u>(22,364,029)</u>	<u>(19,037,864)</u>
Total Capital Assets not being depreciated	<u>\$ 4,139,449</u>	<u>\$ 4,139,449</u>
Other Capital Assets:		
Building and Improvements	\$149,104,109	\$ 141,947,561
School Buildings and Improvements allocated to County	(87,802,691)	(84,123,332)
Furniture, Equipment & Vehicles	<u>24,732,854</u>	<u>18,080,941</u>
Total Other Capital Assets	<u>\$ 86,034,272</u>	<u>\$ 75,905,170</u>
Less: Accumulated Depreciation	<u>49,537,609</u>	<u>44,598,999</u>
Net Capital Assets	<u>\$ 40,636,112</u>	<u>\$ 35,445,620</u>

Long-Term Debt:

General Fund revenues are used to pay all long-term general obligation debt, General Fund capital leases, and the School Board Early Retirement Incentive Obligation.

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2005.

	<u>July 1, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2005</u>
Lease Revenue Bonds Payable	\$ 6,335,000	\$ -	\$ 480,000	\$ 5,855,000
General Obligation Bonds:				
Library	4,121,297	-	140,273	3,981,024
School	90,024,522	14,545,000	6,085,225	98,484,297
Add deferred amount for issuance premiums	2,642,297	1,020,207	251,930	3,410,574
Less deferred amount on refunding	(484,656)	-	(74,596)	(410,060)
Total School General Obligation Bonds	<u>\$ 92,182,163</u>	<u>\$15,565,207</u>	<u>\$ 6,262,559</u>	<u>\$ 101,484,811</u>
State Literary Fund Loans:				
School	12,394,531	-	1,083,179	11,311,352
Intergovernmental Loans	742,143	-	371,071	371,072
Capital Leases	114,846	-	33,595	81,251
Compensated Absences	1,853,473	463,368	271,924	2,044,917
Total	<u>\$117,743,453</u>	<u>\$16,028,575</u>	<u>\$ 8,642,601</u>	<u>\$ 125,129,427</u>

Additional details on long-term obligations are presented in Note 9 to the financial statements.

Contacting the Finance Department:

This Comprehensive Annual Financial Report (CAFR) is designed to provide our investors, citizens, taxpayers, and readers with a general overview of the County's finances and to demonstrate accountability. Questions concerning this report should be directed to Cheryl Shiffler, Finance Director, Frederick County Finance Department, 107 North Kent Street, Winchester, Virginia, 22601, telephone (540) 665-5610.

Basic Financial Statements:
- Government-wide Financial Statements -

COUNTY OF FREDERICK, VIRGINIA

Statement of Net Assets
At June 30, 2005

	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Industrial Development Authority
Assets:					
Cash and cash equivalents	\$ 36,666,914	\$ 28,365,441	\$ 65,032,355	\$ 26,891,498	\$ 168,553
Receivables, net	4,617,019	646,150	5,263,169	237,023	2,437
Due from other governments	2,459,934	-	2,459,934	2,991,978	-
Intergovernmental loan	860,745	-	860,745	-	-
Prepaid expenses	4,561	-	4,561	-	1,900
Due from component unit School Board	9,638,874	-	9,638,874	-	-
Capital assets:					
Land and construction in progress	24,180,975	2,338,875	26,519,850	4,139,449	-
Other capital assets, net of accumulated depreciation	99,305,287	8,649,161	107,954,448	36,496,663	-
Capital assets, net	\$ 123,486,262	\$ 10,988,036	\$ 134,474,298	\$ 40,636,112	\$ -
Total assets	\$ 177,734,309	\$ 39,999,627	\$ 217,733,936	\$ 70,756,611	\$ 172,890
Liabilities:					
Accounts payable and accrued expenses	\$ 793,080	\$ 89,810	\$ 882,890	\$ 12,944,909	\$ -
Accrued interest payable	2,504,176	-	2,504,176	-	-
Claims payable	360,825	-	360,825	870,277	-
Deferred revenue	1,925,841	-	1,925,841	-	-
Amounts held for others	866,055	-	866,055	-	-
Due to primary government	-	-	-	9,638,874	-
Long-term liabilities:					
Due within one year	9,511,210	10,710	9,521,920	424,634	-
Due in more than one year	115,618,217	7,999,246	123,617,463	732,108	-
Total liabilities	\$ 131,579,404	\$ 8,099,766	\$ 139,679,170	\$ 24,610,802	\$ -
Net Assets:					
Invested in capital assets, net of related debt	\$ 13,041,140	\$ 10,988,036	\$ 24,029,176	\$ 40,636,112	\$ -
Restricted:					
Capital projects	-	-	-	2,747,565	-
Unrestricted	33,113,765	20,911,825	54,025,590	2,762,132	172,890
Total net assets	\$ 46,154,905	\$ 31,899,861	\$ 78,054,766	\$ 46,145,809	\$ 172,890

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	School Board	Industrial Development Authority
Primary Government									
Governmental activities									
General government	\$ 6,206,202	\$ -	\$ 418,679	\$ -	\$ (5,787,523)	\$ -	\$ (5,787,523)	\$ -	\$ -
Judicial administration	2,505,547	2,021,148	538,241	-	53,842	-	53,842	-	-
Public safety	15,733,331	81,302	3,078,034	-	(12,573,995)	-	(12,573,995)	-	-
Public works	2,139,170	2,752,512	147,530	-	760,872	-	760,872	-	-
Health and welfare	6,833,696	-	3,812,193	-	(3,021,503)	-	(3,021,503)	-	-
Education	58,152,208	-	1,945,359	-	(56,206,849)	-	(56,206,849)	-	-
Parks, recreation and cultural	4,403,978	1,108,762	-	-	(3,295,216)	-	(3,295,216)	-	-
Community development	1,787,426	15,061	30,061	-	(1,742,304)	-	(1,742,304)	-	-
Interest on long-term debt	5,504,706	-	-	-	(5,504,706)	-	(5,504,706)	-	-
Total governmental activities	\$ 103,266,264	\$ 5,978,785	\$ 9,970,097	\$ -	\$ (87,317,382)	\$ -	\$ (87,317,382)	\$ -	\$ -
Business type activities									
Landfill operations	4,956,206	6,467,692	-	-	-	1,511,486	1,511,486	-	-
Total Primary Government	\$ 108,222,470	\$ 12,446,477	\$ 9,970,097	\$ -	\$ (87,317,382)	\$ 1,511,486	\$ (85,805,896)	\$ -	\$ -
Component Units									
Frederick County Public Schools	\$ 104,586,323	\$ 2,759,312	\$ 52,068,899	\$ -				\$ (49,758,112)	\$ -
Frederick County Industrial Development Authority	498,437	10,492	-	-				-	(487,945)
Total Component Units	\$ 105,084,760	\$ 2,769,804	\$ 52,068,899	\$ -				\$ (49,758,112)	\$ (487,945)
General Revenues									
Taxes:									
General property taxes, real and personal					\$ 53,911,011	\$ -	\$ 53,911,011	\$ -	\$ -
Local sales and use taxes					8,488,195	-	8,488,195	-	-
Business licenses tax					4,160,697	-	4,160,697	-	-
Consumer utility taxes					3,213,017	-	3,213,017	-	-
Lodging taxes					2,741,496	-	2,741,496	-	-
Motor vehicle licenses tax					1,871,393	-	1,871,393	-	-
Taxes on recordation and wills					2,770,777	-	2,770,777	-	-
Other taxes					207,977	-	207,977	-	-
Payment from County of Frederick:									
Education					-	-	-	55,805,440	-
Industrial Development Authority					-	-	-	-	490,000
Grants and contributions not restricted to specific programs					12,068,887	-	12,068,887	-	-
Unrestricted use of money and property					664,258	487,814	1,152,072	677,885	1,840
Miscellaneous					1,241,876	80,969	1,322,845	69,865	-
Total general revenues					\$ 91,339,584	\$ 568,783	\$ 91,908,367	\$ 56,553,190	\$ 491,840
Change in net assets					\$ 4,022,202	\$ 2,080,269	\$ 6,102,471	\$ 6,795,078	\$ 3,895
Net assets, beginning of year, as restated (Note 19)					42,132,703	29,819,592	71,952,295	39,350,731	168,995
Net assets, end of year					\$ 46,154,905	\$ 31,899,861	\$ 78,054,766	\$ 46,145,809	\$ 172,890

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

**Basic Financial Statements:
- Fund Financial Statements -**

COUNTY OF FREDERICK, VIRGINIA

Balance Sheet
Governmental Funds
At June 30, 2005

	<u>General Fund</u>	<u>Shawneeland Sanitary District Fund</u>	<u>School Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 31,981,227	\$ 926,670	\$ 214,500	\$ 1,326,728	\$ 34,449,125
Property taxes receivable, net	2,195,939	529,684	-	-	2,725,623
Business licenses receivable	932,278	-	-	-	932,278
Accounts receivable	954,324	-	-	1,229	955,553
Due from other governments	2,223,232	-	-	236,702	2,459,934
Intergovernmental loan	860,745	-	-	-	860,745
Prepaid items	4,561	-	-	-	4,561
Total	<u>\$ 39,152,306</u>	<u>\$ 1,456,354</u>	<u>\$ 214,500</u>	<u>\$ 1,564,659</u>	<u>\$ 42,387,819</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 669,335	\$ 19,691	\$ 500	\$ 70,966	\$ 760,492
Amounts held for others	866,055	-	-	-	866,055
Deferred revenue - business licenses	932,278	-	-	-	932,278
Deferred revenue - prepaid taxes	1,900,206	25,635	-	-	1,925,841
Deferred revenue - property taxes	1,869,293	502,742	-	-	2,372,035
Total	<u>\$ 6,237,167</u>	<u>\$ 548,068</u>	<u>\$ 500</u>	<u>\$ 70,966</u>	<u>\$ 6,856,701</u>
Fund Balance					
Reserved for:					
Prepaid items	\$ 4,561	\$ -	\$ -	\$ -	\$ 4,561
Encumbrances	1,510,883	-	-	-	1,510,883
Non-current loans	860,745	-	-	-	860,745
Capital projects	1,460,616	-	-	-	1,460,616
Employee benefits	93,121	-	-	-	93,121
Historical markers	13,874	-	-	-	13,874
Economic development	687	-	-	-	687
Tri-centennial	953	-	-	-	953
Unreserved:					
Designated:					
Debt service	-	-	214,000	-	214,000
Subsequent year's expenditures:					
Special Revenue Funds	-	-	-	768,958	768,958
Capital projects	-	-	-	724,735	724,735
Unreserved/undesignated	28,969,699	908,286	-	-	29,877,985
Total fund balance	<u>\$ 32,915,139</u>	<u>\$ 908,286</u>	<u>\$ 214,000</u>	<u>\$ 1,493,693</u>	<u>\$ 35,531,118</u>
Total	<u>\$ 39,152,306</u>	<u>\$ 1,456,354</u>	<u>\$ 214,500</u>	<u>\$ 1,564,659</u>	<u>\$ 42,387,819</u>

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

COUNTY OF FREDERICK, VIRGINIA

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2005

Total fund balances for governmental funds (Exhibit 3)	\$	35,531,118
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$	1,408,159
Construction in progress		22,772,816
Buildings and improvements, net of depreciation		15,989,371
Equipment, net of depreciation		1,803,269
School Board capital assets, net of depreciation		<u>81,512,647</u>
Total capital assets		123,486,262
School bond proceeds for which capital assets have not been constructed or acquired. This adjustment is required to properly report actual debt used to construct or acquire capital assets.		
		9,638,874
Internal service funds are used by the County to charge the cost of health insurance, supplies, gasoline, duplicating and unemployment benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service funds net assets are:		
		1,827,941
Some of the County's taxes and business licenses will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as deferred revenue in the funds.		
		3,304,313
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Also, the County received a premium on its long-term debt issues and incurred defeasance costs when refunding debt. The premium and defeasance costs will be amortized over the life of the new bond issue as interest is paid. Balances of long-term liabilities affecting net assets are as follows:		
Accrued interest on debt	\$	(2,504,176)
Bonds, notes and capital leases payable		(120,083,996)
Unamortized bond premium		(3,410,574)
Unamortized defeasance costs		410,060
Compensated absences		<u>(2,044,917)</u>
Total		<u>(127,633,603)</u>
Total net assets of governmental activities (Exhibits 1 and 2)	\$	<u><u>46,154,905</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	<u>General Fund</u>	<u>Shawneeland Sanitary District Fund</u>	<u>School Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 52,890,953	\$ 572,528	\$ -	\$ -	\$ 53,463,481
Other local taxes	23,453,552	-	-	-	23,453,552
Permits, privilege fees and regulatory licenses	2,773,787	-	-	-	2,773,787
Fines and forfeitures	282,828	-	-	-	282,828
Use of money and property	601,516	13,445	-	14,830	629,791
Charges for services	2,345,861	-	-	576,309	2,922,170
Miscellaneous	332,408	-	-	955,333	1,287,741
Recovered costs	2,711,272	2,222	-	256,230	2,969,724
Intergovernmental:					
Revenue from the Commonwealth	16,493,450	-	1,945,359	1,285,228	19,724,037
Revenue from the Federal Government	2,314,947	-	-	-	2,314,947
Total revenues	\$ 104,200,574	\$ 588,195	\$ 1,945,359	\$ 3,087,930	\$ 109,822,058
Expenditures					
Current:					
General government administration	\$ 6,152,689	\$ -	\$ -	\$ -	\$ 6,152,689
Judicial administration	1,598,301	-	-	1,154,727	2,753,028
Public safety	15,607,849	-	-	-	15,607,849
Public works	3,290,973	-	-	-	3,290,973
Health and welfare	4,871,933	-	-	1,936,899	6,808,832
Education - local community college	444,629	-	-	-	444,629
Education - public school system	63,907,736	-	-	-	63,907,736
Parks, recreation and cultural	4,461,985	-	-	-	4,461,985
Community development	2,726,702	393,249	-	-	3,119,951
Debt service:					
Principal payments	653,868	-	7,539,475	-	8,193,343
Interest and fiscal charges	478,343	-	4,868,429	-	5,346,772
Total expenditures	\$ 104,195,008	\$ 393,249	\$ 12,407,904	\$ 3,091,626	\$ 120,087,787
Excess (deficiency) of revenues over expenditures	\$ 5,566	\$ 194,946	\$ (10,462,545)	\$ (3,696)	\$ (10,265,729)
Other financing sources (uses)					
Long-term debt issued	\$ 14,545,000	\$ -	\$ -	\$ -	\$ 14,545,000
Bond premium	1,020,207	-	-	-	1,020,207
Transfers in	43,190	-	10,554,029	-	10,597,219
Transfers out	(10,554,029)	-	-	(43,190)	(10,597,219)
Total other financing sources (uses)	\$ 5,054,368	\$ -	\$ 10,554,029	\$ (43,190)	\$ 15,565,207
Net change in fund balance	\$ 5,059,934	\$ 194,946	\$ 91,484	\$ (46,886)	\$ 5,299,478
Fund balance, beginning of year	27,855,205	713,340	122,516	1,540,579	30,231,640
Fund balance, end of year	\$ 32,915,139	\$ 908,286	\$ 214,000	\$ 1,493,693	\$ 35,531,118

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

COUNTY OF FREDERICK, VIRGINIA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit 5)	\$ 5,299,478
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,728,089)
School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board.	7,850,247
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.	401,669
Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt issued:	
General obligation school bonds	\$ (14,545,000)
Premium on debt:	
School bonds	(1,020,207)
Repayments:	
Lease revenue bonds	480,000
General obligation library bonds	140,273
General obligation school bonds	6,085,225
State Literary Fund loans	1,083,179
Intergovernmental loans	371,071
Capital leases	<u>33,595</u>
Net adjustment	(7,371,864)
Change in School bond proceeds for which capital assets have not been constructed or acquired.	252,049
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:	
Compensated absences	\$ (191,444)
Amortization of debt premium	251,930
Amortization of advanced refunding defeasance costs	(74,596)
Accrued interest on bonds and loans	<u>(335,268)</u>
Net adjustment	(349,378)
Internal service funds are used by the County to charge the costs of health insurance, supplies and unemployment costs to individual funds. The net revenue of internal service funds is reported with governmental activities.	<u>(331,910)</u>
Change in net assets of governmental activities (Exhibit 2)	\$ <u><u>4,022,202</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Net Assets

Proprietary Funds

At June 30, 2005

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Landfill Fund	Internal Service Funds
Assets:		
Current assets:		
Cash and cash equivalents	\$ 28,365,441	\$ 2,217,789
Receivables, net	646,150	3,565
Total current assets	<u>\$ 29,011,591</u>	<u>\$ 2,221,354</u>
Noncurrent assets:		
Capital assets:		
Land	\$ 2,338,875	\$ -
Other capital assets, net of accumulated depreciation	8,649,161	-
Total noncurrent assets	<u>\$ 10,988,036</u>	<u>\$ -</u>
Total assets	<u>\$ 39,999,627</u>	<u>\$ 2,221,354</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 89,810	\$ 32,588
Compensated absences, current portion	10,710	-
Claims payable	-	360,825
Total current liabilities	<u>\$ 100,520</u>	<u>\$ 393,413</u>
Long-term liabilities:		
Compensated absences, noncurrent portion	\$ 108,290	\$ -
Accrued landfill remediation costs	7,890,956	-
Total long-term liabilities	<u>\$ 7,999,246</u>	<u>\$ -</u>
Total liabilities	<u>\$ 8,099,766</u>	<u>\$ 393,413</u>
Net Assets:		
Invested in capital assets	\$ 10,988,036	\$ -
Unrestricted	20,911,825	1,827,941
Total net assets	<u>\$ 31,899,861</u>	<u>\$ 1,827,941</u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities - Enterprise <u>Landfill Fund</u>	Governmental Activities <u>Internal Service Funds</u>
Operating revenues:		
Charges for services, net	\$ 6,467,692	\$ 3,809,855
Miscellaneous	80,969	-
Total operating revenues	<u>\$ 6,548,661</u>	<u>\$ 3,809,855</u>
Operating expenses:		
Personal services	\$ 870,996	\$ -
Fringe benefits	292,557	3,926,824
Contractual services	687,814	-
Other charges	1,762,764	249,408
Depreciation	1,342,075	-
Total operating expenses	<u>\$ 4,956,206</u>	<u>\$ 4,176,232</u>
Operating income (loss)	\$ 1,592,455	\$ (366,377)
Nonoperating revenues:		
Investment earnings	<u>487,814</u>	<u>34,467</u>
Change in net assets	\$ 2,080,269	\$ (331,910)
Total net assets, beginning of year, as restated	<u>29,819,592</u>	<u>2,159,851</u>
Total net assets, end of year	<u><u>\$ 31,899,861</u></u>	<u><u>\$ 1,827,941</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities - Enterprise Landfill Fund	Governmental Activities Internal Service Funds
Cash flows from operating activities		
Receipts from customers	\$ 6,549,899	\$ -
Receipts from insured	-	3,546,747
Receipts from services	-	262,711
Other receipts	80,969	-
Payments to employees	(1,158,732)	-
Payments to suppliers	(1,823,669)	(4,077,145)
Other payments	-	(7,435)
Net cash provided by (used in) operating activities	<u>\$ 3,648,467</u>	<u>\$ (275,122)</u>
Cash flows from investing activities		
Investment earnings	<u>\$ 487,814</u>	<u>\$ 34,467</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	\$ (996,947)	\$ -
Disposals of capital assets	<u>35,225</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>\$ (961,722)</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,174,559	\$ (240,655)
Cash and cash equivalents, beginning of year	<u>25,190,882</u>	<u>2,458,444</u>
Cash and cash equivalents, end of year	<u><u>\$ 28,365,441</u></u>	<u><u>\$ 2,217,789</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 1,592,455	\$ (366,377)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,342,075	-
Changes in assets and liabilities:		
Receivables	82,207	(397)
Accounts payable and accrued expenses	492	10,948
Claims payable	-	80,704
Increase in accrued landfill costs	<u>631,238</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u><u>\$ 3,648,467</u></u>	<u><u>\$ (275,122)</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Fiduciary Net Assets
At June 30, 2005

	Private Purpose Trust Funds	Agency Funds	Total
Assets:			
Cash and cash equivalents	\$ 22,126	\$ 2,160,195	\$ 2,182,321
Receivables	-	629,803	629,803
Due from other governmental units	-	346,193	346,193
Total assets	<u>\$ 22,126</u>	<u>\$ 3,136,191</u>	<u>\$ 3,158,317</u>
Liabilities:			
Accounts payable	\$ -	\$ 989,236	\$ 989,236
Amounts held for others	-	2,146,955	2,146,955
Total liabilities	<u>\$ -</u>	<u>\$ 3,136,191</u>	<u>\$ 3,136,191</u>
Net Assets	<u><u>\$ 22,126</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,126</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2005

	Private Purpose Trust Funds
	<u> </u>
Additions:	
Investment earnings	\$ 382
Deductions:	
Education	<u> 263</u>
Change in net assets	\$ 119
Net assets, beginning of year	<u> 22,007</u>
Net assets, end of year	<u><u> 22,126</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

The County of Frederick, located in northwest Virginia and bordered by West Virginia and the counties of Shenandoah, Warren, and Clarke, was founded in 1738. The County has a population of 66,724 and a land area of 427 square miles.

The County is governed under the County Administrator - Board of Supervisors form of government. Frederick County engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, human service programs, landfill operations, planning, community development and recreation, cultural, and historic activities.

The financial statements of the County of Frederick, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the County prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.
- Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (Continued)

- Statement of Net Assets: The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- Statement of Program Activities: The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
- Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The County and many other governments revise their original budgets over the course of the year for a variety of reasons. Under the reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results for its major funds.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The County has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

Inclusions in the Reporting Entity:

1. Component Units:

a. Frederick County School Board:

The Frederick County School Board is elected to four year terms by the County voters. The School Board may hold property and issue debt subject to approval by the Board of

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (Continued)

Supervisors. The School Board provides public primary and secondary education services to the County residents. The primary funding sources of the School Board are state and federal grants, and appropriations from the County, which are significant since the School Board does not have separate taxing authority. The County also approves the School Board budget. The School Board does not issue separate financial statements.

b. Frederick County Industrial Development Authority:

The Frederick County Industrial Development Authority was created by the Board of Supervisors to administer the issuance of industrial development revenue bonds. The Authority may also acquire property and issue debt in its own name and may also enter into lease/purchase arrangements with the County. The County appoints all six of the members of the Authority's Board of Directors. The County Administrator serves as the Secretary/Treasurer of the Authority. The County may significantly influence the fiscal affairs of the Authority and, accordingly, is included in the County's financial statements.

A copy of the Authority's audit report may be obtained from the Industrial Development Authority, c/o Frederick County Administrator, County Administration Building, 107 North Kent Street, Winchester, Virginia 22604.

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

The financial activities of the following organizations are excluded from the accompanying financial statements for the reasons indicated:

- a. The Handley Regional Library Board provides library services to the Counties of Frederick and Clarke, and the City of Winchester. The participating localities provide annual contributions for operations based on usage of library services. The Library Board is composed of nine members, of which three are appointed by the County, five by the City of Winchester, and one by the County of Clarke. The County made operating grants of \$877,964 to the Library for fiscal 2005, and has no equity interest in the Library. The participating governments have no ongoing financial responsibility to fund the Library to assure its continued operations. The Library has a significant endowment trust.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (Continued)

- b. The Clarke, Fauquier, Frederick, Winchester Jail Board was created in 1987 to construct and operate the Clarke, Fauquier, Frederick, Winchester Regional Adult Detention Center. During the year ending June 30, 2005 the entity changed its name to the Northwestern Regional Jail Authority. The Jail Authority charges on a per diem basis other localities and the federal government for their prisoners placed in the jail. The fourteen member board consists of four members each from the County of Frederick and City of Winchester, and three from the Counties of Clarke and Fauquier. The County and the other participants have no equity interest in the jail. The County made operating contributions of \$1,550,551 to the regional jail in fiscal 2005.
- c. The Winchester Regional Airport Authority was created in 1987 to operate and maintain the regional airport. The City of Winchester and the Counties of Clarke, Frederick, Shenandoah and Warren contribute operating and capital funds as necessary to maintain, operate and construct the airport facilities. The Authority Board consists of seven members of which two each are appointed by the County of Frederick and the City of Winchester, and one each from the Counties of Clarke, Shenandoah and Warren. The participating localities do not retain an equity interest in the Authority. The County of Frederick serves as fiscal agent for the Authority, which is reported as an agency fund in the financial statements. The County made operating grants of \$105,105 to the Authority in fiscal 2005.
- d. The Frederick-Winchester Service Authority was created by the County of Frederick and City of Winchester to provide for the administration, planning and design of wastewater facilities. The Authority has nine Board Members of which four each are appointed by the County and City, and one member appointed at-large by the Authority Board. The participating localities do not retain an ongoing financial interest nor are responsible for the financial activities of the Authority. The County made no operating grants to the Authority in fiscal 2005.
- e. The Northwestern Community Services Board was created to provide Mental Health, Mental Retardation and Substance Abuse Services to the residents of the City of Winchester and the Counties of Clarke, Frederick, Page, Shenandoah and Warren. The Board has fifteen members of which three each are appointed by the City of Winchester and the Counties of Clarke, Frederick, Page and Warren. The participating localities contribute annual operating grants to the Board, but are not required to do so. The participants have no ongoing financial responsibilities to or equity interest in the Board. The County appropriated \$138,733 for an operating grant to the Board in fiscal 2005.
- f. The Northwestern Regional Juvenile Detention Center was created by the Counties of Clarke, Frederick, Page, Shenandoah and Warren, and the City of Winchester. Each participant jurisdiction has one representative on the Center's Board of Directors, and the Clarke, Fauquier, Frederick, Winchester Jail Board has one representative on the Board. The City of Winchester serves as the Center's fiscal agent. The participating localities contribute annual operating grants to the Center, but do not retain an ongoing financial interest in the Center. The County of Frederick appropriated \$213,834 in operating grants to the Center in fiscal 2005.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (Continued)

Financial information for the jointly governed organizations may be obtained as follows:

- Handley Regional Library, Picadilly and Braddock Streets, Winchester, Virginia 22604
- Northwestern Regional Jail Authority, c/o Frederick County Administrator, Frederick County Administration Bldg., 107 North Kent Street, Winchester, Virginia 22604
- Winchester Regional Airport, 491 Airport Road, Winchester, Virginia 22602
- Northwestern Community Services Board, 209 W. Criser Road, Front Royal, Virginia 22630
- Frederick-Winchester Service Authority, 107 North Kent Street, Winchester, Virginia 22604
- Northwestern Regional Juvenile Detention Center, c/o City of Winchester, City Hall, Winchester, Virginia 22604

2. Other Organizations:

The Frederick County Sanitation Authority was created by the Board of Supervisors to operate the County's water and sewer systems. The County appoints all six members of the Authority's Board of Directors. Other than making appointments to the Authority Board of Directors, the County is not involved with day-to-day management or rate setting processes. All obligations of the Authority are payable solely from and secured by revenues derived from the operation of the water and sewer systems. None of the obligations are issued against the credit of the County nor does the County have any legal or moral obligations to the holders of the bonds or notes. The County has made no contributions to the Authority for operations or capital asset acquisitions during fiscal year 2005. However, the County has made advances to the Authority at below market interest rates in order to provide operating capital. The Authority is excluded from the County's financial statements because it is not accountable to the County.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the present reporting model the focus is on either the County as a whole or major individual funds (within the fund financial statements). The focus is on both the County as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category), and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation 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 County does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Internal service charges are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The County's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the County in FY 2005.

1. Governmental Funds:

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

- a. General Fund - The General Fund is the primary operating fund of the County and accounts for all revenues and expenditures applicable to the general operations of the County which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds include the following funds:
 - Division of Court Services Fund - This fund accounts for the operations of the Frederick-Winchester Division of Court Services which provides various services relating to substance abuse care and treatment, and diversionary programs for local felons. Funding is primarily from service fees and state grants.
 - Shawneeland Sanitary District Fund - This fund accounts for special property tax assessments which are used to pay for various services requested by residents of the District. This fund is considered a major fund for financial reporting purposes.
 - Comprehensive Services Act Fund - This fund accounts for the Comprehensive Services Act grant funds which provides assistance primarily for foster care and related services and the prevention of foster care. Services provided include education, housing, health and food. Funding is primarily from state grants and local match appropriations.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- c. School Debt Service Fund - The School Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related charges for school debt.
- d. Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. Capital Projects Funds include the following funds:
 - Detox Center Construction Fund - This fund accounts for resources and expenditures for the construction of detox facilities. Primary revenues consist of investment earnings. Funding for additional construction or renovation projects would be provided primarily by the Division of Court Services Fund revenues.
 - Administration Building Renovation Fund - This fund accounts for the renovation and improvements of the County's administration building. Financing is provided by General Fund revenues.

2. Proprietary Funds:

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise and Internal Service Funds.

- a. Enterprise or Business Funds - Enterprise or Business Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. The Enterprise Fund consist of the landfill fund.
- b. Internal Service Funds - The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the County government. The Internal Service Funds consist of the following funds:
 - Health Insurance Fund - This fund accounts for the health insurance program activities of the County. This fund also includes pass-through premiums and claims from other localities, boards and authorities which elected to participate in the County's health insurance program. The other participants in the program are required to fund any claims which may not be covered by the insurance carrier.
 - Central Stores Fund - This fund accounts for the operations of duplicating, postage, gasoline and office supplies. Revenue is derived from sales to user departments.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- Unemployment Fund - This fund accounts for unemployment obligations of the primary government. Revenue is derived from interfund transfers and investment earnings.
- Volunteer Fire and Rescue Fund - This fund accounts for length of service stipends to be paid to volunteer fire and rescue personnel. Revenue is derived from transfers from the General Fund.
- Maintenance Insurance Fund - This fund accounts for maintenance contracts. Revenue is derived from transfers from the General Fund.

3. Fiduciary Funds (Trust and Agency Funds):

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The funds include Private Purpose Trust and Agency Funds. Private purpose trust funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation. Agency funds also utilize the accrual basis of accounting. The Private Purpose Trust and Agency Funds consist of the following:

a. Private Purpose Trust Funds:

- Laura Bates Trust Fund - This fund accounts for funds provided by a private donor the corpus of which is non-expendable. Investment earnings on fund assets may be used to construct a nondenominational chapel at the Middletown School.
- Harriet S. Sides Trust Fund - This fund accounts for funds provided through a private donor, the corpus of which is non-expendable. Investment earnings on fund assets may be used to purchase textbooks for indigent students of the Frederick County School system.
- Olin Larrick Trust Fund - This fund accounts for funds provided through a private donor, the corpus of which is non-expendable. Investment earnings on fund assets may be used to provide a scholarship to a deserving student of the Frederick County, Virginia schools.

b. Agency Funds:

- Special Welfare Fund - This fund accounts for monies provided primarily through private donors for assistance of children in foster care, and needy senior citizens. This fund is also used to account for monies received from other governments and individuals (i.e., social security and child support) to be paid to special welfare recipients.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- Northwestern Regional Jail Authority - This fund accounts for operations of the regional jail. The regional jail is self-supporting and the County acts as the jail fiscal agent.
- Winchester Regional Airport Authority Funds - This fund accounts for operations and construction projects of the regional airport. The airport operation serves the City of Winchester and the Counties of Frederick, Warren, Clarke and Shenandoah. Financing is provided through funds from the Commonwealth of Virginia, the federal government and user charges. The County acts as the Authority fiscal agent.
- Undistributed Local Sales Tax Fund - This fund accounts for monies received from the Commonwealth of Virginia for Frederick County's share of local sales tax. The County disburses part of this money to Middletown and Stephens City based on their school population.
- State Sales Tax Fund - This fund accounts for monies received from purchases by individuals for which sales tax was charged. The County remits this money to the Treasurer of Virginia monthly.
- Employee Cafeteria Plan Fund - This fund accounts for funds received from individuals through payroll withholdings for payment of expenditures allowable under Section 125 of the Internal Revenue Code.
- Northwestern Regional Education Program Fund - This fund accounts for the operation of the Northwestern Regional Education Program. The Program is a regional program utilized by local school districts for certain special education activities.

4. Component Units:

a. Frederick County School Board:

The Frederick County School Board has the following funds:

-- Governmental Funds:

- ~ School Operating Fund - This fund is the primary operating fund of the School Board and accounts for all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the County of Frederick and state and federal grants. The School Operating Fund is considered a major fund of the School Board for financial reporting purposes.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

~ School Cafeteria Fund - This fund accounts for the operations of the School Board's food service program. Financing is provided primarily by food and beverage sales, and state and federal grants.

~ Consolidated Services Fund - This fund accounts for the maintenance of County properties. Financing is provided by appropriations from the County.

~ School Textbook Fund - This fund accounts for the purchase of textbooks for the public school system. Funding is provided primarily by state grants and transfers from the School Operating Fund.

~ School Capital Projects Fund - This fund accounts for school construction and related expenditures of the public school system. Funding is primarily from investment earnings and appropriations from the County of Frederick. The School Capital Projects Fund is considered a major fund for financial reporting purposes.

-- Internal Service Fund:

~ Health Insurance Fund - This fund accounts for the School Board's health insurance program activities. Revenues are primarily from health insurance charges to the school system's operating funds.

b. Industrial Development Authority:

The Industrial Development Authority operates on an enterprise fund basis where revenues and expenses are recognized on the accrual basis of accounting as more fully described in Note 1, B. 2.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

C. Basis of Accounting (Continued)

operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statements of net assets, statements of activities, financial statements of the Proprietary Funds, Internal Service Funds, Fiduciary Funds, and Agency Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects (for the primary government and component unit School Board) are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

The Board of Supervisors annually adopts budgets for the various funds of the primary government and component unit School Board. All appropriations are legally controlled at the department level for the primary government funds. The School Board appropriation is determined by the Board of Supervisors and controlled in total by the primary government.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all major funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the major funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Encumbrances:

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation, is used as an extension of formal budgetary control in the primary government and component unit School Board. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Budgets and Budgetary Accounting (Continued)

constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. These encumbrances are subject to reappropriation by the Board of Supervisors in the succeeding fiscal year.

The following procedures are used by the County in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings and open-houses are conducted to obtain citizen comments. Also, several work sessions between the Board of Supervisors and School Board were conducted on the School Board budget.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund function and departmental level. The appropriation for each fund, function and department can be revised only by the Board of Supervisors; however, the School Board is authorized to transfer budgeted amounts within the school system's categories. Supplemental appropriations in addition to the appropriated budget were necessary during the year. Supplemental appropriations may not be made without amending the budget.
5. The County legally adopted budgets for the following funds:
General, Division of Court Services, Shawneeland Sanitary District, School Operating, Consolidated Services, School Cafeteria, School Textbook, School Debt Service, and School Capital Projects Funds.

The County may adopt budgets for other funds, such as the Proprietary, Internal Service, Trust and Agency Funds, for use as a management control device over such funds. Budgets were not adopted for the Comprehensive Services Act and Detox Center Capital Projects funds. However, appropriations were made for all funds that incurred expenditures during the year.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. All appropriations lapse on June 30, for all County and School Board funds.
8. All budget data presented in the accompanying financial statements is the original budget as of June 30, 2005, as adopted, appropriated and legally amended.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Budgets and Budgetary Accounting (Continued)

9. The expenditure budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government and at the function level for the School Board. State law requires that if budget amendments exceed 1% of the original adopted budget the Board of Supervisors may legally amend the budget only by following procedures used in the adoption of the original budget. There were no budget amendments during the year that exceeded the 1% or \$500,000 limitations. The Board of Supervisors must approve all appropriations and transfers of appropriated amounts.

E. Investments

Investments are reported at fair value.

F. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$2,790,465 at June 30, 2005 and is composed of the following:

General Fund--taxes receivable	\$ 896,760
General Fund--street light assessments receivable	15,705
Shawneeland District--taxes receivable	1,794,000
Enterprise Fund--Landfill Fund--accounts receivable	<u>84,000</u>
Total	<u>\$ 2,790,465</u>

G. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the primary government and component unit School Board, and as assets in the government-wide financial statements to the extent the County's and School Board's capitalization threshold of \$5,000 is met. The County and component unit School Board do not have any infrastructure in their capital assets since roads, streets, bridges and similar assets within their boundaries are property of the Commonwealth of Virginia. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings and improvements	10 to 40 years
Furniture and other equipment	3 to 20 years

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

H. Capital Assets (Continued)

To the extent the County's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund basis and the government-wide basis using the straight-line method and the following estimated useful lives:

Buildings	10 to 20 years
Equipment	5 to 10 years
Landfill improvements	15 years

All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The County maintains various historic treasures and works of art that are of significance to the history of the County. However, the County does not capitalize historic treasures or works of art because the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to a County policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Interest on cost of construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2005.

I. Compensated Absences

The County and Component Unit School Board accrue compensated absences (annual and sick leave benefits) when vested. The amounts include all balances earned by employees which would be paid upon employee terminations, resignations or retirements.

In accordance with GASB Statement No. 16, "*Accounting for Claims, Judgments and Compensated Absences*", the County and its component units have accrued the liability arising from all outstanding claims, judgments and compensated absences. The liability for future vacation and sick leave benefits is accrued when such benefits meet the following conditions:

The County's policy is to pay employees accrued vacation pay upon termination. Sick pay is also paid to School Board employees upon retirement, which is limited to a maximum of 90 days at the rate of \$10 per day, and to Social Service and General Government personnel which is limited to 25% of amounts unused upon termination up to a maximum of \$2,500. The General, Division of Court Services, and Shawneeland Sanitary District Funds are used to liquidate the County's compensated absences liabilities. The School Operating and School Cafeteria Funds are used to liquidate the School Board's compensated absences liabilities.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

K. Long-Term Obligations

The County reports long-term debt at face value. The face value of the debt is believed to approximate fair value.

L. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments:

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments):

Under County policy, all securities purchased for the County shall be held by the Treasurer or by the Treasurer's designated custodian. If held by a custodian, the securities must be in the County's name in the custodian's nominee name and identifiable on the custodian's books as belonging to the County. Further, if held by a custodian, the custodian must be a third party, not a counter party (buyer or seller) to the transaction.

The County's investments at June 30, 2005 were held by the County or in the County's name by the County's custodial banks.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 2 - DEPOSITS AND INVESTMENTS: (Continued)

Credit Risk of Debt Securities:

The County's rated debt investments as of June 30, 2005 were rated by Standard & Poor's Corporation and the ratings are presented below using Standard & Poor's Corporation rating scale.

Locality's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings				
	AAA	AAAm	A-1+	A-1	Unrated
U.S. Agencies	\$ 2,080,494	\$ -	\$ -	\$ -	\$ 3,024,612
Corporate Debt	-	-	1,712,138	197,801	-
Local Government Investment Pool	-	5,997,883	-	-	-
Virginia State Non-Arbitrage Fund	-	13,703,934	-	-	-
Money Market Mutual Fund	7,890,956	683,641	-	-	-
Total	\$ 9,971,450	\$ 20,385,458	\$ 1,712,138	\$ 197,801	\$ 3,024,612

Interest Rate Risk:

Investment Maturities (in years)

Investment Type	Fair Value	Less Than 1 Year
U.S. Agencies	\$ 5,105,106	\$ 5,105,106
Corporate Debt	1,909,939	1,909,939
Total	\$ 7,015,045	\$ 7,015,045

External Investment Pools:

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission (SEC). The fair value of the positions in the Local Government Investment Pool (LGIP) are the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

NOTE 3 - PROPERTY TAXES:

Real property taxes are assessed on property values as of January 1, and attach as an enforceable lien on property as of the date levied by the Board of Supervisors. Personal property taxes are assessed on a prorated basis for the period the property is located in the County and also attach as an enforceable lien on the property.

Real estate and personal property taxes are due in two installments, the first on June 5 and the second on December 5.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 3 - PROPERTY TAXES: (Continued)

A ten percent penalty is levied on all taxes not collected on or before their due date. An interest charge of ten percent per annum is also levied on such taxes beginning on their due date.

Property taxes for calendar year 2004 were levied by the County Board of Supervisors on April 14, 2004, on the assessed value listed as of January 1, 2004.

Property taxes for calendar year 2005 were levied by the County Board of Supervisors on April 19, 2005, on the assessed value listed as of January 1, 2005.

Property taxes levied in the current and prior year have been recorded as receivables as of the date the County has the legal right to receive payments thereon. The receivables collected during the fiscal year and during the first 45 days of the succeeding fiscal year are recognized as revenues in the current fiscal year. Taxes receivable as of the end of the year (June 30) and not collected until the succeeding year are reported as deferred revenues.

NOTE 4 - RECEIVABLES:

Receivables at June 30, 2005 consist of the following:

	Primary Government							
	Governmental Activities				Business- Type Activities	Component Units		
	General	Special Revenue	Internal Service	Total		School Board	Industrial Development Authority	Fiduciary Activities
Property taxes	\$3,092,699	\$2,323,684	\$ -	\$5,416,383	\$ -	\$ -	\$ -	\$ -
Business licenses	932,278	-	-	932,278	-	-	-	-
Utility taxes	240,726	-	-	240,726	-	-	-	-
Meals taxes	232,020	-	-	232,020	-	-	-	-
Lodging taxes	46,457	-	-	46,457	-	-	-	-
Landfill fees	-	-	-	-	730,146	-	-	-
E-911 fees	47,881	-	-	47,881	-	-	-	-
Prisoner fees	-	-	-	-	-	-	-	405,910
Interest	9,042	-	-	9,042	-	-	-	-
Street lights	15,705	-	-	15,705	-	-	-	-
Other	378,198	1,229	3,565	382,992	4	237,023	2,437	223,893
Total	\$4,995,006	\$2,324,913	\$ 3,565	\$7,323,484	\$730,150	\$ 237,023	\$ 2,437	\$629,803
Allowance for uncollectibles	(912,465)	(1,794,000)	-	(2,706,465)	(84,000)	-	-	-
Net receivables	<u>\$4,082,541</u>	<u>\$ 530,913</u>	<u>\$ 3,565</u>	<u>\$4,617,019</u>	<u>\$646,150</u>	<u>\$ 237,023</u>	<u>\$ 2,437</u>	<u>\$629,803</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

	Governmental Activities				Business- Type Activities	Component Units		
	General	Special Revenue	Internal Service	Total		School Board	Industrial Development Authority	Fiduciary Activities
Commonwealth of Virginia:								
Local sales taxes	\$1,631,034	\$ -	\$ -	\$1,631,034	\$ -	\$ -	\$ -	\$ 11,727
Comprehensive Services Act	-	236,702	-	236,702	-	-	-	-
Shared expenses and grants	575,315	-	-	575,315	-	-	-	-
State school funds	-	-	-	-	-	1,829,222	-	-
Federal pass-through school funds	-	-	-	-	-	1,162,756	-	-
Jail operations and costs	-	-	-	-	-	-	-	282,921
Federal government:								
Telecommuting center	16,883	-	-	-	-	-	-	-
Prisoner fees	-	-	-	-	-	-	-	51,545
Total	\$2,223,232	\$236,702	\$ -	\$2,459,934	\$ -	\$2,991,978	\$ -	\$346,193

NOTE 6 - INTERFUND BALANCES AND ACTIVITY:

Primary Government:

Balances due to/from other funds at June 30, 2005:

There were no interfund obligations in the primary government.

Transfers to/from other funds:

Transfers to the School Debt Service Fund to pay school debt service and related costs	\$ 10,554,029
Transfers to the General Fund from the Administration Building Renovation Fund for various building costs	43,190
Total transfers	\$ 10,597,219

Component Unit School Board:

Transfers from the School Operating Fund to the School Cafeteria Fund for food service	\$ 50,000
Transfers from the School Operating Fund to the School Textbook Fund to provide funding for future textbook purchases	315,830
Total transfers	\$ 365,830

There were no interfund obligations in the component unit School Board.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 7 - INTERGOVERNMENTAL LOANS:

Frederick County Sanitation Authority:

The County has made loans to the Frederick County Sanitation Authority. The loans shall bear interest at the rate of 5% per annum, for a term of 20 years beginning July 1, 1989	\$ 152,492
Interest accrued through June 30, 2005	<u>708,253</u>
Total	<u><u>\$ 860,745</u></u>

NOTE 8 - CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2005.

Governmental Activities

	Balance July 1, 2004 as restated	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land and land improvements	\$ 1,408,159	\$ -	\$ -	\$ 1,408,159
Construction in progress	200,022	384,089	175,324	408,787
School construction in progress allocated to County *	<u>19,037,864</u>	<u>14,659,606</u>	<u>11,333,441</u>	<u>22,364,029</u>
Total capital assets not being depreciated	<u>\$ 20,646,045</u>	<u>\$ 15,043,695</u>	<u>\$ 11,508,765</u>	<u>\$ 24,180,975</u>
Other capital assets:				
Buildings and improvements	\$ 21,201,825	\$ 177,758	\$ 15,895	\$ 21,363,688
School buildings and improvements *	84,123,332	11,333,441	7,654,082	87,802,691
Furniture, equipment and vehicles	<u>6,376,212</u>	<u>992,810</u>	<u>550,017</u>	<u>6,819,005</u>
Total other capital assets	<u>\$ 111,701,369</u>	<u>\$ 12,504,009</u>	<u>\$ 8,219,994</u>	<u>\$ 115,985,384</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 4,839,220	\$ 543,053	\$ 7,956	\$ 5,374,317
School buildings and improvements *	5,232,628	1,902,139	844,723	6,290,044
Furniture, equipment and vehicles	<u>4,865,597</u>	<u>662,230</u>	<u>512,091</u>	<u>5,015,736</u>
Total accumulated depreciation	<u>\$ 14,937,445</u>	<u>\$ 3,107,422</u>	<u>\$ 1,364,770</u>	<u>\$ 16,680,097</u>
Other capital assets, net	<u>\$ 96,763,924</u>	<u>\$ 9,396,587</u>	<u>\$ 6,855,224</u>	<u>\$ 99,305,287</u>
Net capital assets	<u><u>\$ 117,409,969</u></u>	<u><u>\$ 24,440,282</u></u>	<u><u>\$ 18,363,989</u></u>	<u><u>\$ 123,486,262</u></u>
Depreciation expense was allocated as follows:				
General government administration		\$ 288,115		
Judicial administration		126,431		
Public safety		381,240		
Public works		51,732		
Health and welfare		20,780		
Education		1,902,139		
Parks, recreation and cultural		324,570		
Community development		<u>12,415</u>		
Total depreciation expense		<u><u>\$ 3,107,422</u></u>		

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 8 - CAPITAL ASSETS: (Continued)

Component Unit School Board

	Balance July 1, 2004 as restated	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land and land improvements	\$ 4,121,136	\$ -	\$ -	\$ 4,121,136
Construction in progress	19,056,177	14,659,606	11,333,441	22,382,342
Construction in progress allocated to County *	(19,037,864)	(14,659,606)	(11,333,441)	(22,364,029)
Total capital assets not being depreciated	<u>\$ 4,139,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,139,449</u>
Other capital assets:				
Buildings and improvements	\$ 141,947,561	\$ 7,156,548	\$ -	\$ 149,104,109
School buildings and improvements allocated to County *	(84,123,332)	(11,333,441)	(7,654,082)	(87,802,691)
Furniture, equipment and vehicles	18,080,941	6,651,913	-	24,732,854
Total other capital assets	<u>\$ 75,905,170</u>	<u>\$ 2,475,020</u>	<u>\$ (7,654,082)</u>	<u>\$ 86,034,272</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 38,355,263	\$ 3,729,999	\$ -	\$ 42,085,262
School buildings and improvements allocated to County *	(5,232,628)	(1,902,139)	(844,723)	(6,290,044)
Furniture, equipment and vehicles	11,476,364	2,266,027	-	13,742,391
Total accumulated depreciation	<u>\$ 44,598,999</u>	<u>\$ 4,093,887</u>	<u>\$ (844,723)</u>	<u>\$ 49,537,609</u>
Other capital assets, net	<u>\$ 31,306,171</u>	<u>\$ (1,618,867)</u>	<u>\$ (6,809,359)</u>	<u>\$ 36,496,663</u>
Net capital assets	<u>\$ 35,445,620</u>	<u>\$ (1,618,867)</u>	<u>\$ (6,809,359)</u>	<u>\$ 40,636,112</u>
Depreciation expense allocated to education		<u>\$ 4,093,887</u>		

* School Board capital assets are jointly owned by the County (primary government) and the component unit School Board. The County share of the School Board capital assets is in proportion to the debt owed on such assets by the County. The County reports depreciation on these assets as an element of its share of the costs of the public school system.

Reconciliation of primary government net assets invested in capital assets, net of related debt:

Net capital assets		\$ 123,486,262
Long-term debt applicable to capital assets at June 30, 2005	\$ 120,083,996	
Less: School bond proceeds received but not expended on capital assets at June 30, 2005	<u>9,638,874</u>	<u>110,445,122</u>
Net assets invested in capital assets, less related debt		<u>\$ 13,041,140</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 8 - CAPITAL ASSETS: (Continued)

Business Type Activities

Landfill Operations

	Balance July 1, 2004 as restated	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land and land improvements	\$ 2,253,875	\$ 85,000	\$ -	\$ 2,338,875
Construction in progress	139,026	-	139,026	-
Total capital assets not being depreciated	<u>\$ 2,392,901</u>	<u>\$ 85,000</u>	<u>\$ 139,026</u>	<u>\$ 2,338,875</u>
Other capital assets:				
Buildings and improvements	\$ 495,003	\$ 155,219	\$ -	\$ 650,222
Landfill improvements	14,916,485	102,477	-	15,018,962
Furniture, equipment and vehicles	2,952,384	793,277	109,000	3,636,661
Total other capital assets	<u>\$ 18,363,872</u>	<u>\$ 1,050,973</u>	<u>\$ 109,000</u>	<u>\$ 19,305,845</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 238,749	\$ 31,511	\$ -	\$ 270,260
Landfill improvements	7,212,398	1,035,883	-	8,248,281
Furniture, equipment and vehicles	1,937,237	274,681	73,775	2,138,143
Total accumulated depreciation	<u>\$ 9,388,384</u>	<u>\$ 1,342,075</u>	<u>\$ 73,775</u>	<u>\$ 10,656,684</u>
Other capital assets, net	<u>\$ 8,975,488</u>	<u>\$ (291,102)</u>	<u>\$ 35,225</u>	<u>\$ 8,649,161</u>
Net capital assets	<u>\$ 11,368,389</u>	<u>\$ (206,102)</u>	<u>\$ 174,251</u>	<u>\$ 10,988,036</u>

The gross capital assets were restated to reflect adjustments in actual inventory adjustments as of June 30, 2004 as follows:

Governmental Activities

	Balance June 30, 2004	Restatements	Balance July 1, 2004
Capital assets not being depreciated:			
Land and land improvements	\$ 1,408,159	\$ -	\$ 1,408,159
Construction in progress	200,022	-	200,022
School construction in progress allocated to County	19,037,864	-	19,037,864
Total capital assets not being depreciated	<u>\$ 20,646,045</u>	<u>\$ -</u>	<u>\$ 20,646,045</u>
Other capital assets:			
Buildings and improvements	\$ 21,201,825	\$ -	\$ 21,201,825
School buildings and improvements	74,736,507	9,386,825	84,123,332
Furniture, equipment and vehicles	6,376,212	-	6,376,212
Total other capital assets	<u>\$ 102,314,544</u>	<u>\$ 9,386,825</u>	<u>\$ 111,701,369</u>
Less: Accumulated depreciation for:			
Buildings and improvements	\$ 4,839,220	\$ -	\$ 4,839,220
School buildings and improvements	10,055,171	(4,822,543)	5,232,628
Furniture, equipment and vehicles	4,865,597	-	4,865,597
Total accumulated depreciation	<u>\$ 19,759,988</u>	<u>\$ (4,822,543)</u>	<u>\$ 14,937,445</u>
Other capital assets, net	<u>\$ 82,554,556</u>	<u>\$ 14,209,368</u>	<u>\$ 96,763,924</u>
Net capital assets	<u>\$ 103,200,601</u>	<u>\$ 14,209,368</u>	<u>\$ 117,409,969</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 8 - CAPITAL ASSETS: (Continued)

Component Unit School Board

	Balance June 30, 2004	Restatements	Balance July 1, 2004
Capital assets not being depreciated:			
Land and land improvements	\$ 4,121,136	\$ -	\$ 4,121,136
Construction in progress	19,056,177	-	19,056,177
Construction in progress allocated to County	(19,037,864)	-	(19,037,864)
Total capital assets not being depreciated	<u>\$ 4,139,449</u>	<u>\$ -</u>	<u>\$ 4,139,449</u>
Other capital assets:			
Buildings and improvements	\$ 141,947,561	\$ -	\$ 141,947,561
School buildings and improvements allocated to County	(74,736,507)	(9,386,825)	(84,123,332)
Furniture, equipment and vehicles	18,080,941	-	18,080,941
Total other capital assets	<u>\$ 85,291,995</u>	<u>\$ (9,386,825)</u>	<u>\$ 75,905,170</u>
Less: Accumulated depreciation for:			
Buildings and improvements	\$ 38,355,263	\$ -	\$ 38,355,263
School buildings and improvements allocated to County	(10,055,171)	4,822,543	(5,232,628)
Furniture, equipment and vehicles	11,476,364	-	11,476,364
Total accumulated depreciation	<u>\$ 39,776,456</u>	<u>\$ 4,822,543</u>	<u>\$ 44,598,999</u>
Other capital assets, net	<u>\$ 45,515,539</u>	<u>\$ (14,209,368)</u>	<u>\$ 31,306,171</u>
Net capital assets	<u><u>\$ 49,654,988</u></u>	<u><u>\$ (14,209,368)</u></u>	<u><u>\$ 35,445,620</u></u>

**Business Type Activities
Landfill Operations**

	Balance June 30, 2004	Restatements	Balance July 1, 2004
Capital assets not being depreciated:			
Land and land improvements	\$ 2,253,875	\$ -	\$ 2,253,875
Construction in progress	139,026	-	139,026
Total capital assets not being depreciated	<u>\$ 2,392,901</u>	<u>\$ -</u>	<u>\$ 2,392,901</u>
Other capital assets:			
Buildings and improvements	\$ 495,003	\$ -	\$ 495,003
Landfill improvements	14,916,485	-	14,916,485
Furniture, equipment and vehicles	2,823,671	128,713	2,952,384
Total other capital assets	<u>\$ 18,235,159</u>	<u>\$ 128,713</u>	<u>\$ 18,363,872</u>
Less: Accumulated depreciation for:			
Buildings and improvements	\$ 238,749	\$ -	\$ 238,749
Landfill improvements	7,212,398	-	7,212,398
Furniture, equipment and vehicles	1,918,214	19,023	1,937,237
Total accumulated depreciation	<u>\$ 9,369,361</u>	<u>\$ 19,023</u>	<u>\$ 9,388,384</u>
Other capital assets, net	<u>\$ 8,865,798</u>	<u>\$ 109,690</u>	<u>\$ 8,975,488</u>
Net capital assets	<u><u>\$ 11,258,699</u></u>	<u><u>\$ 109,690</u></u>	<u><u>\$ 11,368,389</u></u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS:

General Fund revenues are used to pay all long-term general obligation debt, General Fund capital leases, and the School Board Early Retirement Incentive Obligation.

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2005.

	Amounts Payable July 1, 2004	Increases	Decreases	Amounts Payable June 30, 2005	Amounts Due Within One Year
Primary Government:					
Governmental activities:					
Lease revenue bonds payable	\$ 6,335,000	\$ -	\$ 480,000	\$ 5,855,000	\$ 495,000
General obligation bonds:					
Library	4,121,297	-	140,273	3,981,024	147,937
School	90,024,522	14,545,000	6,085,225	98,484,297	6,892,051
Add deferred amount for issuance premiums	2,642,297	1,020,207	251,930	3,410,574	352,784
Less deferred amount on refunding	(484,656)	-	(74,596)	(410,060)	(68,868)
Total School General obligation bonds	<u>\$ 92,182,163</u>	<u>\$ 15,565,207</u>	<u>\$ 6,262,559</u>	<u>\$ 101,484,811</u>	<u>\$ 7,175,967</u>
State Literary Fund loans:					
School	12,394,531	-	1,083,179	11,311,352	1,083,179
Intergovernmental loans	742,143	-	371,071	371,072	371,072
Claims	280,121	3,511,906	3,431,202	360,825	360,825
Capital leases	114,846	-	33,595	81,251	33,563
Compensated absences	1,853,473	463,368	271,924	2,044,917	204,492
Total governmental	<u>\$ 117,743,453</u>	<u>\$ 16,028,575</u>	<u>\$ 8,642,601</u>	<u>\$ 125,129,427</u>	<u>\$ 9,511,210</u>
Reconciliation to Exhibit 1:					
Claims				\$ 360,825	
Long-term liabilities due within one year				9,150,385	
Long-term liabilities due in more than one year				115,979,042	
Total long-term debt				<u>\$ 125,129,427</u>	
	Amounts Payable July 1, 2004	Increases	Decreases	Amounts Payable June 30, 2005	Amounts Due Within One Year
Business-type activities:					
Compensated absences	\$ 114,179	\$ 28,545	\$ 23,724	\$ 119,000	\$ 10,710
Accrued landfill remediation costs	7,259,718	631,238	-	7,890,956	-
Total business-type activities	<u>\$ 7,373,897</u>	<u>\$ 659,783</u>	<u>\$ 23,724</u>	<u>\$ 8,009,956</u>	<u>\$ 10,710</u>
Reconciliation to Exhibit 1:					
Long-term liabilities due within one year				\$ 10,710	
Long-term liabilities due in more than one year				7,999,246	
Total long-term debt				<u>\$ 8,009,956</u>	

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Annual requirements to amortize all long-term debt and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Long-term Debt</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 8,989,238	\$ 5,723,801	\$ 35,115	\$ 3,035
2007	8,843,182	5,305,563	36,704	1,446
2008	8,363,751	4,874,549	9,432	106
2009	8,299,905	4,453,349	-	-
2010	8,129,647	4,031,930	-	-
2011-2015	35,492,090	14,590,631	-	-
2016-2020	26,793,590	6,943,194	-	-
2021-2025	14,796,342	1,463,030	-	-
2026	295,000	6,146	-	-
Total	<u>\$ 120,002,745</u>	<u>\$ 47,392,193</u>	<u>\$ 81,251</u>	<u>\$ 4,587</u>

Note: The long-term debt includes lease revenue bonds, general obligation bonds, literary fund loans, and intergovernmental loans.

The cost of equipment under current capital leases is \$172,000.

**Details of Long-Term Indebtedness:
Governmental:**

Amount
Outstanding

Lease Revenue Bonds:

\$6,425,000 Industrial Development Authority refunding lease revenue bonds, issued December 1, 2001, interest at various rates from 2% to 5%, maturing in various annual installments, interest payable semiannually, through December 1, 2015 \$ 5,855,000

General Obligation Bonds:

\$4,500,000 general obligation bonds, issued March 1, 2000, interest at 5.39%, maturing in various annual installments, interest payable semiannually, through January 15, 2022 3,981,024

Total lease revenue and general obligation bonds \$ 9,836,024

General Obligation School Bonds:

\$2,010,000 School Bonds, 1990, issued September 1990, maturing in various annual installments of \$75,000 to \$120,000 through December 2010, interest at various rates \$ 685,000

\$5,350,000 School Bonds, 1993, issued April 1993, maturing in various installments of \$105,000 to \$280,000 through December 2010, interest at various rates 1,640,000

\$775,132 School Bonds, 1991, issued July 1991, maturing in various installments of \$25,400 to \$59,032 through July 15, 2011, interest at various rates 311,457

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness: (continued)	Amount Outstanding
Governmental: (continued)	
<u>General Obligation School Bonds:</u> (continued)	
\$3,820,000 School Bonds, 1992, issued December 1992, maturing in various installments of \$115,000 to \$275,000 through June 15, 2013, interest at various rates	1,295,000
\$5,740,000 School Bonds, 1993, issued April 1993, maturing in various installments of \$180,000 to \$515,000 through June 15, 2013, interest at various rates	1,980,000
\$18,175,000 School Bonds, 1993 series B, issued December 1993, due in annual installments ranging from \$1,155,000 to \$465,000, interest payable semiannually at various interest rates	5,165,000
\$3,700,000 School Bonds, 1995, issued December 1995, maturing in installments of \$185,000 through July 15, 2016, interest at 5.10%, payable semiannually	2,035,000
\$1,200,000 School Bonds, 1996 B, issued November 1996, maturing in annual installments of \$60,000 through July 15, 2017, interest at various rates from 5.1% to 5.6%	720,000
\$1,355,000 School Bonds, 1997 A, issued April 1997, maturing in annual installments of \$70,000 and \$65,000 through January 15, 2018, interest at various rates from 5.4% to 6.1%	865,000
\$3,200,000 School Bonds, 1998 A, issued April 1998, maturing in annual installments of \$160,000 through January 15, 2019, interest at various rates from 4.1% to 5.35%	2,240,000
\$4,650,000 School Bonds, issued April 1999, maturing in annual installments of \$236,000 to \$448,000 through January 2020, interest at 5%	3,475,000
\$4,100,000 School Bonds, issued November 1999, maturing in annual installments of \$205,000 through July 2019, interest at various rates from 5.62% to 6.10%	3,075,000
\$18,600,000 School Bonds, issued April 2001, maturing in annual installments of \$840,000 to \$1,200,000 through July 2021, interest at various rates from 4.1% to 5.35%	15,000,000
\$6,150,000 School Bonds, issued November 15, 2001, maturing in annual installments of \$305,000 to \$310,000 through July 15, 2021, interest at 4.55%	5,220,000
\$8,385,000 School Bonds, issued April 30, 2002, maturing in annual installments of \$415,000 to \$420,000 through July 15, 2022, interest at 4.667%	7,545,000
\$3,315,000 School Bonds, issued November 7, 2002, maturing in annual installments of \$165,000 to \$170,000 through July 15, 2022, interest at 4.77%	2,975,000
\$3,782,296 School Bonds, issued November 7, 2002, maturing in annual installments of \$173,528 to \$215,784 through July 15, 2022, interest at 4.77%	3,432,840
\$12,655,000 School Bonds, issued May 15, 2003, maturing in annual installments of \$630,000 to \$635,000 through July 15, 2023, interest at 3.10% to 5.35%	12,020,000
\$5,980,000 School Bonds, issued November 6, 2003, maturing in annual installments of \$295,000 to \$300,000 through July 15, 2023, interest at 3.10% to 5.35%	5,680,000

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness: (continued)	<u>Amount Outstanding</u>
Governmental: (continued)	
<u>General Obligation School Bonds: (continued)</u>	
\$8,580,000 School Bonds, issued May 13, 2004, maturing in annual installments of \$425,000 to \$430,000 through July 15, 2024, interest at 5.10%	8,580,000
\$8,550,000 School Bonds, issued October 15, 2004, maturing in annual installments of \$425,000 to \$430,000 through January 15, 2025, interest at 4.10% to 5.60%	8,550,000
\$5,995,000 School Bonds, issued April 13, 2005, maturing in annual installments of \$295,000 to \$300,000 through July 15, 2025, interest at 3.10% to 5.10%	<u>5,995,000</u>
Total School Bonds	<u>\$ 98,484,297</u>
<u>State Literary Fund Loans:</u>	
\$1,000,000, issued June 15, 1987, due in annual installments of \$50,000 through June 15, 2007, interest payable annually at 3%	\$ 100,000
\$2,000,000, issued February 15, 1989, due in annual installments of \$100,000, interest payable annually at 4%	400,000
\$540,640, issued February 15, 1989, due in annual installments of \$27,030 through January 15, 2009, interest payable annually at 4%	108,120
\$1,839,424, issued April 6, 1989, due in annual installments of \$92,000 through October 1, 2010, interest at 4%	551,424
\$5,000,000, issued May 30, 1997, due in annual installments of \$250,000 through July 1, 2017, interest at 3%	3,000,000
\$1,500,052, issued May 30, 1997, due in annual installments of \$75,002 through July 1, 2017, interest at 3%	900,036
\$2,142,948, issued May 30, 1997, due in annual installments of \$107,147 through July 1, 2017, interest at 3%	1,285,772
\$3,000,000, issued September 2, 1997, due in annual installments of \$150,000 through September 2, 2017, interest at 3%	1,950,000
\$4,640,000, issued September 2, 1997, due in annual installments of \$232,000 through September 2, 2017, interest at 3%	<u>3,016,000</u>
Total State Literary Fund Loans	<u>\$ 11,311,352</u>
<u>Intergovernmental Loans:</u>	
\$1,558,500, payable to Winchester City Schools, due in semiannual installments of \$111,321 through June 30, 2006, interest at 0%	\$ 222,643
\$1,039,000, payable to Clarke County Schools, due in semiannual installments of \$74,214 through June 30, 2006, interest at 0%	<u>148,429</u>
Total intergovernmental loans	<u>\$ 371,072</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness: (continued)	Amount Outstanding
Governmental: (continued)	
<u>Capital Leases:</u>	
The County leases various types of equipment under capital lease agreements. Title to the equipment passes to the entity upon completion of payment of the minimum lease payments. There are no restrictions imposed by the agreements.	
The balance of capital leases at June 30, 2005 is	\$ 81,251
Claims	\$ 360,825
Compensated absences	\$ 2,044,917
Total governmental long-term obligations	\$ 122,489,738
Add deferred amount for issuance premiums	3,410,574
Less deferred amount on refunding	(410,060)
Net governmental long-term obligations	<u>\$ 125,490,252</u>
Business-type:	
Compensated absences	\$ 119,000
Accrued landfill remediation costs	\$ 7,890,956
Total business-type long-term obligations	<u>\$ 8,009,956</u>

Advance Refunding of Debt:

On December 1, 2001 the County issued refunding lease revenue bonds to refund portions of earlier issues. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the old debt. This refunding resulted in an economic gain of \$510,850 and the net savings from the refunding was \$886,663.

At June 30, 2005, \$4,835,000 of bonds outstanding are considered to be defeased.

Federal Arbitrage Regulations:

The County is in compliance with federal arbitrage regulations. Any arbitrage amounts that may be required to be paid are not material to the financial statements.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Component Unit School Board:

The following is a summary of long-term debt transactions of the School Board for the year ended June 30, 2005.

	Amounts Payable July 1, 2004	Increases	Decreases	Amounts Payable June 30, 2005	Amounts Due Within One Year
Claims	\$ 917,400	\$ 9,209,343	\$ 9,256,466	\$ 870,277	\$ 870,277
Compensated absences	1,009,528	252,382	105,168	1,156,742	424,634
Compensated absences	<u>\$ 1,926,928</u>	<u>\$ 9,461,725</u>	<u>\$ 9,361,634</u>	<u>\$ 2,027,019</u>	<u>\$1,294,911</u>
Reconciliation to Exhibit 1:					
Claims				\$ 870,277	
Long-term liabilities due within one year				424,634	
Long-term liabilities due in more than one year				732,108	
Total long-term debt				<u>\$ 2,027,019</u>	

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

The County and Component Unit School Board participate in the Virginia Retirement System defined benefit pension plan.

Plan Description:

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature. Actuarial valuations are performed on an annual basis.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

Funding Policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be and has been assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County and School Board non-professional employee contribution rates for the fiscal year ended 2005 were 7.50% and 6.50% of annual covered payroll, respectively.

The School Board’s contribution rate for the VRS statewide cost sharing pool for its professional employees averaged 6.03%.

Annual Pension Cost:

For fiscal 2005, the County’s annual pension cost of \$1,504,212 (does not include the employee share assumed by the County which was \$1,002,808) was equal to the County’s required and actual contributions. The required contributions were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method.

In fiscal 2005, the County School Board’s annual pension cost for the Board’s non-professional employees was \$384,985 (does not include the employee share assumed by the Board which was \$296,142) which was equal to the Board’s required and actual contributions. The required contributions were determined as a part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method.

The School Board professional employees are included in the VRS statewide cost-sharing pool. The Board’s required employer and employee contributions to this pool were \$3,387,469 and \$2,808,847, respectively.

The actuarial assumptions used for the 2005 contributions are as follows:

	<u>County</u>	<u>Non-Professional School Board</u>
	June 30, 2003	June 30, 2003
Valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	2 years	3 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return (1)	8.00%	8.00%
Projected salary increases: (1)		
Non-LEO	4.25% to 6.10%	4.25% to 6.10%
LEO Employees	4.50% to 5.75%	4.50% to 5.75%
Cost-of-living adjustments	3.0%	3.0%

(1) Includes inflation at 3.0%

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

Annual Pension Cost: (Continued)

Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County:			
June 30, 2003	\$ 726,947	100%	\$ -
June 30, 2004	790,197	100%	-
June 30, 2005	1,504,212	100%	-
School Board Non-Professional:			
June 30, 2003	\$ 168,786	100%	\$ -
June 30, 2004	179,247	100%	-
June 30, 2005	384,985	100%	-

(1) Employer portion only

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were no excess of expenditures over appropriations in any of the County or School Board funds for the year ended June 30, 2005.

NOTE 12 - DEFERRED REVENUE:

	<u>Government-wide Statements Governmental Activities</u>	<u>Balance Sheet Governmental Funds</u>
Primary Government:		
Deferred property tax revenue:		
Deferred revenue representing billings for business licenses for which asset recognition criteria has not been met. The business license receivables are not available for the funding of current expenditures.	\$ -	\$ 932,278
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	-	2,372,035
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	1,925,841	1,925,841
Total primary government	<u>\$ 1,925,841</u>	<u>\$ 5,230,154</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

Primary Government and Component Unit School Board:

Federal programs in which the County and School Board participate were audited in accordance with the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

The County and School Board have authorized and/or commenced construction on various capital projects. At June 30, 2005 the following significant items were in process:

Component Unit School Board:

- Admiral E. Byrd Middle School - estimated completion cost is \$820,672.
- 11th elementary school - estimated completion cost is \$1,926,893.

NOTE 14 - LITIGATION:

At June 30, 2005 there were no matters of litigation involving the County or its component units that would have an adverse material affect on the financial position of the reporting entity.

NOTE 15 - SURETY BONDS:

	<u>Amount</u>
Virginia Department of Risk Management:	
Rebecca Hogan, Clerk of the Circuit Court	\$ 230,000
C. William Orndoff, Jr., Treasurer	750,000
Ellen E. Murphy, Commissioner of Revenue	3,000
Robert T. Williamson, Sheriff	30,000
Above constitutional officers' employees - blanket bond - each loss	500,000
Virginia Association of Counties Risk Pool:	
All School Board employees - blanket bond	250,000
Virginia Association of Counties Risk Pool:	
All County employees, including members of any duty constituted board, commission, department or entity under the County's control	250,000

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 16 - SELF INSURANCE/RISK MANAGEMENT:

The County administers employee health and unemployment insurance programs. These insurance activities have been accounted for in Internal Service Funds, the Health Insurance and Unemployment Funds.

The County and its component units have had no reductions in insurance coverages from the prior year. There have been no settlements in excess of insurance coverages for the past three years, other than the payment of deductibles which are immaterial.

Employee Health Insurance:

The County and School Board have contracted with private carriers to administer this activity. The County's Health Insurance Fund recognizes revenue from other fund charges and from other localities and agencies which participate in the County program. The interfund charges are reported as fund expenditures in the funds that have employees participating in the program. The Health Insurance Fund expenses represent premium payments to the private carrier. The premium payments are based on the number insured and benefits.

Claims liability is reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued as a liability based upon prior history and estimates from the insurance carrier. Changes in the estimated claims liability for fiscal years 2003, 2004 and 2005 are listed as follows:

Funds	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
Primary Government:				
Insurance Internal Service Fund				
2003	\$ 208,212	\$ 2,685,528	\$ 2,647,992	\$ 245,748
2004	245,748	3,236,819	3,202,446	280,121
2005	280,121	3,511,906	3,431,202	360,825
Component Unit School Board:				
School Operating and Health Insurance Funds				
2003	\$ 671,583	\$ 7,458,605	\$ 7,304,021	\$ 826,167
2004	826,167	8,155,416	8,064,183	917,400
2005	917,400	9,209,343	9,256,466	870,277

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2005 (Continued)

NOTE 16 - SELF INSURANCE/RISK MANAGEMENT: (Continued)

Unemployment Insurance:

The County is fully self-insured for unemployment claims. The Virginia Employment Commission bills the County for all unemployment claims. The liability for billed but unpaid claims has been accrued in the Unemployment Fund. No liability has been recorded for estimated unreported claims. The amount of estimated unreported claims is not expected to be significant.

Property and Casualty Insurance:

The County contracts with the Virginia Association of Counties Municipal Liability Pool to provide coverages for property damage, employee crime and dishonesty, and general liability. In the event of a loss deficit and depletion of all assets and available insurance of the Pool, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The property coverages are for specific amounts based on values assigned to the insured properties. Liability coverages are for \$5,000,000.

The County also contracts with the Virginia Municipal League Pool for its workers compensation coverages. This Pool also has similar provisions as the Virginia Association of Counties Municipal Liability Pool for assumptions of a loss deficit by the members.

The School Board contracts with private insurers for property and liability coverages. Property coverages are for specific property values and liability coverages are \$3,000,000.

NOTE 17 - ACCRUED LANDFILL REMEDIATION COST:

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$7,890,956 reported as landfill closure and postclosure care liability at June 30, 2005 represents the cumulative amount reported to date based on the use of the estimated capacity of the landfill. On October 8, 1993 the County opened the new landfill and initiated closure of the old landfill. The \$7,890,956 reported as the accrued landfill liability and postclosure costs reflects usage on the new landfill from October 5, 1993 to June 30, 2005. The County will recognize the remaining estimated cost of closure and postclosure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

At June 30, 2005, the solid waste landfill capacity used to date was approximately 37% and 13% for the construction/demolition debris section of the landfill.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2005 (Continued)**

NOTE 17 - ACCRUED LANDFILL REMEDIATION COST: (Continued)

The County has demonstrated financial assurance requirements for closure, postclosure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

The remaining estimated landfill life approximates 30 years. The remaining estimated postclosure cost remaining to be recognized at June 30, 2005 is \$14,550,000 for the municipal solid waste landfill and \$3,750,000 for the construction/demolition debris landfill.

NOTE 18 - OTHER POST-EMPLOYMENT BENEFITS:

Primary Government:

In addition to the pension benefits described in Note 10, the County provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed on or after July 1, 1995, and who retire from County service with full VRS benefits (i.e. 50 years of age and 30 years of continuous service), will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the County will provide 100% supplemental insurance benefits. Persons employed prior to July 1, 1995 are only required to be 50 years of age and have 20 years of continuous service to be eligible for these benefits. Currently, twelve retirees are eligible and are receiving these benefits. The County pays all of the health insurance premium for the employees. These costs are financed on a pay-as-you-go basis. During the year, \$52,974 was expended for post-retirement health care by the County.

NOTE 19 - RESTATEMENT OF NET ASSETS:

Net assets as of the beginning of the year have been restated due to the inclusion of capital assets not previously reported:

	<u>Primary Government</u>	<u>School Board</u>	<u>Business-Type Activities</u>
Net assets, June 30, 2004	\$ 27,923,335	\$ 53,560,099	\$ 29,709,902
Capital assets, net, not reported	-	-	109,690
Reallocation of joint capital assets	<u>14,209,368</u>	<u>(14,209,368)</u>	<u>-</u>
Net assets, July 1, 2004, as restated	<u><u>\$ 42,132,703</u></u>	<u><u>\$ 39,350,731</u></u>	<u><u>\$ 29,819,592</u></u>

- Required Supplementary Information -

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 55,440,188	\$ 53,787,242	\$ 52,890,953	\$ (896,289)
Other local taxes	17,155,291	18,508,868	23,453,552	4,944,684
Permits, privilege fees and regulatory licenses	1,582,631	2,065,410	2,773,787	708,377
Fines and forfeitures	194,631	194,631	282,828	88,197
Use of money and property	371,500	431,147	601,516	170,369
Charges for services	2,179,220	2,241,116	2,345,861	104,745
Miscellaneous	60,023	167,374	332,408	165,034
Recovered costs	1,464,218	1,904,809	2,711,272	806,463
Intergovernmental:				
Revenue from the Commonwealth	14,432,719	15,052,369	16,493,450	1,441,081
Revenue from the Federal Government	2,189,405	2,371,332	2,314,947	(56,385)
Total revenues	\$ 95,069,826	\$ 96,724,298	\$ 104,200,574	\$ 7,476,276
Expenditures				
Current:				
General Government Administration:				
Board of supervisors	\$ 222,123	\$ 369,214	\$ 348,615	\$ 20,599
County administrator	395,218	408,314	401,169	7,145
Personnel	251,078	257,649	252,749	4,900
Independent auditor	46,600	46,600	46,900	(300)
Commissioner of the Revenue	955,918	981,914	950,189	31,725
Board of assessors	173,448	161,676	118,743	42,933
Treasurer	1,008,474	1,023,518	936,342	87,176
Finance	556,367	580,964	575,502	5,462
Data processing	446,099	477,062	460,812	16,250
Geographic information systems	228,035	232,998	206,963	26,035
Other	1,525,061	1,770,473	1,640,876	129,597
Elections	116,104	123,958	123,052	906
Registrar	91,650	92,724	90,777	1,947
Total general government administration	\$ 6,016,175	\$ 6,527,064	\$ 6,152,689	\$ 374,375
Judicial Administration:				
Circuit court	\$ 48,300	\$ 48,300	\$ 35,852	\$ 12,448
General district court	8,264	8,264	4,613	3,651
Juvenile and domestic relations court	7,550	7,550	6,855	695
Clerk of the circuit court	160,506	320,190	297,640	22,550
Law library	7,200	7,200	-	7,200
Detox center	37,720	37,720	37,720	-
Juvenile court probation	177,691	196,066	189,907	6,159

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures (Continued)				
Judicial Administration: (Continued)				
Commonwealth attorney	945,956	982,094	931,379	50,715
Victim/witness program	103,647	100,979	94,335	6,644
Total judicial administration	<u>\$ 1,496,834</u>	<u>\$ 1,708,363</u>	<u>\$ 1,598,301</u>	<u>\$ 110,062</u>
Public Safety:				
Sheriff	\$ 6,716,423	\$ 7,588,130	\$ 6,999,191	\$ 588,939
Volunteer fire departments	695,161	779,105	812,409	(33,304)
Ambulance and rescue service	380,917	380,917	378,276	2,641
Fire and rescue	3,941,329	4,724,646	4,156,947	567,699
Regional jail	1,550,551	1,550,551	1,550,551	-
Juvenile detention center	218,208	218,208	213,834	4,374
Inspections	787,113	842,033	824,935	17,098
Public safety communications	893,914	915,542	670,556	244,986
Other protection	1,000	1,000	1,150	(150)
Total public safety	<u>\$ 15,184,616</u>	<u>\$ 17,000,132</u>	<u>\$ 15,607,849</u>	<u>\$ 1,392,283</u>
Public Works:				
Road administration, street lights	\$ 49,933	\$ 49,933	\$ 42,068	\$ 7,865
General engineering and administration	305,562	554,899	479,451	75,448
Refuse collection	1,059,555	1,073,264	818,626	254,638
Refuse disposal	986,400	986,400	867,069	119,331
Litter control	-	323	225	98
General properties	522,340	1,019,092	886,610	132,482
Animal shelter	240,726	243,569	196,924	46,645
Total public works	<u>\$ 3,164,516</u>	<u>\$ 3,927,480</u>	<u>\$ 3,290,973</u>	<u>\$ 636,507</u>
Health and Welfare:				
Health department	\$ 306,266	\$ 306,266	\$ 306,266	\$ -
Northwestern Community Services Board	138,733	138,733	138,733	-
Welfare and social services	4,483,271	4,475,968	3,978,710	497,258
Tax relief for the elderly	408,000	408,000	408,309	(309)
Area Agency on Aging	39,915	39,915	39,915	-
Total health and welfare	<u>\$ 5,376,185</u>	<u>\$ 5,368,882</u>	<u>\$ 4,871,933</u>	<u>\$ 496,949</u>
Education:				
Community college	\$ 47,379	\$ 444,629	\$ 444,629	\$ -
Appropriation to public school system	49,710,879	70,399,744	63,907,736	6,492,008
Total education	<u>\$ 49,758,258</u>	<u>\$ 70,844,373</u>	<u>\$ 64,352,365</u>	<u>\$ 6,492,008</u>

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures (Continued)				
Parks, recreation and cultural:				
Parks and recreation	\$ 3,435,248	\$ 4,128,113	\$ 3,584,021	\$ 544,092
Regional library	877,964	877,964	877,964	-
Total parks, recreation and cultural	<u>\$ 4,313,212</u>	<u>\$ 5,006,077</u>	<u>\$ 4,461,985</u>	<u>\$ 544,092</u>
Community Development:				
Planning and community development	\$ 905,869	\$ 1,363,396	\$ 1,247,957	\$ 115,439
Economic Development Commission	555,894	717,730	591,531	126,199
Economic development incentives	490,000	490,000	490,000	-
Zoning board	5,250	5,250	3,908	1,342
Building appeals board	550	550	-	550
NSV Regional Commission	25,635	25,635	25,635	-
Gypsy moth suppression	122,556	123,398	40,202	83,196
Soil and Water Conservation District	129,934	187,970	176,736	11,234
Cooperative extension program	157,114	159,441	150,733	8,708
Total community development	<u>\$ 2,392,802</u>	<u>\$ 3,073,370</u>	<u>\$ 2,726,702</u>	<u>\$ 346,668</u>
Debt Service:				
Principal	\$ -	\$ 653,868	\$ 653,868	\$ -
Interest and fiscal charges	-	478,343	478,343	-
Total debt service	<u>\$ -</u>	<u>\$ 1,132,211</u>	<u>\$ 1,132,211</u>	<u>\$ -</u>
Total expenditures	<u>\$ 87,702,598</u>	<u>\$ 114,587,952</u>	<u>\$ 104,195,008</u>	<u>\$ 10,392,944</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 7,367,228</u>	<u>\$ (17,863,654)</u>	<u>\$ 5,566</u>	<u>\$ 17,869,220</u>
Other Financing Sources (Uses)				
Long-term debt issued	\$ 250,000	\$ 20,808,749	\$ 14,545,000	\$ (6,263,749)
Bond premium	-	-	1,020,207	1,020,207
Transfers in	-	687,137	43,190	(643,947)
Transfers out	(11,587,604)	(10,554,029)	(10,554,029)	-
Total other financing sources (uses)	<u>\$ (11,337,604)</u>	<u>\$ 10,941,857</u>	<u>\$ 5,054,368</u>	<u>\$ (5,887,489)</u>
Net change in fund balance	\$ (3,970,376)	\$ (6,921,797)	\$ 5,059,934	\$ 11,981,731
Fund balance, beginning of year	<u>3,970,376</u>	<u>6,921,797</u>	<u>27,855,205</u>	<u>20,933,408</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,915,139</u>	<u>\$ 32,915,139</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles. Appropriations to public school system includes actual cash outlay and funds from debt issuances. Budgets have been reclassified accordingly.

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
Shawneeland Sanitary District Fund
Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 468,210	\$ 468,210	\$ 572,528	\$ 104,318
Use of money and property	10,000	10,000	13,445	3,445
Recovered costs	5,000	5,000	2,222	(2,778)
Total revenues	<u>\$ 483,210</u>	<u>\$ 483,210</u>	<u>\$ 588,195</u>	<u>\$ 104,985</u>
Expenditures				
Current:				
Community Development:				
Community development	\$ 516,456	\$ 551,456	\$ 393,249	\$ 158,207
Net change in fund balance	\$ (33,246)	\$ (68,246)	\$ 194,946	\$ 263,192
Fund balance, beginning of year	<u>33,246</u>	<u>68,246</u>	<u>713,340</u>	<u>645,094</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 908,286</u>	<u>\$ 908,286</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

COUNTY OF FREDERICK, VIRGINIA

Required Supplementary Information
Schedule of Funding Progress for the Virginia Retirement System
Last Three Fiscal Years

County

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2004	\$ 39,166,621	\$ 43,610,692	\$ 4,444,071	89.81%	\$ 20,400,440	21.78%
6/30/2003	36,903,347	37,232,870	329,523	99.11%	16,201,646	2.03%
6/30/2002	34,680,329	33,892,912	(787,417)	102.30%	17,081,659	-4.61%

Discretely Presented Component Unit - School Board
School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2004	\$ 8,000,304	\$ 8,671,640	\$ 671,336	92.26%	\$ 5,502,779	12.20%
6/30/2003	7,546,066	7,656,627	110,561	98.56%	5,195,185	2.13%
6/30/2002	7,047,107	6,704,774	(342,333)	105.10%	4,895,905	-6.99%

- Other Supplementary Information -

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
 Nonmajor Governmental Funds
 At June 30, 2005

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 601,993	\$ 724,735	\$ 1,326,728
Accounts receivable	1,229	-	1,229
Due from other governments	236,702	-	236,702
Total	<u>\$ 839,924</u>	<u>\$ 724,735</u>	<u>\$ 1,564,659</u>
Liabilities			
A/P and accrued liabilities	\$ 70,966	\$ -	\$ 70,966
Total	<u>\$ 70,966</u>	<u>\$ -</u>	<u>\$ 70,966</u>
Fund Balance			
Designated:			
Subsequent year's expenditures	\$ 768,958	\$ -	\$ 768,958
Capital projects	-	724,735	724,735
Unreserved/undesignated	-	-	-
Total fund balance	<u>\$ 768,958</u>	<u>\$ 724,735</u>	<u>\$ 1,493,693</u>
Total	<u>\$ 839,924</u>	<u>\$ 724,735</u>	<u>\$ 1,564,659</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues			
Use of money and property	\$ 14,129	\$ 701	\$ 14,830
Charges for services	576,309	-	576,309
Miscellaneous	955,333	-	955,333
Recovered costs	256,230	-	256,230
Intergovernmental:			
Revenue from the Commonwealth	1,285,228	-	1,285,228
Total revenues	<u>\$ 3,087,229</u>	<u>\$ 701</u>	<u>\$ 3,087,930</u>
Expenditures			
Current:			
Judicial administration	\$ 1,154,727	\$ -	\$ 1,154,727
Health and welfare	1,936,899	-	1,936,899
Total expenditures	<u>\$ 3,091,626</u>	<u>\$ -</u>	<u>\$ 3,091,626</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,397)</u>	<u>\$ 701</u>	<u>\$ (3,696)</u>
Other financing sources (uses)			
Transfers out	\$ -	\$ (43,190)	\$ (43,190)
Net change in fund balance	\$ (4,397)	\$ (42,489)	\$ (46,886)
Fund balance, beginning of year	<u>773,355</u>	<u>767,224</u>	<u>1,540,579</u>
Fund balance, end of year	<u><u>\$ 768,958</u></u>	<u><u>\$ 724,735</u></u>	<u><u>\$ 1,493,693</u></u>

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2005

	Division of Court Services Fund	Comprehensive Services Act Fund	Total
Assets			
Cash and cash equivalents	\$ 601,993	\$ -	\$ 601,993
Receivables	1,229	-	1,229
Due from other governments	-	236,702	236,702
Total	<u>\$ 603,222</u>	<u>\$ 236,702</u>	<u>\$ 839,924</u>
Liabilities			
Accounts payable and accrued liabilities	<u>\$ 15,472</u>	<u>\$ 55,494</u>	<u>\$ 70,966</u>
Fund Balance			
Designated:			
Subsequent year's expenditures	\$ 587,750	\$ 181,208	\$ 768,958
Unreserved/undesignated	-	-	-
Total fund balance	<u>\$ 587,750</u>	<u>\$ 181,208</u>	<u>\$ 768,958</u>
Total	<u>\$ 603,222</u>	<u>\$ 236,702</u>	<u>\$ 839,924</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2005

	Division of Court Services Fund	Comprehensive Services Act Fund	Total
Revenues			
Use of money and property	\$ 14,129	\$ -	\$ 14,129
Charges for services	576,309	-	576,309
Miscellaneous	-	955,333	955,333
Recovered costs	256,230	-	256,230
Intergovernmental:			
Revenue from the Commonwealth	241,171	1,044,057	1,285,228
Total revenues	\$ 1,087,839	\$ 1,999,390	\$ 3,087,229
Expenditures			
Current:			
Judicial administration	\$ 1,154,727	\$ -	\$ 1,154,727
Health and welfare	-	1,936,899	1,936,899
Total expenditures	\$ 1,154,727	\$ 1,936,899	\$ 3,091,626
Net change in fund balance	\$ (66,888)	\$ 62,491	\$ (4,397)
Fund balance, beginning of year	654,638	118,717	773,355
Fund balance, end of year	\$ 587,750	\$ 181,208	\$ 768,958

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2005

	Detox Center Construction Fund	Administration Building Renovation Fund	Total
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 41,094	\$ 683,641	\$ 724,735
Liabilities			
A/P and accrued liabilities	\$ -	\$ -	\$ -
Fund Balance			
Designated:			
Capital projects	\$ 41,094	\$ 683,641	\$ 724,735
Unreserved/undesignated	-	-	-
Total fund balance	\$ 41,094	\$ 683,641	\$ 724,735
Total	\$ 41,094	\$ 683,641	\$ 724,735

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 Year Ended June 30, 2005

	Detox Center Construction Fund	Administration Building Renovation Fund	Total
Revenues			
Use of money and property	\$ 701	\$ -	\$ 701
Expenditures			
Capital projects	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over expenditures	\$ 701	\$ -	\$ 701
Other financing sources (uses)			
Transfers out	\$ -	\$ (43,190)	\$ (43,190)
Net change in fund balance	\$ 701	\$ (43,190)	\$ (42,489)
Fund balance, beginning of year	40,393	726,831	767,224
Fund balance, end of year	\$ 41,094	\$ 683,641	\$ 724,735

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Net Assets
Internal Service Funds
At June 30, 2005

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Maintenance Insurance Fund</u>	<u>Total Internal Service Funds</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,698,681	\$ 101,045	\$ 70,515	\$ 294,265	\$ 53,283	\$ 2,217,789
Accounts receivable	-	3,565	-	-	-	3,565
Total current assets	<u>\$ 1,698,681</u>	<u>\$ 104,610</u>	<u>\$ 70,515</u>	<u>\$ 294,265</u>	<u>\$ 53,283</u>	<u>\$ 2,221,354</u>
LIABILITIES						
Current liabilities:						
Accounts payable and accrued expenses	\$ 531	\$ 29,109	\$ 2,948	\$ -	\$ -	\$ 32,588
Claims payable	360,825	-	-	-	-	360,825
Total current liabilities	<u>\$ 361,356</u>	<u>\$ 29,109</u>	<u>\$ 2,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,413</u>
NET ASSETS						
Unrestricted	<u>\$ 1,337,325</u>	<u>\$ 75,501</u>	<u>\$ 67,567</u>	<u>\$ 294,265</u>	<u>\$ 53,283</u>	<u>\$ 1,827,941</u>
Total net assets	<u>\$ 1,337,325</u>	<u>\$ 75,501</u>	<u>\$ 67,567</u>	<u>\$ 294,265</u>	<u>\$ 53,283</u>	<u>\$ 1,827,941</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2005

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Maintenance Insurance Fund</u>	<u>Total Internal Service Funds</u>
Operating revenues						
Charges for service	\$ 3,511,906	\$ 263,108	\$ -	\$ -	\$ 34,841	\$ 3,809,855
Operating Expenses						
Benefits and related expenses	\$ 3,880,363	\$ -	\$ 8,041	\$ 38,420	\$ -	\$ 3,926,824
Services and supplies	-	241,232	-	-	8,176	249,408
Total operating expenses	\$ 3,880,363	\$ 241,232	\$ 8,041	\$ 38,420	\$ 8,176	\$ 4,176,232
Operating income (loss)	\$ (368,457)	\$ 21,876	\$ (8,041)	\$ (38,420)	\$ 26,665	\$ (366,377)
Nonoperating revenues						
Investment earnings	30,989	1,470	1,230	-	778	34,467
Change in net assets	\$ (337,468)	\$ 23,346	\$ (6,811)	\$ (38,420)	\$ 27,443	\$ (331,910)
Net assets, beginning of year	1,674,793	52,155	74,378	332,685	25,840	2,159,851
Net assets, end of year	\$ 1,337,325	\$ 75,501	\$ 67,567	\$ 294,265	\$ 53,283	\$ 1,827,941

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Cash Flows
Internal Service Funds
At June 30, 2005

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Maintenance Insurance Fund</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities						
Receipts from insured	\$ 3,511,906	\$ -	\$ -	\$ -	\$ 34,841	\$ 3,546,747
Receipts from services	-	262,711	-	-	-	262,711
Payments to suppliers	(3,799,128)	(230,582)	-	(38,420)	(9,015)	(4,077,145)
Other payments	-	-	(7,435)	-	-	(7,435)
Net cash provided (used) by operating activities	<u>\$ (287,222)</u>	<u>\$ 32,129</u>	<u>\$ (7,435)</u>	<u>\$ (38,420)</u>	<u>\$ 25,826</u>	<u>\$ (275,122)</u>
Cash flows from investing activities						
Investment earnings	<u>\$ 30,989</u>	<u>\$ 1,470</u>	<u>\$ 1,230</u>	<u>\$ -</u>	<u>\$ 778</u>	<u>\$ 34,467</u>
Net increase (decrease) in cash and cash equivalents	\$ (256,233)	\$ 33,599	\$ (6,205)	\$ (38,420)	\$ 26,604	\$ (240,655)
Balances, beginning of year	<u>1,954,914</u>	<u>67,446</u>	<u>76,720</u>	<u>332,685</u>	<u>26,679</u>	<u>2,458,444</u>
Balance, end of year	<u><u>\$ 1,698,681</u></u>	<u><u>\$ 101,045</u></u>	<u><u>\$ 70,515</u></u>	<u><u>\$ 294,265</u></u>	<u><u>\$ 53,283</u></u>	<u><u>\$ 2,217,789</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (368,457)	\$ 21,876	\$ (8,041)	\$ (38,420)	\$ 26,665	\$ (366,377)
Change in assets and liabilities:						
Receivables, net	-	(397)	-	-	-	(397)
Accounts payable	531	10,650	606	-	(839)	10,948
Claims payable	80,704	-	-	-	-	80,704
Deferred revenue	-	-	-	-	-	-
Net cash provided (used) by operating activities	<u><u>\$ (287,222)</u></u>	<u><u>\$ 32,129</u></u>	<u><u>\$ (7,435)</u></u>	<u><u>\$ (38,420)</u></u>	<u><u>\$ 25,826</u></u>	<u><u>\$ (275,122)</u></u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Fiduciary Net Assets
At June 30, 2005

	Agency Funds											
	Private Purpose Trust Funds				Northwestern							Northwestern
	Laura Bates Trust Fund	Harriet Sides Trust Fund	Olin Larrick Trust Fund	Total	Special Welfare Fund	Regional Jail Authority Fund	Winchester Regional Airport Fund	Undistributed Local Sales Tax Fund	State Sales Tax Fund	Employee Cafeteria Plan Fund	Regional Education Program Fund	Total
Assets												
Cash and cash equivalents	\$ 10,797	\$ 9,381	\$ 1,948	\$ 22,126	\$ 91,024	\$ 1,073,914	\$ 486,023	\$ -	\$ 427	\$ 290	\$ 508,517	\$ 2,160,195
Receivables	-	-	-	-	-	405,910	137,172	-	-	-	86,721	629,803
Due from other governmental units	-	-	-	-	-	334,466	-	11,727	-	-	-	346,193
Total assets	<u>\$ 10,797</u>	<u>\$ 9,381</u>	<u>\$ 1,948</u>	<u>\$ 22,126</u>	<u>\$ 91,024</u>	<u>\$ 1,814,290</u>	<u>\$ 623,195</u>	<u>\$ 11,727</u>	<u>\$ 427</u>	<u>\$ 290</u>	<u>\$ 595,238</u>	<u>\$ 3,136,191</u>
Liabilities												
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 234,978	\$ 279,961	\$ 11,727	\$ 120	\$ -	\$ 462,450	\$ 989,236
Amounts held for others	-	-	-	-	91,024	1,579,312	343,234	-	307	290	132,788	2,146,955
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,024</u>	<u>\$ 1,814,290</u>	<u>\$ 623,195</u>	<u>\$ 11,727</u>	<u>\$ 427</u>	<u>\$ 290</u>	<u>\$ 595,238</u>	<u>\$ 3,136,191</u>
Net Assets	<u>\$ 10,797</u>	<u>\$ 9,381</u>	<u>\$ 1,948</u>	<u>\$ 22,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COUNTY OF FREDERICK, VIRGINIA

Private Purpose Trust Funds
 Combining Statement of Changes in Fiduciary Net Assets
 At June 30, 2005

	<u>Laura Bates</u> <u>Trust</u> <u>Fund</u>	<u>Harriet Sides</u> <u>Trust</u> <u>Fund</u>	<u>Olin Larrick</u> <u>Trust</u> <u>Fund</u>	<u>Total</u>
Additions:				
Investment earnings	\$ 185	\$ 163	\$ 34	\$ 382
Deductions:				
Education	<u>-</u>	<u>163</u>	<u>100</u>	<u>263</u>
Change in net assets	\$ 185	\$ -	\$ (66)	\$ 119
Net assets, beginning of year	<u>10,612</u>	<u>9,381</u>	<u>2,014</u>	<u>22,007</u>
Net assets, end of year	<u><u>\$ 10,797</u></u>	<u><u>\$ 9,381</u></u>	<u><u>\$ 1,948</u></u>	<u><u>\$ 22,126</u></u>

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Special Welfare Fund:				
Assets:				
Cash	\$ 125,495	\$ 9,089	\$ 43,560	\$ 91,024
Liabilities:				
Amounts held for others	\$ 125,495	\$ 9,089	\$ 43,560	\$ 91,024
Northwestern Regional Jail Authority Fund:				
Assets:				
Cash	\$ 654,169	\$ 10,778,843	\$ 10,359,098	\$ 1,073,914
Receivables	392,678	405,910	392,678	405,910
Due from other governmental units	323,858	334,466	323,858	334,466
Total assets	\$ 1,370,705	\$ 11,519,219	\$ 11,075,634	\$ 1,814,290
Liabilities:				
Accounts payable and accrued liabilities	\$ 189,922	\$ 234,978	\$ 189,922	\$ 234,978
Amounts held for others	1,180,783	11,284,241	10,885,712	1,579,312
Total liabilities	\$ 1,370,705	\$ 11,519,219	\$ 11,075,634	\$ 1,814,290
Winchester Regional Airport Fund:				
Assets:				
Cash	\$ 849,418	\$ 3,444,863	\$ 3,808,258	\$ 486,023
Receivables	89,566	137,172	89,566	137,172
Due from other governmental units	219,830	-	219,830	-
Total assets	\$ 1,158,814	\$ 3,582,035	\$ 4,117,654	\$ 623,195
Liabilities:				
Accounts payable and accrued liabilities	\$ 354,112	\$ 279,961	\$ 354,112	\$ 279,961
Amounts held for others	804,702	3,302,074	3,763,542	343,234
Total liabilities	\$ 1,158,814	\$ 3,582,035	\$ 4,117,654	\$ 623,195
Undistributed Local Sales Tax Fund:				
Assets:				
Cash	\$ -	\$ 91,225	\$ 91,225	\$ -
Due from other governmental units	48,648	11,727	48,648	11,727
Total assets	\$ 48,648	\$ 102,952	\$ 139,873	\$ 11,727

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005 (Continued)

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Undistributed Local Sales Tax Fund: (Continued)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 48,648	\$ 11,727	\$ 48,648	\$ 11,727
Due to other funds	-	91,225	91,225	-
Total liabilities	<u>\$ 48,648</u>	<u>\$ 102,952</u>	<u>\$ 139,873</u>	<u>\$ 11,727</u>
State Sales Tax Fund:				
Assets:				
Cash	<u>\$ 448</u>	<u>\$ 576</u>	<u>\$ 597</u>	<u>\$ 427</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 99	\$ 120	\$ 99	\$ 120
Amounts held for others	349	456	498	307
Total liabilities	<u>\$ 448</u>	<u>\$ 576</u>	<u>\$ 597</u>	<u>\$ 427</u>
Employee Cafeteria Plan Fund:				
Assets:				
Cash	<u>\$ 285</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 290</u>
Liabilities:				
Amounts held for others	<u>\$ 285</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 290</u>
Northwestern Regional Education Program Fund:				
Assets:				
Cash	\$ 401,205	\$ 3,837,427	\$ 3,730,115	\$ 508,517
Receivables	70,396	86,721	70,396	86,721
Total assets	<u>\$ 471,601</u>	<u>\$ 3,924,148</u>	<u>\$ 3,800,511</u>	<u>\$ 595,238</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 412,981	\$ 462,450	\$ 412,981	\$ 462,450
Amounts held for others	58,620	3,461,698	3,387,530	132,788
Total liabilities	<u>\$ 471,601</u>	<u>\$ 3,924,148</u>	<u>\$ 3,800,511</u>	<u>\$ 595,238</u>

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005 (Continued)

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 2,031,020	\$ 18,162,028	\$ 18,032,853	\$ 2,160,195
Receivables	552,640	629,803	552,640	629,803
Due from other governmental units	<u>592,336</u>	<u>346,193</u>	<u>592,336</u>	<u>346,193</u>
Total assets	<u>\$ 3,175,996</u>	<u>\$ 19,138,024</u>	<u>\$ 19,177,829</u>	<u>\$ 3,136,191</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,005,762	\$ 989,236	\$ 1,005,762	\$ 989,236
Amounts held for others	2,170,234	18,057,563	18,080,842	2,146,955
Due to other funds	<u>-</u>	<u>91,225</u>	<u>91,225</u>	<u>-</u>
Total liabilities	<u>\$ 3,175,996</u>	<u>\$ 19,138,024</u>	<u>\$ 19,177,829</u>	<u>\$ 3,136,191</u>

COUNTY OF FREDERICK, VIRGINIA

**Revenue and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds				
Division of Court Services Fund				
Revenues				
Revenue from use of money and property	\$ 3,600	\$ 3,600	\$ 14,129	\$ 10,529
Charges for services	648,160	648,160	576,309	(71,851)
Recovered costs	287,823	287,823	256,230	(31,593)
Intergovernmental:				
Revenue from the Commonwealth	241,171	241,171	241,171	-
Total revenues	<u>\$ 1,180,754</u>	<u>\$ 1,180,754</u>	<u>\$ 1,087,839</u>	<u>\$ (92,915)</u>
Expenditures				
Judicial Administration				
Division of Court Services	\$ 532,559	\$ 561,886	\$ 494,890	\$ 66,996
Division of Court Services Administration	162,578	167,318	156,325	10,993
Detox Center	375,432	386,520	296,132	90,388
Community Corrections	211,048	227,923	207,380	20,543
Total expenditures	<u>\$ 1,281,617</u>	<u>\$ 1,343,647</u>	<u>\$ 1,154,727</u>	<u>\$ 188,920</u>
Debt Service Funds				
School Debt Service Fund				
Revenues				
Categorical aid:				
Revenue from the Commonwealth	\$ 1,802,575	\$ 1,802,575	\$ 1,945,359	\$ 142,784
Expenditures				
Principal and interest	\$ 12,465,366	\$ 12,465,366	\$ 12,407,904	\$ 57,462

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
 Combining Balance Sheet
 At June 30, 2005

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>Consolidated Maintenance Fund</u>	<u>School Textbook Fund</u>	<u>School Capital Projects Fund</u>	<u>School Capital Fund</u>	<u>Total Governmental Funds</u>
Assets							
Cash and cash equivalents	\$ 8,806,322	\$ 1,138,278	\$ 16,107	\$ 436,966	\$ 13,803,924	\$ 117,465	\$ 24,319,062
Accounts receivable	142,332	7,064	160	16	-	-	149,572
Due from other governments	2,957,221	34,757	-	-	-	-	2,991,978
Total	<u>\$ 11,905,875</u>	<u>\$ 1,180,099</u>	<u>\$ 16,267</u>	<u>\$ 436,982</u>	<u>\$ 13,803,924</u>	<u>\$ 117,465</u>	<u>\$ 27,460,612</u>
Liabilities							
Accounts payable and accrued liabilities	\$ 11,905,875	\$ 269,526	\$ 15,519	\$ 434	\$ 753,555	\$ -	\$ 12,944,909
Total	<u>\$ 11,905,875</u>	<u>\$ 269,526</u>	<u>\$ 15,519</u>	<u>\$ 434</u>	<u>\$ 753,555</u>	<u>\$ -</u>	<u>\$ 12,944,909</u>
Fund Balance							
Reserved for:							
Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ 2,747,565	\$ -	\$ 2,747,565
Designated:							
Subsequent year's expenditures	-	910,573	748	436,548	-	-	1,347,869
Capital projects	-	-	-	-	10,302,804	117,465	10,420,269
Unreserved/undesignated	-	-	-	-	-	-	-
Total fund balance	<u>\$ -</u>	<u>\$ 910,573</u>	<u>\$ 748</u>	<u>\$ 436,548</u>	<u>\$ 13,050,369</u>	<u>\$ 117,465</u>	<u>\$ 14,515,703</u>
Total	<u>\$ 11,905,875</u>	<u>\$ 1,180,099</u>	<u>\$ 16,267</u>	<u>\$ 436,982</u>	<u>\$ 13,803,924</u>	<u>\$ 117,465</u>	<u>\$ 27,460,612</u>

COUNTY OF FREDERICK, VIRGINIA

**Component Unit School Board
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2005**

Total fund balances for governmental funds (Exhibit 28) \$ 14,515,703

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 4,121,136	
Construction in progress	18,313	
Buildings and improvements, net of depreciation	107,018,847	
Equipment, net of depreciation	10,990,463	
School Board capital assets in primary government, net of depreciation	<u>(81,512,647)</u>	
Total capital assets		40,636,112

School bond proceeds for which capital assets have not been constructed or acquired. This adjustment is required to properly report actual debt used to construct or acquire capital assets. (9,638,874)

An internal service fund is used by the School Board to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The internal service net assets are: 982,075

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net assets are compensated absences. (1,156,742)

Total net assets of governmental activities (Exhibit 1) \$ 45,338,274

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2005

	School Operating Fund	School Cafeteria Fund	Consolidated Maintenance Fund	School Textbook Fund	School Capital Projects Fund	School Capital Fund	Total Governmental Funds
Revenues							
Use of money and property	\$ 331,199	\$ 16,421	\$ 9,933	\$ 5,942	\$ 252,707	\$ 15,141	\$ 631,343
Charges for services	272,008	2,477,405	-	9,899	-	-	2,759,312
Miscellaneous	69,702	-	-	163	-	-	69,865
Recovered costs	105,655	-	-	-	-	-	105,655
Intergovernmental:							
Appropriation from primary government	48,142,683	-	199,846	-	15,565,207	-	63,907,736
Revenue from the Commonwealth	46,808,502	62,288	-	452,429	-	-	47,323,219
Revenue from the Federal Government	3,781,583	964,097	-	-	-	-	4,745,680
Total revenues	\$ 99,511,332	\$ 3,520,211	\$ 209,779	\$ 468,433	\$ 15,817,914	\$ 15,141	\$ 119,542,810
Expenditures							
Current:							
Education:							
Instruction	\$ 78,059,099	\$ -	\$ -	\$ 584,165	\$ -	\$ 53,500	\$ 78,696,764
Administration, attendance and health	5,030,059	-	-	-	-	-	5,030,059
Transportation	6,718,131	-	-	-	-	-	6,718,131
Facilities operations	9,273,901	-	209,779	-	-	-	9,483,680
Building improvements	64,312	-	-	-	-	-	64,312
School food services	-	3,417,568	-	-	-	-	3,417,568
Capital projects	-	-	-	-	15,153,994	-	15,153,994
Total expenditures	\$ 99,145,502	\$ 3,417,568	\$ 209,779	\$ 584,165	\$ 15,153,994	\$ 53,500	\$ 118,564,508
Excess (deficiency) of revenues over expenditures	\$ 365,830	\$ 102,643	\$ -	\$ (115,732)	\$ 663,920	\$ (38,359)	\$ 978,302
Other financing sources (uses)							
Transfers in	\$ -	\$ 50,000	\$ -	\$ 315,830	\$ -	\$ -	\$ 365,830
Transfers out	(365,830)	-	-	-	-	-	(365,830)
Total other financing sources (uses)	\$ (365,830)	\$ 50,000	\$ -	\$ 315,830	\$ -	\$ -	\$ -
Net change in fund balance	\$ -	\$ 152,643	\$ -	\$ 200,098	\$ 663,920	\$ (38,359)	\$ 978,302
Fund balance, beginning of year	-	757,930	748	236,450	12,386,449	155,824	13,537,401
Fund balance, end of year	\$ -	\$ 910,573	\$ 748	\$ 436,548	\$ 13,050,369	\$ 117,465	\$ 14,515,703

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit 30)	\$ 978,302
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.	13,040,739
School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board.	(7,850,247)
Adjustment to capital assets	-
Change in School bond proceeds for which capital assets have not been constructed or acquired	(252,049)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:	
Compensated absences	(147,214)
Internal service funds are used by the County to charge the costs of health insurance, supplies and unemployment costs to individual funds. The net revenue of internal service funds is reported with governmental activities.	<u>1,025,547</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ 6,795,078</u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Statement of Net Assets
Internal Service Fund
At June 30, 2005

	Health Insurance Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,572,436
Receivables, net	<u>87,451</u>
Total assets	<u><u>\$ 2,659,887</u></u>
Liabilities	
Current liabilities:	
Claims payable	\$ <u>870,277</u>
Net Assets	
Unrestricted	<u>1,789,610</u>
Total net assets	<u><u>\$ 1,789,610</u></u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
Year Ended June 30, 2005

	Health Insurance Fund
Operating revenues	
Charges for service	\$ 10,016,878
Operating Expenses	
Benefits and related expenses	<u>9,037,873</u>
Operating income (loss)	\$ 979,005
Nonoperating revenues	
Investment earnings	<u>46,542</u>
Change in net assets	\$ 1,025,547
Net assets, beginning of year	<u>764,063</u>
Net assets, end of year	<u><u>\$ 1,789,610</u></u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Combining Statement of Cash Flows
Internal Service Fund
At June 30, 2005

	Health Insurance Fund
<hr/>	
Cash flows from operating activities	
Receipts from insured	\$ 9,121,892
Payments to suppliers	<u>(9,163,022)</u>
Net increase (decrease) in cash and cash equivalents	\$ (41,130)
 Cash flows from investing activities	
Interest	<u>46,542</u>
Net increase (decrease) in cash and cash equivalents	\$ 5,412
Balances, beginning of year	<u>2,567,024</u>
Balance, end of year	<u><u>\$ 2,572,436</u></u>
 Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 979,005
Change in assets and liabilities:	
Accounts receivable	(87,451)
Accounts payable	(151,305)
Claims payable	(47,123)
Deferred revenue	<u>(734,256)</u>
Net cash provided (used) by operating activities	<u><u>\$ (41,130)</u></u>

COUNTY OF FREDERICK, VIRGINIA

**Component Unit School Board
School Operating Fund
Budgetary Comparison Schedule
Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Use of money and property	\$ 333,911	\$ 333,911	\$ 331,199	\$ (2,712)
Charges for services	310,505	310,505	272,008	(38,497)
Miscellaneous	91,911	136,911	69,702	(67,209)
Recovered costs	109,700	120,642	105,655	(14,987)
Intergovernmental:				
Appropriation from primary government	49,164,531	49,524,613	48,142,683	(1,381,930)
Revenue from the Commonwealth	44,150,032	46,645,292	46,808,502	163,210
Revenue from the Federal Government	5,106,110	4,743,755	3,781,583	(962,172)
Total revenues	<u>\$ 99,266,700</u>	<u>\$ 101,815,629</u>	<u>\$ 99,511,332</u>	<u>\$ (2,304,297)</u>
Expenditures				
Current:				
Education:				
Instruction	\$ 78,728,362	\$ 79,781,232	\$ 78,059,099	\$ 1,722,133
Administration, attendance and health	5,054,159	5,117,207	5,030,059	87,148
Transportation	6,674,148	7,080,554	6,718,131	362,423
Facilities operations	8,377,701	9,404,301	9,273,901	130,400
Building improvements	66,500	66,505	64,312	2,193
Total expenditures	<u>\$ 98,900,870</u>	<u>\$ 101,449,799</u>	<u>\$ 99,145,502</u>	<u>\$ 2,304,297</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 365,830</u>	<u>\$ 365,830</u>	<u>\$ 365,830</u>	<u>\$ -</u>
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ -	-
Transfers out	(365,830)	(365,830)	(365,830)	-
Total other financing sources (uses)	<u>\$ (365,830)</u>	<u>\$ (365,830)</u>	<u>\$ (365,830)</u>	<u>\$ -</u>
Net change in fund balance	\$ -	\$ -	\$ -	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Revenue and Expenditure Budgetary Comparison Schedule
Nonmajor and Other Funds
Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Cafeteria Fund				
Revenues:				
Revenue from use of money and property	\$ -	\$ -	\$ 16,421	\$ 16,421
Charges for services	2,274,998	2,274,998	2,477,405	202,407
Intergovernmental:				
Revenue from the Commonwealth	59,586	59,586	62,288	2,702
Revenue from the Federal Government	805,433	805,433	964,097	158,664
Total revenues	<u>\$ 3,140,017</u>	<u>\$ 3,140,017</u>	<u>\$ 3,520,211</u>	<u>\$ 380,194</u>
Expenditures:				
School food service operations	<u>\$ 3,733,295</u>	<u>\$ 3,733,295</u>	<u>\$ 3,417,568</u>	<u>\$ 315,727</u>
Consolidated Maintenance Fund				
Revenues:				
Revenue from use of money and property	\$ -	\$ -	\$ 9,933	\$ 9,933
Charges for services	500,000	500,000	-	(500,000)
Intergovernmental:				
Appropriation from primary government	-	-	199,846	199,846
Total revenues	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 209,779</u>	<u>\$ (290,221)</u>
Expenditures:				
Maintenance operations	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 209,779</u>	<u>\$ 290,221</u>
Total expenditures	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 209,779</u>	<u>\$ 290,221</u>
School Textbook Fund				
Revenues:				
Revenue from use of money and property	\$ -	\$ -	\$ 5,942	\$ 5,942
Charges for services	12,500	12,500	9,899	(2,601)
Miscellaneous	-	-	163	163
Intergovernmental:				
Revenue from the Commonwealth	448,483	448,483	452,429	3,946
Total revenues	<u>\$ 460,983</u>	<u>\$ 460,983</u>	<u>\$ 468,433</u>	<u>\$ 7,450</u>
Expenditures:				
Instruction	<u>\$ 859,440</u>	<u>\$ 859,440</u>	<u>\$ 584,165</u>	<u>\$ 275,275</u>

COUNTY OF FREDERICK, VIRGINIA

**Component Unit School Board
Revenue and Expenditure Budgetary Comparison Schedule
Nonmajor and Other Funds
Year Ended June 30, 2005 (Continued)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Capital Projects Fund				
Revenues:				
Revenue from use of money and property	\$ -	\$ -	\$ 252,707	\$ 252,707
Intergovernmental:				
Appropriation from primary government	<u>250,000</u>	<u>20,808,749</u>	<u>15,565,207</u>	<u>(5,243,542)</u>
Total revenues	<u>\$ 250,000</u>	<u>\$ 20,808,749</u>	<u>\$ 15,817,914</u>	<u>\$ (4,990,835)</u>
Expenditures:				
Capital projects - school construction projects	<u>\$ 250,000</u>	<u>\$ 36,340,642</u>	<u>\$ 15,153,994</u>	<u>\$ 21,186,648</u>
School Capital Fund				
Revenues:				
Revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,141</u>	<u>\$ 15,141</u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,141</u>	<u>\$ 15,141</u>
Expenditures:				
Capital outlay - equipment, etc.	<u>\$ -</u>	<u>\$ 53,500</u>	<u>\$ 53,500</u>	<u>\$ -</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

- Statistical Section -

Table 1

COUNTY OF FREDERICK, VIRGINIA

Government-Wide Expenses by Function
Last Four Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Recreation and Cultural	Community Development	Interest on Debt	Landfill	Total
2001-02	\$ 3,598,120	\$ 1,968,820	\$ 10,951,251	\$ 2,234,665	\$ 6,375,250	\$ 31,737,953	\$ 3,600,216	\$ 2,951,509	\$ 4,228,764	\$ 3,756,465	\$ 71,403,013
2002-03	4,965,883	2,107,373	12,600,675	1,927,189	7,171,401	49,571,044	4,011,890	2,701,629	4,704,034	3,817,755	93,578,873
2003-04	4,378,251	2,157,129	13,523,075	1,963,687	7,893,895	55,432,325	4,159,533	3,124,706	5,025,809	3,949,354	101,607,764
2004-05	6,206,202	2,505,547	15,733,331	2,139,170	6,833,696	58,152,208	4,403,978	1,787,426	5,504,706	4,956,206	108,222,470

Table 2

COUNTY OF FREDERICK, VIRGINIA

Government-Wide Revenues
Last Four Fiscal Years

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Fiscal Year	Program Revenues			General Revenues						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Commonwealth of Virginia Non-Categorical Aid	Revenues from the Use of Money & Property	Miscellaneous		
2001-02	\$ 8,703,636	\$ 9,625,751	\$ -	\$ 40,221,258	\$ 14,545,935	\$ 10,482,194	\$ 1,356,558	\$ 1,043,213	\$ 85,978,545	
2002-03	9,433,249	10,272,912	-	44,827,985	16,327,234	11,231,480	814,632	1,292,269	94,199,761	
2003-04	10,665,619	10,204,992	-	50,311,064	18,007,559	13,139,573	495,305	1,224,157	104,048,269	
2004-05	12,446,477	9,970,097	-	53,911,011	23,453,552	12,068,887	1,152,072	1,322,845	114,324,941	

Table 3

COUNTY OF FREDERICK, VIRGINIA

GOVERNMENTAL REVENUES BY SOURCE (1)

Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
1996	\$ 32,724,914	\$ 9,284,972	\$ 764,866	\$ 18,634	\$ 2,127,036	\$ 3,071,357	\$ 551,909	\$ 1,337,011	\$ 29,691,186	\$ 79,571,885
1997	35,542,217	9,967,981	881,984	45,096	1,817,450	3,338,065	1,344,374	1,409,171	33,650,249	87,996,587
1998	36,309,700	10,646,378	821,361	31,725	1,494,304	3,544,384	885,474	2,956,649	36,876,255	93,566,230
1999	37,961,053	11,402,222	980,745	24,502	1,525,673	3,878,578	537,011	2,530,661	41,982,187	100,822,632
2000	38,389,226	12,323,081	974,484	27,733	1,795,084	4,085,339	2,398,189	1,930,757	48,239,879	110,163,772
2001	39,780,459	13,787,234	1,111,056	31,196	1,941,583	4,139,893	7,108,806	1,851,564	56,899,053	126,650,844
2002	40,052,675	14,129,893	1,181,812	59,492	1,544,153	4,394,599	1,129,766	2,191,209	58,297,833	122,981,432
2003	44,854,096	16,189,296	1,556,839	133,549	931,974	4,736,588	1,366,188	2,770,062	63,311,872	135,850,464
2004	50,096,362	18,007,559	2,192,360	240,167	672,060	5,262,390	1,244,577	2,900,067	68,080,195	148,695,737
2005	53,463,481	23,453,552	2,773,787	282,828	1,261,134	5,681,482	1,357,606	3,075,379	74,107,883	165,457,132

Notes:

(1) Includes General, Special Revenue, Capital Projects Funds, and Component Unit School Board. Does not include Industrial Development Authority.

(2) Does not include appropriations to component unit School Board from primary government.

Table 4

COUNTY OF FREDERICK, VIRGINIA

GOVERNMENTAL EXPENDITURES BY FUNCTION (1) (2)

Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	(3) Education	Recreation and Cultural	Community Development	Capital Projects	Debt Service	Total
1996	\$ 4,104,628	\$ 1,370,865	\$ 5,487,441	\$ 2,130,085	\$ 3,413,930	\$ 50,253,969	\$ 2,213,216	\$ 1,601,191	\$ 14,011,424	\$ 7,027,067	\$ 91,613,816
1997	3,648,187	1,384,237	5,868,619	2,211,822	3,516,862	55,163,091	2,472,843	2,032,776	12,628,534	17,448,080	106,375,051
1998	4,361,878	1,394,769	7,276,929	1,937,700	3,975,883	62,209,349	2,782,192	3,609,690	3,878,342	16,477,420	107,904,152
1999	4,972,064	1,516,045	8,191,687	2,109,154	4,956,312	66,266,022	2,734,630	2,505,617	2,308,057	7,973,553	103,533,141
2000	6,656,140	1,701,577	8,087,971	2,300,987	5,472,225	69,769,381	2,988,116	2,112,934	11,188,046	8,261,775	118,539,152
2001	6,296,713	1,862,426	9,247,838	2,568,834	4,892,004	80,541,117	3,155,426	4,660,369	7,622,385	8,805,439	129,652,551
2002	3,820,691	2,428,766	11,419,185	2,744,931	6,334,307	80,778,668	3,608,713	3,606,104	16,609,468	5,380,977	136,731,810
2003	4,945,481	2,368,511	12,109,078	2,627,042	7,180,976	86,191,018	3,817,096	3,918,244	28,478,934	11,263,040	162,899,420
2004	4,893,037	2,446,063	13,442,648	2,738,920	7,886,336	94,048,088	3,890,243	4,309,371	13,456,627	12,536,355	159,647,688
2005	6,152,689	2,753,028	15,607,849	3,290,973	6,808,832	103,855,143	4,461,985	3,119,951	15,153,994	13,540,115	174,744,559

Notes:

- (1) Includes General, Special Revenue, Capital Projects Funds, and Component Unit School Board. Does not include Industrial Development Authority.
- (2) The regional jail became a separate entity in fiscal year 1994. The Sheriff Department budget for Judicial Administration was merged into public safety in fiscal year 1996.
- (3) Does not include appropriation from primary government to School Board.

Table 5

COUNTY OF FREDERICK, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1996	\$ 33,366,333	\$ 31,507,828	94.43%	\$ 1,316,685	\$ 32,824,513	98.38%	\$ 4,011,031	12.02%
1997	35,898,083	33,573,361	93.52%	1,959,958	35,533,319	98.98%	4,099,416	11.42%
1998	37,234,603	34,133,759	91.67%	1,242,591	35,376,350	95.01%	4,270,771	11.47%
1999	38,295,661	36,484,598	95.27%	1,735,069	38,219,667	99.80%	4,117,773	10.75%
2000	42,532,680	40,479,322	95.17%	1,224,420	41,703,742	98.05%	3,857,416	9.07%
2001	46,716,011	45,166,257	96.68%	1,243,875	46,410,132	99.35%	3,368,568	7.21%
2002	49,692,168	47,788,594	96.17%	1,157,814	48,946,408	98.50%	3,787,091	7.62%
2003	56,707,435	53,814,205	94.90%	2,483,603	56,297,808	99.28%	4,799,436	8.46%
2004	61,994,028	59,044,440	95.24%	2,541,857	61,586,297	99.34%	4,988,940	8.05%
2005	67,175,489	64,001,850	95.28%	2,736,647	66,738,497	99.35%	5,259,887	7.83%

Notes:

Levies, collections and delinquent amounts due are exclusive of penalties and interest.

Levies, collections and delinquent amounts do not include Shawneeland Sanitary District.

Levies, collections and delinquent amounts for 1999 through 2004 include amounts reimbursed and/or owed to the County by the Commonwealth of Virginia for personal property taxes.

Source - prior year audit reports and County Treasurer

Table 6

COUNTY OF FREDERICK, VIRGINIA

ASSESSED VALUE OF ALL TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utility		Total
					Real Estate	Personal Property	
1996	\$ 2,645,924,021	\$ 313,249,071	\$ 156,349,543	\$ 24,772,375	\$ 163,799,347	\$ 1,525,125	\$ 3,305,619,482
1997	2,708,112,775	392,434,457	163,617,271	27,977,702	158,282,200	1,404,079	3,451,828,484
1998	2,847,707,041	448,951,343	164,129,903	27,322,566	177,085,001	1,446,296	3,666,642,150
1999	2,957,535,874	488,131,686	171,195,719	27,279,966	186,452,596	1,151,445	3,831,747,286
2000	3,052,227,934	562,969,701	194,433,899	25,338,868	193,267,067	1,014,175	4,029,251,644
2001	3,307,251,040	618,705,456	220,973,344	25,936,422	209,475,199	1,058,556	4,383,400,017
2002	3,512,434,751	662,564,655	231,920,311	27,888,418	208,166,364	1,448,563	4,644,423,062
2003	3,806,927,513	720,516,577	234,640,199	30,878,859	183,456,775	1,617,850	4,978,037,773
2004	4,052,354,325	768,711,320	234,968,283	31,843,306	188,465,590	3,510,696	5,279,853,520
2005	5,318,037,536	831,253,053	245,449,038	31,049,625	182,415,892	2,400,590	6,610,605,734

Notes: The County collects real estate and personal property taxes on semiannual installments. Accordingly, assessed values for real property, personal property, machinery and tools, and mobile home taxes include assessments for the second half of the prior calendar year and first half of the current calendar year.

All property taxes are assessed at 100% of estimated fair market value.

Source - Commissioner of Revenue

COUNTY OF FREDERICK, VIRGINIA

PROPERTY TAX RATES

Last Ten Fiscal Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Airplanes	Mobile Homes
1996	\$ 0.600	\$ 4.25	\$ 2.00	\$ 0.425	\$ 0.600
1997	\$ 0.590	4.20	2.00	0.425	\$ 0.590
1998	\$ 0.590	4.20	2.00	0.425	\$ 0.590
1999	\$ 0.590	4.20	2.00	0.425	\$ 0.590
2000	\$ 0.640	4.20	2.00	0.425	\$ 0.640
2001	\$ 0.610	4.20	2.00	0.425	\$ 0.610
2002	\$ 0.610	4.20	2.00	0.425	\$ 0.610
2003	\$ 0.730	4.20	2.00	0.425	\$ 0.730
2004	\$ 0.730	4.20	2.00	0.425	\$ 0.730
2005	\$ 0.525	4.20	2.00	0.425	\$ 0.525

Notes:

Property tax rates are based on per \$100 of assessed value.

There are no overlapping tax rates of other governments.

COUNTY OF FREDERICK, VIRGINIA

**RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years**

Fiscal Year	Popu- lation (1)	Assessed Values	Gross Bonded Debt (2)	Less: City of Winchester Share	Net Bonded Debt	Ratio of Net General Obligation	
						Debt to Assessed Value	Net Bonded Debt per Capita
1996	53,200	\$ 3,305,619,482	\$ 64,435,131	\$ -	\$ 64,435,131	0.0195	\$ 1,211
1997	54,200	3,451,828,484	62,150,908	-	62,150,908	0.0180	1,147
1998	54,200	3,666,642,150	61,039,029	-	61,039,029	0.0166	1,126
1999	54,200	3,831,747,286	61,623,577	-	61,623,577	0.0161	1,137
2000	55,800	4,029,251,644	61,956,927	-	61,956,927	0.0154	1,110
2001	59,209	4,383,400,017	82,022,073	-	82,022,073	0.0187	1,385
2002	61,200	4,644,423,062	93,101,851	-	93,101,851	0.0200	1,521
2003	62,400	4,978,037,773	106,371,525	-	106,371,525	0.0214	1,705
2004	62,400	5,279,853,520	113,617,493	-	113,617,493	0.0215	1,821
2005	66,724	6,610,605,734	120,002,745	-	120,002,745	0.0182	1,798

(1) Bureau of Economic Development for years 1996 through 2000, Bureau of the Census for 2001, and Weldon Cooper Center for Public Service for 2002 through 2005.

(2) Includes all general long-term obligation debt of the County and Component Unit School Board. Excludes capital leases, early retirement incentive obligation and liability for compensated absences.

The County does not have any overlapping debt.

COUNTY OF FREDERICK, VIRGINIA

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
BONDED DEBT TO GENERAL EXPENDITURES
Last Ten Fiscal Years**

Fiscal Year	(3) Principal	Interest and and Fiscal Charges	Total Debt Service (1)	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1996	\$ 3,093,694	\$ 2,707,410	\$ 5,801,104	\$ 91,613,816	6.33%
1997	13,262,223	3,136,725	16,398,948	106,375,051	15.42%
1998	11,949,879	2,978,160	14,928,039	107,904,152	13.83%
1999	4,067,452	2,998,160	7,065,612	103,533,141	6.82%
2000	4,882,001	3,001,174	7,883,175	118,539,152	6.65%
2001	4,884,854	3,294,709	8,179,563	129,652,551	6.31%
2002	5,380,977	3,759,721	9,140,698	136,731,810	6.69%
2003	7,097,456	3,749,042	10,846,498	162,899,420	6.66%
2004	7,264,022	4,855,582	12,119,604	159,647,688	7.59%
2005	8,193,343	5,346,772	13,540,115	174,744,559	7.75%

Notes:

(1) Does not include capital leases.

(2) Includes General, Special Revenue and Capital Projects Funds, and Component Unit School Board.

(3) Excludes refunded debt of \$4,835,000 in fiscal year 2002.

The County has no legal debt margin.

COUNTY OF FREDERICK, VIRGINIA

PROPERTY VALUE CONSTRUCTION AND BANK DEPOSITS

Last Ten Fiscal Years

Fiscal Year	Deposits in Thousands (1)	Number of Permits	Commercial Industrial Construction (2)	Number of Permits	Residential Construction (2)	Property Value (3)	
						Commercial/Residential	Nontaxable
1996	\$ 146,930	193	\$ 22,829,732	1,391	\$ 47,995,360	\$ 2,645,924,021	\$ 200,783,000
1997	N/A	200	47,339,911	1,269	53,852,511	2,744,965,556	218,847,900
1998	123,289	171	20,757,146	1,047	51,975,748	2,847,726,208	223,348,500
1999	74,495	221	41,375,548	1,269	66,154,318	2,957,535,874	232,516,600
2000	96,995	192	72,899,520	1,558	68,979,282	3,081,652,197	264,737,561
2001	119,478	177	60,115,925	1,025	82,648,057	3,343,136,257	311,781,722
2002	148,077	201	56,296,826	1,353	113,386,329	3,645,894,766	362,658,372
2003	181,608	201	35,842,080	1,353	127,771,262	3,859,186,065	373,199,150
2004	236,766	287	72,544,942	1,536	148,724,111	4,112,467,100	391,462,900
2005	306,879	285	38,068,839	2,004	261,259,393	5,390,315,685	432,754,600

Sources:

(1) Bureau of Economic Development 1996, Frederick County Commissioner of Revenue - 1998 - 2003

(2) Frederick County Inspections Department

(3) Frederick County Commissioner of Revenue

N/A - Not available

COUNTY OF FREDERICK, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years

Calendar Year	Population (1)	Per Capita Income (1)	School Enrollment (2)	Unemployment Rate (3) (4)
1996	53,200	\$ 22,071	9,516	4.20%
1997	54,200	23,030	9,878	3.60%
1998	54,200	24,362	10,521	2.60%
1999	54,200	26,451	10,407	2.10%
2000	55,800	27,251	10,765	1.60%
2001	59,209	28,063	10,778	2.60%
2002	61,200	29,063	11,007	2.80%
2003	62,600	N/A	11,343	3.40%
2004	64,200	N/A	11,742	2.70%
2005	66,724	N/A	N/A	N/A

Sources:

- (1) Bureau of Economic Development through 2000, Bureau of the Census in 2001, Weldon Cooper Center for Public Service in 2002 and 2003
- (2) Frederick County School Board
- (3) Virginia Employment Commission
- (4) Includes City of Winchester

N/A - Not available

Table 12

COUNTY OF FREDERICK, VIRGINIA

PRINCIPAL REAL PROPERTY TAXPAYERS

At June 30, 2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation (1)</u>
Potomac Edison	Utility - electric power	\$ 83,187,476	1.82%
Verizon Virginia	Utility - communications	33,859,421	0.74%
H. P. Hood, Inc.	Dairy Plant	31,872,800	0.70%
Home Depot, USA	Distribution	24,781,900	0.54%
Washington Gas Light	Utility - natural gas	18,137,531	0.40%
General Electric Co.	Incandescent lamps	14,174,400	0.31%
A T & T	Utility - communications	13,147,258	0.29%
Kohl Department Stores	Distribution	12,468,800	0.27%
Trex Company	Decking	12,423,400	0.27%
Fort Collier Group	Industrial Park	<u>12,312,400</u>	<u>0.27%</u>
Total		\$ <u>256,365,386</u>	<u>5.61%</u>
Total assessed valuation for all real property - 2005 calendar year assessment		\$ <u>4,561,709,278</u>	<u>100.00%</u>

(1) Percentage of total assessed valuation is based on 2004 tax year assessed value for real property taxes

Table 13

COUNTY OF FREDERICK, VIRGINIA

MISCELLANEOUS STATISTICS

At June 30, 2005

Form of government	County administrator	
Land area	427 square miles	
Fire protection	Number of volunteer fire stations	11
	Number of volunteer firefighters	350
Police protection	Number of stations	1
	Number of deputies	82
Education	Number of elementary schools	10
	Number of middle schools	4
	Number of high schools	3
	Number of technical schools	1
	Number of regional schools	1
	Number of students	11,742
	Number of instructional personnel	1,355
Parks and recreation	Number of regional parks	2
	Total acreage	415
	Number of community parks	6
	Total acreage	16
	Number of shelters	15
	Number of lakes	2
	Number of baseball/softball fields	11
	Number of playgrounds	3
	Number of tennis courts	10
	Number of basketball courts	4
	Number of golf courses (disc golf)	1
	Number of swimming pools	2
	Number of soccer fields	4
Building permits issued (includes mobile homes)		2,052
County employees	Full time	525

- Compliance Section -

COUNTY OF FREDERICK, VIRGINIA

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005**

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>PRIMARY GOVERNMENT:</u>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Virginia Department of Social Services:		
Food stamp administration	10.561	\$ <u>279,244</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Pass through payments:</u>		
Virginia Department of Social Services:		
Family Preservation and Support Services	93.556	\$ 25,846
Temporary Assistance for Needy Families	93.558	205,380
Refugee and Entrant Assistance	93.566	1,226
Low-income Home Energy Assistance	93.568	10,378
Child Care Assistance	93.575	253,579
Child Care and Development Fund	93.596	151,213
Adoption incentive	93.603	13,693
Foster Care - Title IV-E	93.658	452,936
Adoption Assistance	93.659	56,410
Social Services Block Grant	93.667	228,818
Independent Living	93.674	32,588
Medical Assistance Program	93.778	246,613
Statewide Fraud Program	N/A	<u>6,038</u>
Total Department of Health and Human Services		\$ <u>1,684,718</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community Development Block Grants	14.246	\$ <u>17,669</u>
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Virginia Department of Transportation:		
Safety Incentive Grants for Use of Seatbelts	20.604	\$ 19,464
Ground Transportation Safety	20.600	<u>15,137</u>
Total Department of Transportation		\$ <u>34,601</u>

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005 (Continued)**

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>PRIMARY GOVERNMENT: (Continued)</u>		
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
State Domestic Preparedness Equipment Support Program	16.007	\$ 145,047
Juvenile Justice and Delinquency	16.548	12,393
Total Department of Justice		<u>\$ 157,440</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Pass through payments:</u>		
State Homeland Security Grant Program	97.004	\$ 88,739
Emergency Management Performance Grant	97.042	2,000
Disaster Relief Public Assistance	83.554	50,536
Total Federal Emergency Management Agency		<u>\$ 141,275</u>
Total Primary Government		<u>\$ 2,314,947</u>
<u>COMPONENT UNIT SCHOOL BOARD:</u>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Virginia Department of Agriculture:		
Food distribution	10.555	\$ 243,653
Department of Education:		
National School Breakfast Program	10.553	89,718
National School Lunch Program	10.555	874,379
Forest reserve funds	10.665	2,826
Total Department of Agriculture		<u>\$ 1,210,576</u>

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005 (Continued)**

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>COMPONENT UNIT SCHOOL BOARD: (Continued)</u>		
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Pass through payments:</u>		
Virginia Department of Education:		
Adult Education	84.002	\$ 272,306
Education Consolidation and Improvement Act of 1981:		
Title I:		
Financial Assistance to Meet Special Educational Needs of Disadvantaged Children - Program operated by local education agencies	84.010	988,490
Title III:		
Immigrant Education	84.365	28,013
Title VI:		
Consolidation of Federal Programs for Elementary and Secondary Education Block Grant	84.298	33,257
Title VI-B:		
Assistance to States for Education of Handicapped Children - School Program	84.027	1,856,717
Handicapped Children - Preschool Program	84.173	137,909
Vocational Education:		
Basic grants to states	84.048	140,782
Special Projects:		
Title II - Part A Improving Teacher Quality	84.367	351,689
Drug-free Schools and Communities	84.186	37,588
Literary Challenge	84.318	28,565
Grants for State Assessments and Related Activities	84.369	41,350
Total Department of Education		\$ 3,916,666
Total Component Unit School Board		\$ 5,127,242
Total Expenditures of Federal Awards		\$ 7,442,189

COUNTY OF FREDERICK, VIRGINIA

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federally assisted programs of the County of Frederick, Virginia. The County's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's basic financial statements.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the County's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$ 2,314,947
Northwestern Regional Education Program	<u>137,909</u>
Total primary government	<u>\$ 2,452,856</u>

Component Unit Public Schools:

School Operating Fund	\$ 3,781,583
School Cafeteria Fund	<u>964,097</u>
Total component unit public schools	<u>\$ 4,745,680</u>

Total federal expenditures per basic financial statements	<u>\$ 7,198,536</u>
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Non-cash expenditures - value of donated commodities	<u>\$ 243,653</u>
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Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 7,442,189</u>
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COUNTY OF FREDERICK, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	
<u>CFDA #</u> <u>Name of Federal Program or Cluster</u>	
10.553/10.555 Child Nutrition Cluster	
84.027/84.173 Special Education Cluster (IDEA)	
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

Finding 2005-1

Reportable Condition:

Condition: The Department of Social Services does not have adequate controls in place to detect payment errors on a timely basis. Frequent errors were made during the processing of payroll and related benefits and other payments during the year. Included in these errors were checks written to the County for rent in amounts substantially in excess of amounts actually owed to the County. In addition, there were a significant number of voided and/or cancelled checks that were not timely reported as voided or cancelled to the County Treasurer's office.

Criteria: Internal controls should be in place to provide for adequate administrative or supervisory review over disbursements to ensure that disbursements are reasonable and are proper claims against the County.

COUNTY OF FREDERICK, VIRGINIA

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Findings (Continued)

Finding 2005-1 (Continued)

Reportable Condition: (Continued)

Effect: The failure to provide for adequate administrative or supervisory review over the disbursements function could result in fraudulent payments that would not be detected on a timely basis. Also, since a substantial portion of the Department's revenues are based on the reimbursement of qualifying program and administrative expenditures from the Commonwealth of Virginia Department of Social Services, reportable reimbursable program and administrative costs may not be accurately reported.

Recommendation: Procedures should be implemented to ensure that there is appropriate administrative review over the disbursement function. All voided or cancelled checks should be provided and reported to the Treasurer's office on a timely basis.

Finding 2005-2

Reportable Condition:

Condition: Reconciliations between the County's general ledger report of costs for the Social Services Department and the costs reported to the Commonwealth of Virginia Department of Social Services are not performed.

Criteria: Internal control procedures should provide for the proper reporting of qualified expenditures to grantor agencies.

Effect: The failure to reconcile the Department's general ledger refunds and expenditure amounts to amounts reported to the Virginia Department of Social Services may result in inaccurate reporting of program and/or administrative expenditures for reimbursement. Since a substantial portion of the Department's revenues are based on the reimbursement of qualifying program and administrative expenditures from the Commonwealth of Virginia Department of Social Services, it is imperative that reconciliations be made between the County's general ledger and the amounts reported to the Virginia Department of Social Services.

Recommendation: The County's general ledger report of expenditures for the Department of Social Services should be reconciled to the amounts reported to the Virginia Department of Social Services. This reconciliation should be completed on a monthly basis, documented in written form, and reviewed and/or approved by a supervisor or other administrative person.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

COUNTY OF FREDERICK, VIRGINIA

Schedule of Management Responses to Financial Statement Findings Year Ended June 30, 2005

Finding 2005-01

Managements Response:

To address the payroll error issue, the County's Finance Department worked with the Department of Social Services to investigate and resolve payroll and related benefit errors. Adjustments were made to correct these errors. Adjustments were made in December 2005 to assure that W-2's and payroll filing reports were correct for the calendar year 2005.

To correct the timely reporting of voided checks to the Treasurer, new policies and procedures were put in place. Once a check is voided in Thomas Brothers (the Social Services financial system) the void is communicated immediately to the Treasurer through submission of a standard void check notification that is accompanied by a copy of the check. To test this new procedure, the county's independent internal auditors, Brown, Edwards requested a listing of all voided checks from July 1, 2005 – November 30, 2005. They reviewed it for appropriate notification was made within a reasonable (approximately 1 week) time period. Starting in December 2005, an outstanding check report will be generated quarterly to review outstanding checks and have them appropriately voided if necessary.

Concerning accuracy of disbursements, the following new procedures are in place for administrative payments:

1. As invoices are received, the Administrative Manager reviews them and signs off on them.
2. Signed invoices are given to the Office Assistant for entry into Thomas Brothers, the Department of Social Services financial system.
3. Before checks are processed, the Administrative Manager runs and reviews a Pre-Check Register. The review consists of checking each invoice against what is entered into Thomas Brothers. If corrections are needed, the invoices and Pre-Check Register are returned to the Office Assistant.
4. After corrections are made, the Administrative Manager runs another Pre-Check Register and again checks the invoice against the data in Thomas Brothers.
5. After the checks are received from the Treasurer's office, they are given to the Administrative Manager who does a final review of the checks and the invoice.
6. Checks are then given to the Office Assistant for mailing.

Concerning accuracy of disbursements, the following new procedures are in place for service payments:

1. Invoices are returned to the Aide I.
2. The Aide verifies that the vendor has not billed for more units than pre-authorized.
3. If correct, the Aide I circles the amount to pay and initials it.
4. The approved invoice is given to the Office Assistant.
5. Office Assistant enters the invoice for payment in Thomas Brothers.
6. Pre-Check registers are run and given to the case worker.
7. The case worker verifies that the payments are correct and signs off on the pre-check register.
8. The case worker gives the signed pre-check register to the unit Supervisor.
9. The unit Supervisor verifies that the payment information is correct and signs off on the pre-check register.
10. All approved pre-check registers are returned to the Administrative Manager prior to the check run.

Brown, Edwards, the county's independent internal auditors, will review semi-annually to test that the procedures for administrative and services payments are being followed.

COUNTY OF FREDERICK, VIRGINIA

Schedule of Management Responses to Financial Statement Findings (Continued) Year Ended June 30, 2005

Finding 2005-2

Managements Response:

Due to time constraints, the Department of Social Services was not able to reconcile the County's General Ledger report of expenditures to the amounts reported to the Virginia Department of Social Services. However, they were able to reconcile the year in total.

The County contracted with independent internal auditors, Brown, Edwards to perform and review the reconciliation for reasonableness. The following are the procedures that Brown, Edwards performed:

1. Agree the total Bright (the County's financial system) expenditures for the year along with the itemized Bright adjustments to the County's detailed general ledger reports to verify that the numbers used were accurately reflected from the County's general ledger.
2. Agree LASER expenditures to LASER reports submitted to state in total
3. Agreed figures noted as reconciling items to other reports such as payroll reports for December 2005 payroll and adjustments.

As recommended, the County will start reconciling these reports on a monthly basis, documented in written form and reviewed by a supervisor. In addition, the County will continue to work with the independent auditors to review reconciliations between the County's general ledger and the amounts reported to the Virginia Department of Social Services. The County will also assist in finding a replacement for the employee that reconciles these reports.

COUNTY OF FREDERICK, VIRGINIA

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005**

There were no items reported.

ADDITIONAL COMPLIANCE REQUIREMENTS

The following reports on internal control over financial reporting and compliance applicable to each major program, and internal control over compliance in accordance with OMB Circular A-133 are required by the Single Audit Act of 1984 and Commonwealth of Virginia Office of the Auditor of Public Accounts.

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Board of Supervisors County of Frederick, Virginia

We have audited the 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 the County of Frederick, Virginia, as of and for the year ended June 30, 2005, which collectively comprise the County of Frederick, Virginia's basic financial statements and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Frederick, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County of Frederick, Virginia's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a reportable condition and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Frederick, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These items are reported in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

We noted other matters that we reported to management of the County of Frederick, Virginia, in a separate letter dated October 7, 2005.

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

Robinson, James, Co. Associate

Charlottesville, Virginia
October 7, 2005

**Report on Compliance with Requirements Applicable To
Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

**To the Honorable Members of the Board of Supervisors
County of Frederick, Virginia**

Compliance

We have audited the compliance of the County of Frederick, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The County of Frederick, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of Frederick, Virginia's management. Our responsibility is to express an opinion on the County of Frederick, Virginia's compliance based on our audit.

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

In our opinion, the County of Frederick, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the County of Frederick, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County of Frederick, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Robinson, Jarner, Cox Associates

Charlottesville, Virginia

October 7, 2005