



**COUNTY OF  
FREDERICK**  
VIRGINIA

**Popular Annual  
Financial Report**

Fiscal Year Ended June 30, 2006

*Cover photograph courtesy of Frederick County Parks & Recreation  
Clearbrook Run/Clearbrook Park Lake  
Clearbrook, VA*



## COUNTY of FREDERICK

Finance Department  
**Cheryl B. Shiffler**  
Director

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To the residents of Frederick County:

I am pleased to provide you with Frederick County, Virginia's Popular Annual Financial Report (PAFR) for 2006.

The purpose of this report is to summarize and simplify the presentation of information contained in the Frederick County audited 2006 Comprehensive Annual Financial Report (CAFR). The County's financial statements are prepared using the financial reporting model prescribed by the Governmental Accounting Standards Board (GASB) and are independently audited in accordance with auditing standards generally accepted in the United States of America by Robinson, Farmer, Cox Associates of Charlottesville, VA. We encourage you to read the CAFR, which is comprised of detailed financial statements, notes, schedules and reports. The CAFR, in its entirety, is available at the Frederick County Administrative Offices, 107 North Kent Street, Winchester, VA 22601 and on the County website at [www.co.frederick.va.us](http://www.co.frederick.va.us) under "Finance Publications".

The PAFR is intended to be a supplement to the CAFR, not a replacement. Since the PAFR is presented in a simple and easy to understand format, it does not conform to accounting principles generally accepted in the United States of America (GAAP). The PAFR is not audited and excludes many material disclosures, financial statements, schedules and notes to the financial statements found in the County's CAFR.

The PAFR is presented to better inform the public about their County's financial condition, without excessive detail or the use of technical accounting terms. This report represents the ongoing commitment of County officials to keep Frederick County citizens informed about County finances, and to be accountable for the receipt and expenditure of public funds.

I hope that you find this report interesting and informative.

Sincerely,

Cheryl B. Shiffler  
Finance Director



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# COUNTY OF FREDERICK, VIRGINIA

## DIRECTORY OF PRINCIPAL OFFICIALS FISCAL YEAR ENDED JUNE 30, 2006

### BOARD OF SUPERVISORS

---

	Richard C. Shickle, Chairman Bill M. Ewing, Vice-Chairman	
Charles S. DeHaven, Jr. Gary W. Dove	Gene E. Fisher	Philip A. Lemieux Barbara E. Van Osten

### 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

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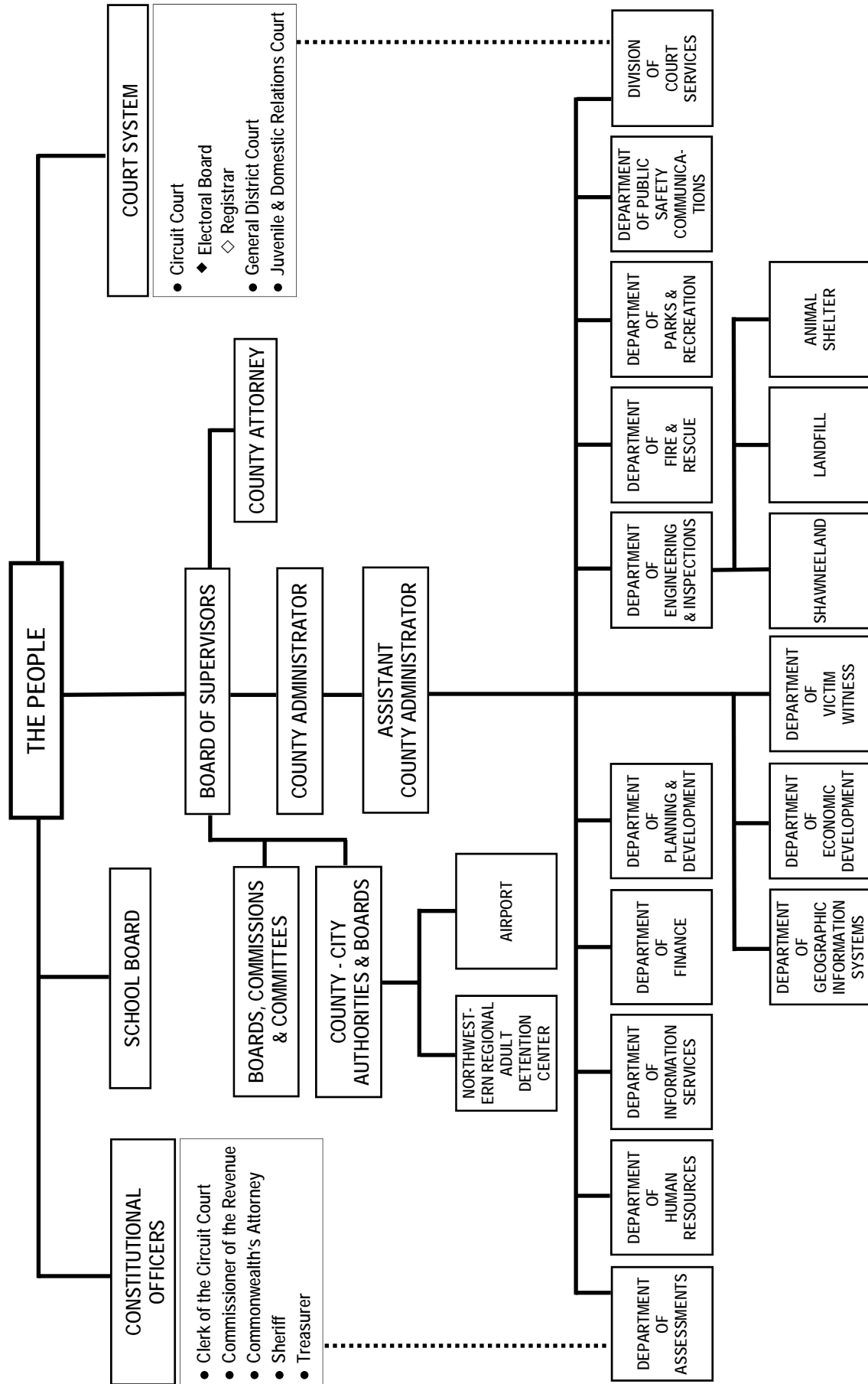
	Richard Crane, Chairman Linda Smith, Vice-Chairman	
Lorene Carter Kathleen Pitcock	Donald Nesselrodt	Philip Roby Jane Wisinski

### 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
Paula Nofsinger .....	Human Resources 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 Rowles .....	Frederick County Extension Agent
Richard S. Miller .....	Central Registrar
William C. Dean, Ph.D.....	Superintendent of Schools

# FREDERICK COUNTY ORGANIZATIONAL CHART



## 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.

The Financial Statement Information section of the Popular Annual Financial Report (PAFR) includes only those funds reported in the CAFR as stated above.



## ECONOMIC CONDITIONS AND OUTLOOK

**F**rederick 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 2005, the population of the County was estimated at 69,123 based on the U.S. Census Bureau. 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.

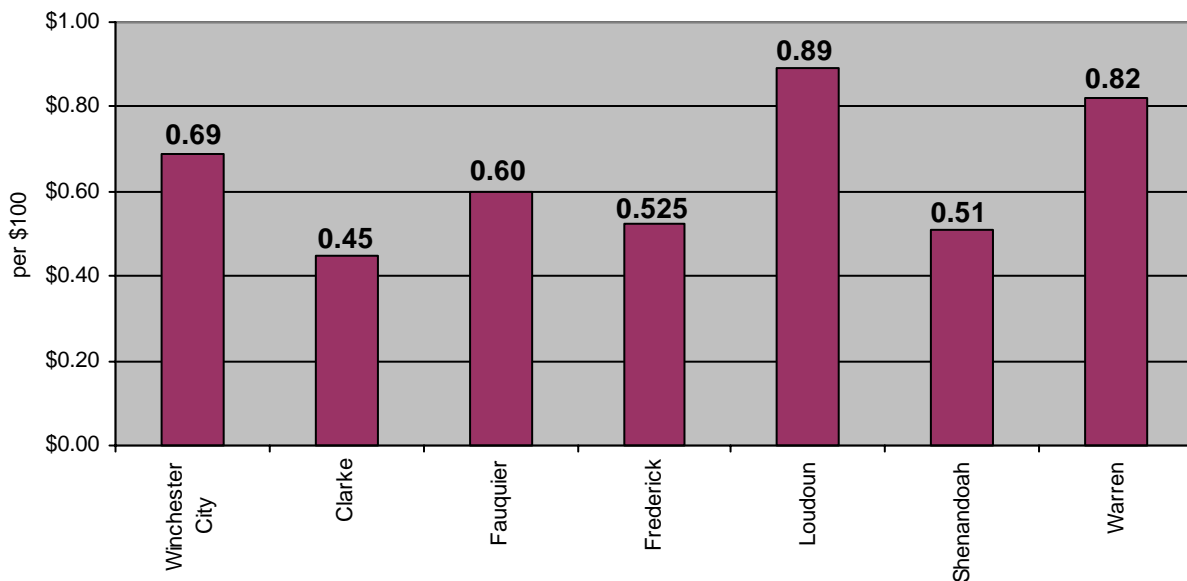
In the southeastern portion of the county, there are two incorporated towns – Stephens City and Middletown. The per capita income in Winchester-Frederick County was \$30,686 in 2004, the last year for which the information is available, according to the U.S. Census Bureau.

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.

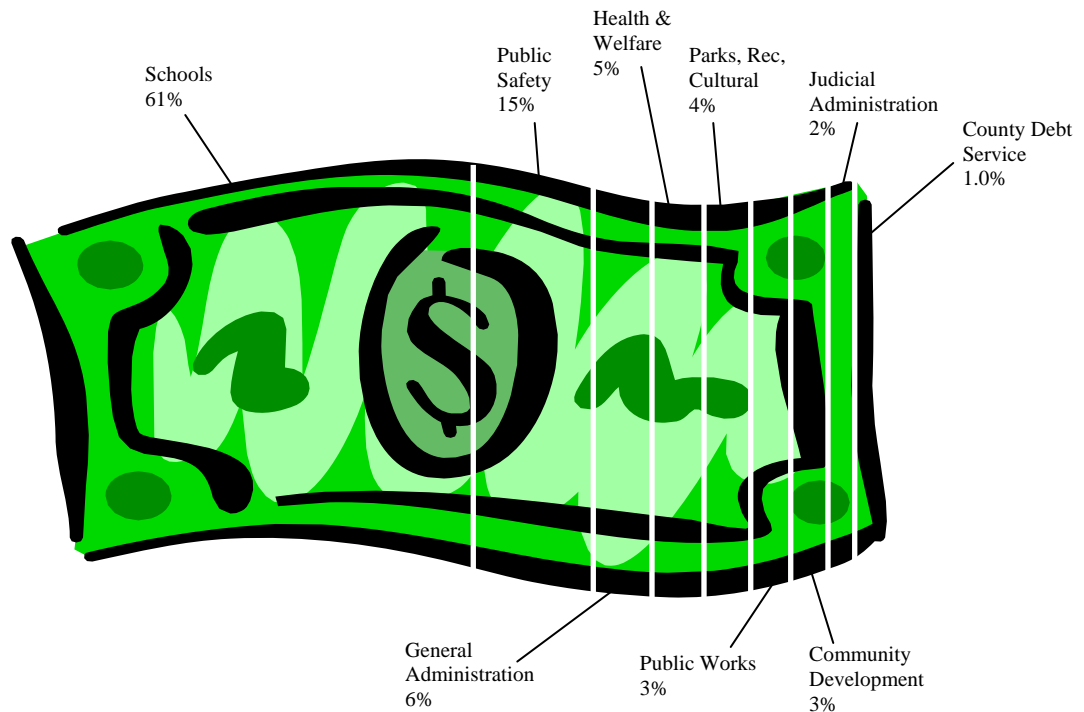
### 2006 Real Estate Tax Comparison



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.

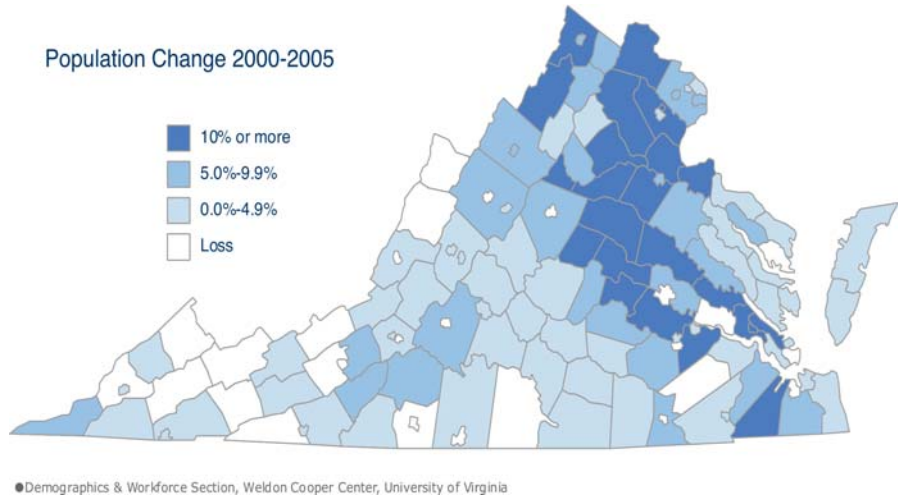
The illustration below shows how all local tax dollars are distributed to county functions for FY 2006.



**Population**

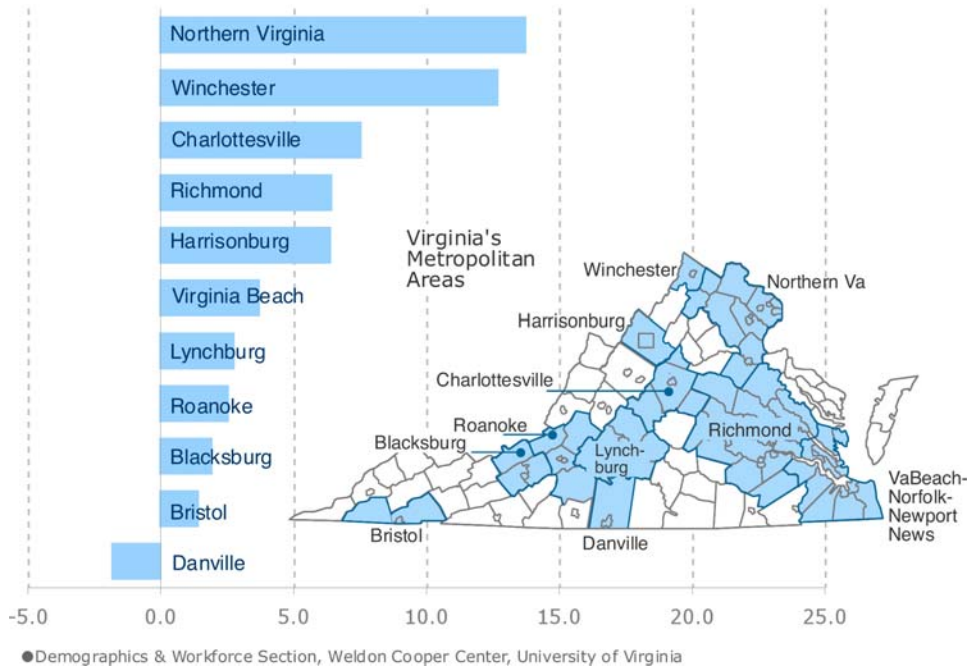
In 2005 the population estimate for Frederick County was 69,123, according to the U.S. Census Bureau, an increase of 16% since 2000. According to the Weldon Cooper Center, the Winchester metropolitan area has the one of the highest population increases, 12.7%, in the state of Virginia, second only to Northern Virginia.

According to the State Data Center, by 2010 it is projected that the population of Frederick County will be approximately 72,300, and 84,300 by 2020.



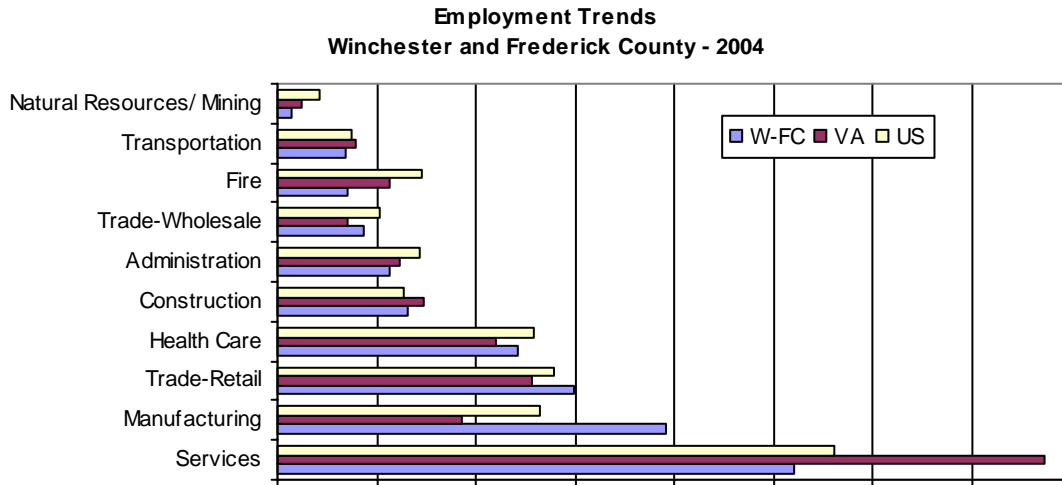
Frederick County’s low tax rate and proximately to the Washington, D.C. metropolitan area, continues to lure people who are willing to commute in trade for a high quality of life at a lower cost.

Percent Change in Population for Virginia's Metro Areas, 2000-2005



## Employment Trends

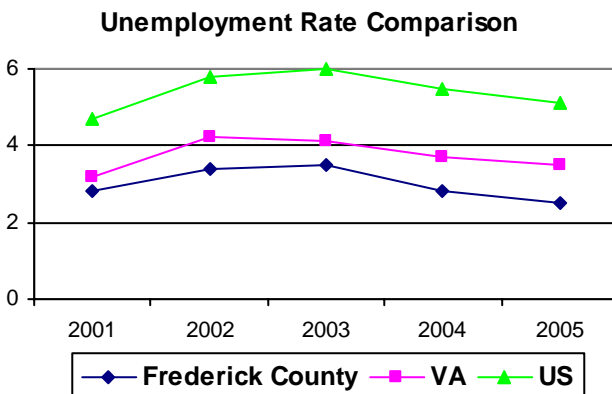
Annual statistics showed that Winchester and Frederick County had a total of 48,440 jobs in 2004 according to the Winchester-Frederick County Economic Development Commission. The top three employment sectors in Winchester and Frederick County for 2004 were Services (26.1%), Manufacturing (19.6%) and Retail Trade



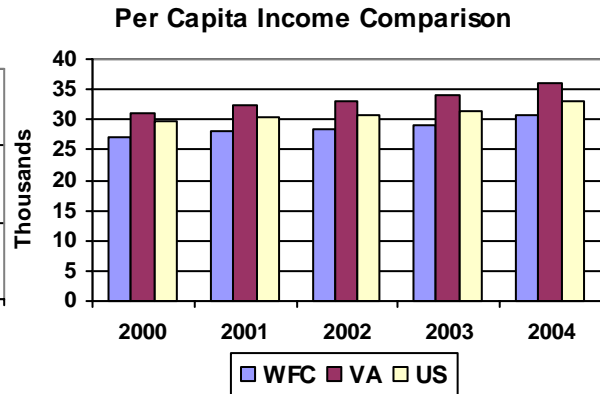
Source: Winchester-Frederick County Economic Development Commission

(14.9%). Virginia's top sectors were Services (38.7%), Retail Trade (12.8%) and Health Care (11.0%). In comparison, the top three sectors for the entire United States were Services (28.1%), Retail Trade (13.9%), and Manufacturing (13.2).

Employment and income are the two broad economic measures that give the best picture of major developments. According to the Bureau of Labor Statistics, the annual unemployment rate in Frederick County for 2005 was 2.5%, a decrease of 0.3% from the previous year. For 2005, Frederick County's unemployment rate was 1%



Source: Bureau of Labor Statistics

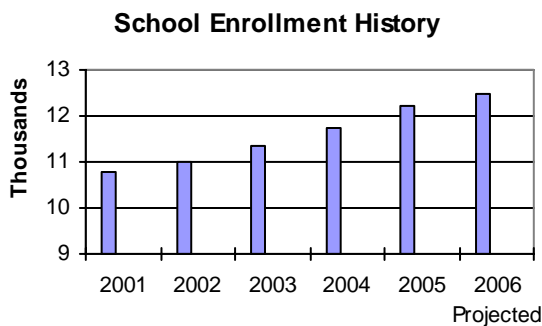


Source: Bureau of Economic Analysis

lower than the State of Virginia's annual rate and 2.6% lower than the national annual average. Winchester-Frederick County's per capita personal income in 2004 was \$30,686 according to the U.S. Bureau of Economic Analysis. This is 17.8% less than the state of Virginia's per capita income of \$36,160 and 7.7% less than the national per capita income of \$33,050. Per capita income is defined as personal income (income that is received by all persons from all sources) of the residents of a given area divided by the resident population of the same area.

### Public School System

The Frederick County Public School System is composed of eleven 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 1997, student enrollment was 10,185. In the fall of 2005, student enrollment was 12,211, according to the Virginia Department of Education, which represents an increase of 2,026 students, or 20%, since 1997. Program capabilities for Frederick County Public Schools were projected at 12,800 on June 30, 2006.

### Demographic and Economic Statistics Summary Last Ten Fiscal Years

Calendar Year	County Population (1)	Personal Income (1)(b)	Per Capita Personal Income (1)(b)	Median Age (2)	School Enrollment (3)	Unemployment Rate (4)
1997	55,674	1,786,703,000	\$ 22,647	N/A	10,185	3.30%
1998	57,010	1,968,806,000	24,500	N/A	10,376	2.50%
1999	58,011	2,082,102,000	25,537	N/A	10,530	2.00%
2000	59,594	2,267,781,000	27,238	N/A	10,634	2.00%
2001	61,216	2,399,633,000	28,134	N/A	10,736	2.80%
2002	62,937	2,476,247,000	28,370	N/A	10,969	3.40%
2003	64,820	2,588,990,000	29,039	N/A	11,357	3.50%
2004	66,696	2,809,577,000	30,686	N/A	11,745	2.80%
2005	69,123	N/A	N/A	37	12,211	2.50%
2006 (a)	71,000	N/A	N/A	N/A	12,489	2.80%

Notes:

- (a) 2006 figures are estimated
- (b) Includes City of Winchester

Sources:

- (1) U.S. Census Bureau
- (2) University of Virginia Weldon Cooper Center for Public Service
- (3) Virginia Department of Education Fall Membership Report as of September 30th of the respective year
- (4) U.S. Department of Labor - Bureau of Labor Statistics

N/A = Not available

## 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 5,150 students for the fall of 2006.

Shenandoah University offers four-year undergraduate and graduate programs with a school enrollment of 3,000 students. The university offers more than 80 programs of study at the undergraduate, graduate, doctorate and professional levels at the main campus in Winchester, VA, the Health Professions Building on the campus of the Winchester Medical Center and the Northern Virginia campus in Leesburg, VA. 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 According to the Metropolitan Real Estate Information System, the average selling price of a home in Frederick County in 2005 was \$308,771. By comparison, the northern Virginia region's average home price was over \$500,000.

Crime Frederick County traditionally experiences less crime than the total for the United States. The latest FBI report (2004) lists the crime rate per 100,000 people for the United States at 475.1, while the local rate was 184.6.

Medical Care Winchester Medical Center is a 411-bed, nonprofit, regional referral hospital offering a full range of inpatient and outpatient diagnostic, medical, surgical and rehabilitative services to residents of the northern Shenandoah Valley. The nearly 200 board certified physicians on the attending staff represent 35 medical specialties from family practice, gerontology and rheumatology to neonatal intensive care, heart surgery and retina surgery. 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.

Winchester Medical Center is a subsidiary of Valley Health System, a regional "family" of healthcare providers. Other system members are Surgi-Center of

Winchester, Winchester Rehabilitation Center, two Urgent Care Centers, Warren Memorial Hospital in Front Royal, VA, Valley Home Care, Valley Medical Transport and Valley Pharmacy.

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 31,864 active registered library card holders in Frederick County. During the 2006 fiscal year, Frederick County residents checked out 393,312 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 STATEMENT INFORMATION

This section contains financial statement information for the County of Frederick, VA for the fiscal year ending June 30, 2006.

Frederick County government reports on its finances on the basis of a fiscal year which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began July 1, 2005 and ended on June 30, 2006. This is referred to as fiscal year 2006, or FY 2006.

The County's financial statements 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. 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 fund financial statements focus on the individual funds of the County government, reporting the operations in more detail than the government-wide statements. These are traditional governmental financial statements that spotlight the County's most significant funds, instead of the County as a whole.

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.

### Financial Analysis

**Government-Wide Statements:** 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 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.

### Statement of Net Assets

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.

As of the end of FY 2006, Frederick County had Primary Government, which includes Governmental and Business-Type, assets (i.e. cash, investments, property and monies owed to the County) of \$264.1 million and Component Units assets of \$93.8 million. These assets were partially offset by Primary Government liabilities (i.e. monies owed by the County to others) of \$169.2 million and Component Units liabilities of \$23.0 million. This leaves the County government with Primary Government net assets, monies left after liabilities are subtracted from assets, of \$94.9 million and Component Units net assets of \$70.8 million. The increase in Primary Government net assets can be attributed to an increase in governmental activities in the amount of \$14,046,281 and an increase in business-type activities in the amount of \$2,727,465. See below for a Summary Statement of Net Assets.

**Summary Statement of Net Assets**  
**June 30, 2006**

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 89,425,581	\$ 54,248,047	\$ 30,795,751	\$ 29,011,591	\$ 120,221,332	\$ 83,259,638	\$ 31,642,549	\$ 30,293,389
Capital Assets (net)	130,577,582	123,509,614	13,271,904	10,988,036	143,849,486	134,497,650	62,131,056	40,636,112
Total Assets	\$ 220,003,163	\$ 177,757,661	\$ 44,067,655	\$ 39,999,627	\$ 264,070,818	\$ 217,757,288	\$ 93,773,605	\$ 70,929,501
Long-term Liabilities	\$ 150,068,660	\$ 125,129,427	\$ 8,801,920	\$ 8,009,956	\$ 158,870,580	\$ 133,139,383	\$ 1,280,046	\$ 1,156,742
Other Liabilities	9,709,965	6,449,977	638,409	89,810	10,348,374	6,539,787.00	21,744,476	23,454,060
Total Liabilities	\$ 159,778,625	\$ 131,579,404	\$ 9,440,329	\$ 8,099,766	\$ 169,218,954	\$ 139,679,170	\$ 23,024,522	\$ 24,610,802
Net Assets:								
Invested in Capital Assets, net of related debt	\$ 13,474,232	\$ 13,064,492	\$ 13,271,904	\$ 10,988,036	\$ 26,746,136	\$ 24,052,528	\$ 62,131,056	\$ 40,636,112
Restricted for Capital Projects	-	-	-	-	-	-	2,747,565	2,747,565
Unrestricted	46,750,306	33,113,765	21,355,422	20,911,825	68,105,728	54,025,590	5,870,462	2,935,022
Total Net Assets	\$ 60,224,538	\$ 46,178,257	\$ 34,627,326	\$ 31,899,861	\$ 94,851,864	\$ 78,078,118	\$ 70,749,083	\$ 46,318,699

## Statement of Activities

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.

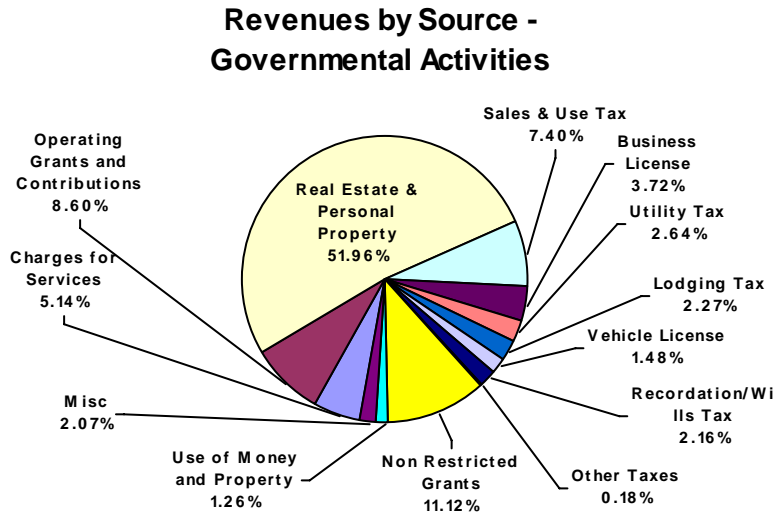
Frederick County recognized \$138.9 million in total Primary Government revenues which was used to pay for expenses in the amount of \$122.2 million. The County's Component Units reported \$130.1 million of total revenues which was used to pay for expenses in the amount of \$105.7 million. See the Changes in Net Assets below.

**County of Frederick's Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006**

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>								
<b>Program Revenues</b>								
Charges for Services	\$ 6,744,045	\$ 5,978,785	\$ 6,729,873	\$ 6,467,692	\$ 13,473,918	\$ 12,446,477	\$ 3,011,304	\$ 2,769,804
Operating Grants & Contributions	11,277,934	9,970,097	-	-	11,277,934	9,970,097	56,521,470	52,068,899
<b>General Revenues</b>								
Real Estate & Personal Property	68,137,163	53,911,011	-	-	68,137,163	53,911,011	-	-
Other Taxes	26,026,607	23,453,552	-	-	26,026,607	23,453,552	-	-
Payments from Primary Government	-	-	-	-	-	-	68,495,702	56,295,440
Non-restricted Grants	14,585,024	12,068,887	-	-	14,585,024	12,068,887	-	-
Use of Money and Property	1,650,232	664,258	1,051,814	487,814	2,702,046	1,152,072	1,045,819	679,725
Miscellaneous	2,720,753	1,241,876	22,794	80,969	2,743,547	1,322,845	1,030,652	69,865
<b>Total Revenues</b>	<b>\$ 131,141,758</b>	<b>\$ 107,288,466</b>	<b>\$ 7,804,481</b>	<b>\$ 7,036,475</b>	<b>\$ 138,946,239</b>	<b>\$ 114,324,941</b>	<b>\$ 130,104,947</b>	<b>\$ 111,883,733</b>
<b>Expenses:</b>								
General Government	\$ 5,114,673	\$ 6,206,202	\$ -	\$ -	\$ 5,114,673	\$ 6,206,202	\$ -	\$ -
Judicial Administration	2,669,148	2,505,547	-	-	2,669,148	2,505,547	-	-
Public Safety	18,266,892	15,733,331	-	-	18,266,892	15,733,331	-	-
Public Works	1,465,731	2,139,170	-	-	1,465,731	2,139,170	-	-
Health / Welfare	7,693,815	6,833,696	-	-	7,693,815	6,833,696	-	-
Education	68,968,848	58,152,208	-	-	68,968,848	58,152,208	105,666,593	104,586,323
Parks, Recreation & Culture	4,832,855	4,403,978	-	-	4,832,855	4,403,978	-	-
Community Development	2,474,162	1,787,426	-	-	2,474,162	1,787,426	-	-
Interest on Long-term Debt	5,609,353	5,504,706	-	-	5,609,353	5,504,706	-	-
Landfill Operations	-	-	5,077,016	4,956,206	5,077,016	4,956,206	-	-
Industrial Development Authority	-	-	-	-	-	-	7,970	498,437
<b>Total Expenses</b>	<b>\$ 117,095,477</b>	<b>\$ 103,266,264</b>	<b>\$ 5,077,016</b>	<b>\$ 4,956,206</b>	<b>\$ 122,172,493</b>	<b>\$ 108,222,470</b>	<b>\$ 105,674,563</b>	<b>\$ 105,084,760</b>
<b>Change in Net Assets</b>	<b>\$ 14,046,281</b>	<b>\$ 4,022,202</b>	<b>\$ 2,727,465</b>	<b>\$ 2,080,269</b>	<b>\$ 16,773,746</b>	<b>\$ 6,102,471</b>	<b>\$ 24,430,384</b>	<b>\$ 6,798,973</b>
Net Assets, July 1, 2005, as restated	46,178,257	42,156,055	31,899,861	29,819,592	78,078,118	71,975,647	46,318,699	39,519,726
<b>Net Assets, June 30, 2006</b>	<b>\$ 60,224,538</b>	<b>\$ 46,178,257</b>	<b>\$ 34,627,326</b>	<b>\$ 31,899,861</b>	<b>\$ 94,851,864</b>	<b>\$ 78,078,118</b>	<b>\$ 70,749,083</b>	<b>\$ 46,318,699</b>

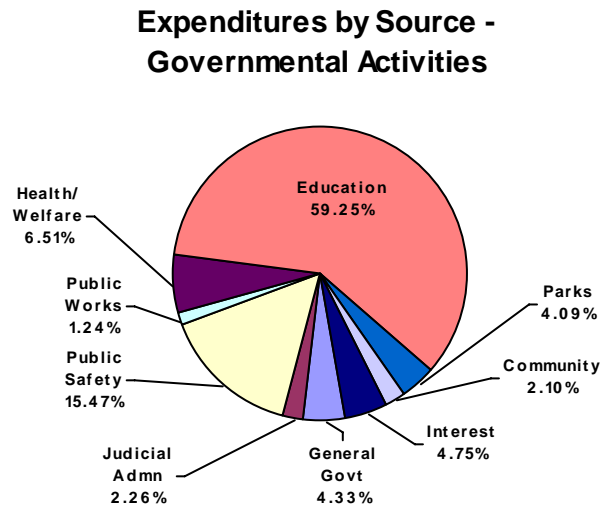
**Governmental Activities Revenues**

The following is a graphical representation of the Statement of Activities revenues for governmental activities.



**Governmental Activities Expenses**

The following is a graphical representation of the Statement of Activities expenses for governmental activities.



**Fund Statements:** 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. The fund statements are divided into three categories: governmental, proprietary and fiduciary.

- **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. These 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.
- **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.
- **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. These funds include, but are not limited to, the Northwestern Regional Jail Authority and the Winchester Regional Airport.

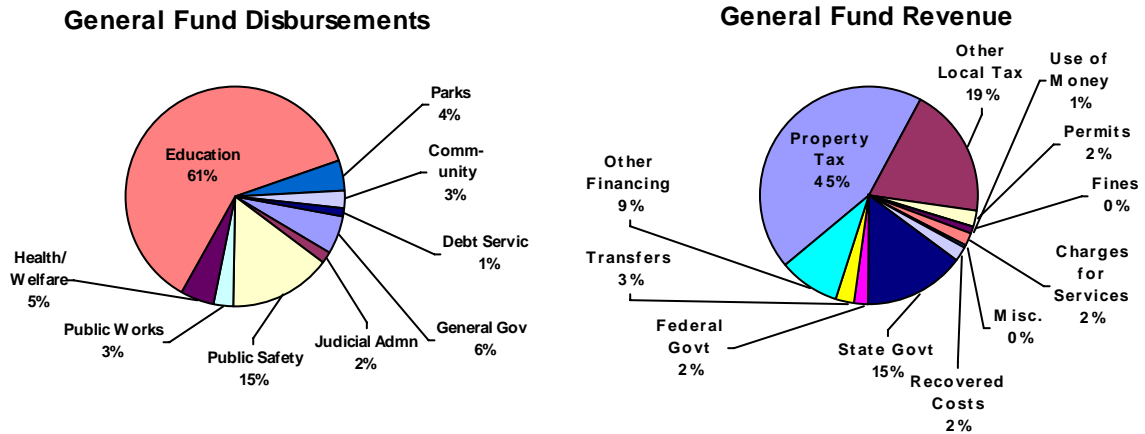
#### Governmental Funds

Reported combined ending fund balance is \$63,495,554, an increase of \$27,964,436 in comparison with the prior year. Approximately 64% (\$38,740,704) of the combined ending fund balance is unreserved, which is available for spending at the government's discretion. The FY07 budget appropriates over \$5.9 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 (\$2,381,546), (3) debt service (\$55,306), and (4) historical markers and prepaid items (\$5,332).

The County's major funds are the General, School Debt Service, and Capital Projects Funds.

The **General Fund** is the chief operating fund of the County of Frederick and accounts for all revenues and expenses applicable to the general operations of the County which are not accounted for in other funds. During FY 2006 the General Fund received \$135.7 million in resources, including transfers and financing sources. The

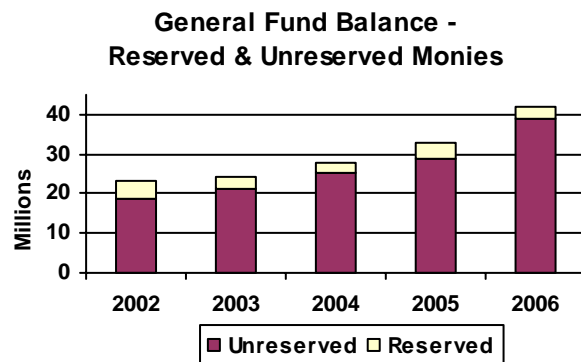
chart below illustrates the various revenue sources. Property and other local taxes accounted for 64% of the total resources for the General Fund.



General Fund disbursements, including transfers, for FY 2006 totaled \$126.5 million. Expenditures totaled \$111.5 million and transfers out were \$15.0 million. The chart above illustrates various disbursements. Education accounted for 61% of General Fund spending, which includes \$473,146 for Lord Fairfax Community College and \$67,061,788 for the public school system. Expenditures (not including transfers) increased by \$7,263,652 over the prior year.

General Fund revenues and net transfers exceeded expenditures by \$9.3 million, which means that the General Fund had an operating gain for the year (general fund balance increased).

As previously stated, the fund balance of the County’s General Fund increased by \$9.3 million over the previous fiscal year. General Fund balance at the end of FY 2006 was \$42.2 million of which \$3.4 million is reserved. Reserved balances are monies committed for a specific use such as capital projects, employee benefits and outstanding encumbrances. An encumbrance is the recording of purchase orders, contracts and other monetary commitments in order to reserve monies. The remaining \$38.8 million remains unreserved/undesignated. The County has a policy that states that undesignated fund balances at the close of each fiscal year should be equal to no less than 10% of the General Operating Fund revenues. At the end of FY 2006 the undesignated fund balance was 32% of the General Operating Fund revenues. \$5.9 million of that balance was used to fund the FY 2007 budget.



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. School Debt Service Fund had FY 2006 revenues in the amount of \$2,038,187 from the Commonwealth of Virginia and a transfer from the General Fund of \$11,438,765. Expenses paid for principal and interest payments totaled to \$13,635,646. This fund had an FY 2006 ending fund balance of \$55,306, all of which is designated.

The **Capital Projects Funds** account for financial resources to be used for the acquisition or construction of major capital facilities. Capital Projects Funds include the Detox Center Construction Fund, the Administration Building Renovation Fund and the Capital Projects Fund which includes construction of the animal shelter and the public safety building. The Capital Projects Fund ended FY 2006 with a fund balance of \$16,248,867. There were zero revenues in this fund, except for \$20,986,752 in issued debt, while there were expenditures in the amount of \$4,737,885.

#### 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 \$2,727,465, while the Internal Service Funds also recognized an increase in net assets in the amount of \$825,602. The Landfill Fund purchased capital assets in the amount of \$3,665,925 and posted operating income of \$1,675,651. The Internal Service Funds had an operating income of \$746,461.

#### Component Unit

**School Board** has a total governmental fund balance of \$12.4 million of which all is reserved/designated. \$10.3 million of this amount is reserved for School Capital Projects. The School Operating Fund does not carry a fund balance. This is a decrease of fund balance in the amount of \$2,162,639 when compared to the FY 2005 fund balance. The total government funds are comprised of the School Operating Fund, School Cafeteria Fund, Consolidated Maintenance Fund, School Textbook Fund, School Capital Projects Fund and the School Capital Fund.

## Debt Administration

The total outstanding debt on the books of the County of Frederick, VA as of the end of FY 2006 was \$144.5 million. The chart below shows the ratio of total primary government debt per person for the last ten years.

Fiscal Years	Governmental Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Literary Fund Loans	Other Notes/ Bonds	Capital Leases			
1997	\$ 35,147,424	\$ 19,043,605	\$ 21,811,932	\$ 365,830	\$ 76,368,791	4.27%	\$ 1,372
1998	42,911,124	12,154,784	22,757,304	974,567	78,797,779	4.00%	1,382
1999	37,108,151	17,910,426	29,140,599	689,664	84,848,840	4.08%	1,463
2000	42,953,251	16,777,247	9,830,399	321,813	69,882,710	3.08%	1,173
2001	58,442,647	15,644,068	8,911,047	91,578	83,089,340	3.46%	1,357
2002	69,836,675	14,560,889	9,379,431	56,368	93,833,363	3.79%	1,491
2003	84,940,591	13,477,710	8,253,769	146,987	106,819,057	4.13%	1,648
2004	94,145,819	12,394,531	7,077,143	114,846	113,732,339	4.05%	1,705
2005	102,465,321	11,311,352	6,226,072	81,251	120,083,996	N/A	1,737
2006	107,415,333	10,228,173	26,770,000	46,136	144,459,642	N/A	2,035

(1) See Demographic and Economic Statistics Summary, page 8.

## **OTHER INFORMATION**

The following section discusses other information which may be of interest to the reader. This information is not included in the audited financial statements.

### **Government Finance Officers Association**

The Government Finance Officers Association of the United States and Canada (GFOA) recognizes agencies for conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal and understandability.

The Popular Annual Financial Report for the year ending June 30, 2006 will be the first prepared by Frederick County, VA. The County will submit this report to GFOA to be considered for this prestigious national award.

### **Budget Initiatives**

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

#### General Fund

- Twenty-two new positions to be added to the departments of Treasurer, Information Services, Sheriff, Parks and Recreation, Public Safety Communications, Animal Shelter and Inspections.
- Twenty-five new vehicles for various departments.
- Purchase of an inserter for Treasurer's office.
- Transition to a permanent vehicle decal.
- Upgrade of county administration phone system.
- Funds budgeted for local transportation needs.
- Wireless equipment to connect all County fire stations.
- Replacement of lake retaining wall at Sherando Park.
- Increased funding to Handley Library, Health Department, NW Works, Shenandoah Area Agency on Aging and Lord Fairfax Community College.



- 5% cost of living adjustment included for County employees.
- Continue to expand e-government services to taxpayer.

#### School Board

- Sixty-nine new positions including twenty-nine for the opening of Evandale Elementary School, special education needs, enrollment growth, compliance needs and middle school core team planning for grade seven.
- An average of 6.45% increase for enhancing teacher, administration and support salary scales to remain competitive with neighboring school districts.
- \$212,583 for Frederick County's share in the opening of a regional Governor's School for high school students.
- Begin construction on the replacement Gainesboro Elementary School.

#### **Financial Management Policies and Programmatic Goals**

The County of Frederick is responsible to meet and constantly improve on the service needs of its citizens through sound fiscal management. The Board of Supervisors, School Board and County staff have committed themselves to this responsibility through the establishment of financial management policies and programmatic goals which demonstrate sound resource management and a high level of public accountability.

#### **Direction for the Future**

To adhere to the financial policies and guidelines Frederick County has developed a direction for the future to meet the growing service needs of our citizens.

Frederick County maintains a Comprehensive Policy Plan which is reviewed and updated on an annual basis. The primary goal of the plan is to protect and improve the living environment within Frederick County. The plan contains strategies and implementation methods designed to facilitate the attainment of stated goals and policies. It establishes a means of responding to changes as they occur. The plan describes the policies governing the county and attempts to establish a direction and reasonable expectations for development. Most of the policies in the plan are focused on the next five to ten years thus assisting the Board of Supervisors, School Board and County staff with their budget direction.

Frederick County also maintains a Capital Improvement Plan (CIP) updated on an annual basis. The CIP consists of a schedule for major capital expenditures for the county for the ensuing five years. Projects are removed from the plan as they are completed or as priorities change. The plan is intended to assist the Board of Supervisors, School Board and County staff in preparation of the county budget. In addition to determining priorities for capital expenditures the county must also insure that projects contained within the CIP conform to the Comprehensive Policy Plan.

The following goals and policies are implemented under the County's direction to provide the framework for the County's sound financial position and high public accountability.

### **Programmatic Goals**

The programmatic goals provide multi year direction guiding the County toward our mission. While they act as targets toward which the county aims its resources they may not be entirely attainable but are of such importance that they need to be mentioned. We aim to meet our programmatic goals by addressing them through the completion of policy goals.

The County of Frederick will maintain a high quality of service provision ever increasing with the rate of growth through support of the following goals:

- Recognition that service demands are increasing thus new methods must constantly be identified to meet this demand. The county can meet this demand through performing constant evaluation of existing services, departments and systems to determine if a reorganization can meet the changing and increasing needs in addition to new revenues.
- Recognition that growth does not mean a deterioration of existing programs and policies as they were developed with growth in mind.
- Strive to meet current service needs financially thus not pushing them to the future and addressing them at a crisis level. While maintaining a flexible pose the county will embrace existing economic conditions such as low unemployment, minimal increase in state funding and continued increases in educational needs while preparing for dramatic changes.
- Strive to achieve and maintain within the real estate tax base a 25% Commercial and Industrial base which will match the cost of residential growth.
- Promote a harmonious balance between agricultural practices and residential and commercial development.

With the direction and policy for the future identified we move to policy goals to foster our programmatic goals and define the framework of the County's overall fiscal management.

### **Policy Goals**

The policy goals provide the framework for the County's overall fiscal management. While aiding in our decision making process these goals represent guidelines for current budget evaluation, growth management, prioritization and the setting of our future direction.

- To maintain current and long term fiscal stability while meeting the demands of growth on all county services.
- Insulate from financial crisis.
- Reduce or eliminate short term borrowing and maintain the county's bond rating.
- Establish guidelines for debt that do not jeopardize the county's financial position and ensure the continued fiscal stability of county operations.
- Maintain a low ratio of net general obligation debt to assessed value.
- To encourage conservative yet responsible management of resources to meet current and future capital and operational plans.

### **A. General Budget Policies**

- The County will minimize appropriating budgeted funds that are not balanced with budgeted revenues to avoid future years negative budget consequences.
- The County will maintain a budgetary control system to help it adhere to the budget for all county departments.
- Structure the budget so that the Board and the general public can establish a relationship between expenditures revenues and goals.
- The Finance Department will prepare regular reports comparing actual revenues and expenditures to budgeted amounts. The reports are distributed monthly to the departments for review. The Board of Supervisors also receives comparative monthly reports prepared by the Finance Department on the status of several monitored funds.

- A positive cash balance and safe undesignated fund balance will always be maintained.
- The budget will be structured so that the Board and the general public can readily establish the relationship between revenues expenditures and the achievements of service objectives.

#### **B. Revenue Policies**

- The county will try to maintain a diversified and stable revenue system to shelter it from short run fluctuations in anyone revenue source.
- The county will estimate all revenues by an objective analytical process.
- The county will maintain sound appraisal procedures to keep property values correct. Property will be assessed at 100 percent of fair market value. Property is currently reassessed every four years. Beginning with assessment year 2009, reassessments will be conducted biannually.
- The county will follow an aggressive policy of collecting tax revenues. Tax collections will take advantage of all available legal enforcement powers.

#### **C. Debt Management Policies**

- The county will confine long term borrowing to capital improvements that cannot be financed from current revenues except where approved justification is provided.
- When the county finances capital improvements or other proceeds by issuing bonds or entering into capital leases, it will repay the debt in a period not to exceed the expected useful life of the project.
- The county will not use long term debt for current operations.
- The county currently uses all legally accepted financing options including the State Literary Fund and the Virginia Public School Authority.
- Although the county has not officially adopted a debt per capita policy administration will monitor the net bonded debt per capita and ratio of debt service to general governmental expenditures and provide 10 year comparison information to the governing body.

#### **D. Capital Policies**

- The county will develop a five year plan for capital improvements and update it annually.
- The county will make all capital improvements in accordance with an adopted capital improvements program excluding emergency situations.
- The county will maintain all of its assets at a level adequate to protect the county's capital investment and to minimize future maintenance and replacement costs.
- The county will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.
- The county will attempt to determine the least costly financing methods for all new projects.

#### **E. Reserve Fund Policies**

- Undesignated fund balances at the close of each fiscal year should be equal to no less than 10% of the General Operating Fund revenues.
- The county will maintain self insurance reserves as established by professional judgment based on the funding techniques utilized and loss records.

#### **F. Investment Policies**

- Disbursement collection and deposit of funds will be scheduled to ensure maximum cash availability.
- When permitted by law the county will pool cash from several different funds for investment purposes.
- The county will invest all of its idle cash on a continuous basis. County investments are made in CD's, Banker's Acceptance, Commercial Paper and the Local Government Investment Pool.
- The county will obtain the best possible return on all its investments but funds will not be invested beyond the time when they are reasonably expected to be required.
- The county will regularly review contractual consolidated banking services.
- All investment policies are administered by the elected Treasurer.



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