

Popular Annual Financial Report

Year Ending June 30, 2007



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Special points of interest:

- 2006 annual unemployment rate is 2.6%.
- Population expected to increase to over 95,000 by 2020.
- 2006 Award for Outstanding Achievement in Popular Annual Financial Reporting received.

Notes:

- (a) 2007 figures are estimated
 (b) includes City of Winchester
 (1) U.S. Census Bureau
 (2) UVA Weldon Cooper Center
 (3) VA DOE Fall Membership Report
 (4) U.S. Department of Labor—Bureau of Labor Statistics
 N/A = not available

To the Residents of Frederick County:



The Lake at Sherando Park

In today's busy world, we face a steady influx of facts, figures and statistics. Sorting through this information, deciding what is important and then putting that information to good use can be a difficult task. In an effort to provide you with easily accessible, reliable information, we are pleased to provide you with Frederick County, Virginia's Popular Annual Financial Report (PAFR) for Fiscal Year 2007.

The purpose of this report is to summarize and simplify the presentation of information contained in the Frederick County audited 2007 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 and online at 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.

We hope that you find this report interesting and informative.

10 Year Demographic & Economic Statistics Summary

Calendar Year	County Population (1)	Personal Income (1)(b)	Per Capita Personal Income (1)(b)	Median Age (2)	School Enrollment (3)	Unemployment Rate (4)
1998	57,010	1,968,806	24,500	N/A	10,376	2.50%
1999	58,011	2,082,102	25,537	N/A	10,530	2.00%
2000	59,594	2,267,781	27,233	N/A	10,634	2.00%
2001	61,216	2,399,633	28,129	N/A	10,736	2.80%
2002	62,937	2,476,247	28,371	N/A	10,969	3.40%
2003	64,820	2,573,512	28,891	N/A	11,357	3.50%
2004	66,696	2,775,794	30,336	N/A	11,745	2.80%
2005	69,123	2,999,573	31,887	37	12,211	2.50%
2006	71,187	N/A	N/A	37	12,605	2.60%
2007 (a)	73,500	N/A	N/A	N/A	12,997	2.90%

Directory of Principal Officials

Board of Supervisors

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

County School Board

	Dr. John Lamanna, Chairman	
Richard Howett	Stuart A. Wolk, Vice-Chairman	David Zerull
Donald A. Butler	Melvin S. Harmon, Jr.	Benjamin F. Waterman

Board of Social Services

	Judith Morris, Chairman	
Lorene Carter	Kristen Goff, Vice-Chairman	Linda Smith
Richard Crane	Donald Nesselrodt	Philip Roby

Other Officials

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



Sherando Towne Centre in Stephens City, VA

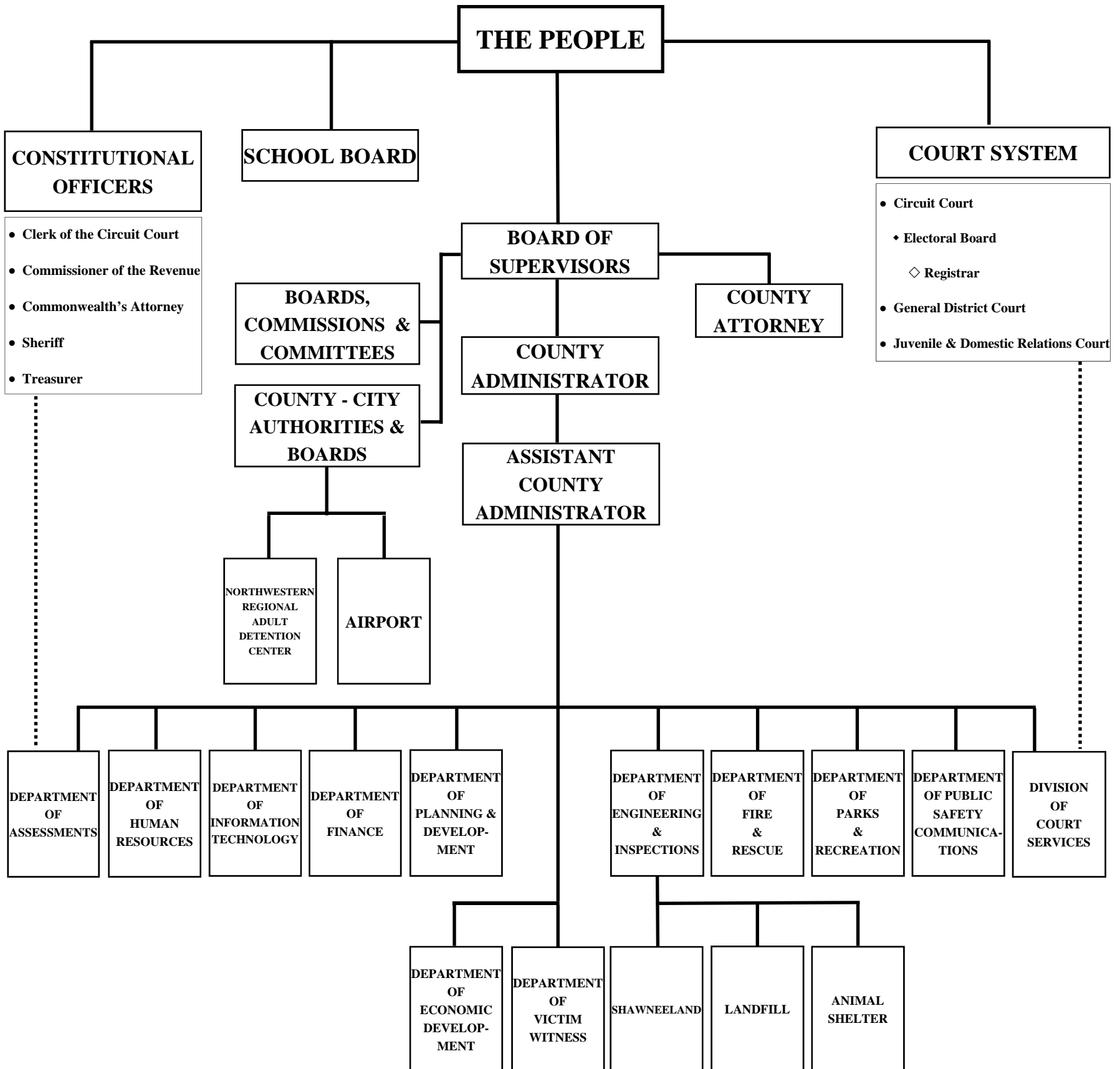


Winchester Regional Airport



Frederick County Animal Shelter

FREDERICK COUNTY ORGANIZATIONAL CHART



Award for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the County of Frederick, Virginia for its Popular Annual Financial Report for the fiscal year ended June 30, 2006. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing 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, understandability and reader appeal.

An award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



The Locke Gazebo at Sherando Park

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

County of Frederick
Virginia

for the Fiscal Year Ended

June 30, 2006



Charles S. Cox
President

Jeffrey L. Esser
Executive Director

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 re-

tain 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.



**Frederick County
Administration
Complex**

Frederick County At a Glance

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 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 Win-

chester-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.

There are several historic sites in Frederick County which are listed on both the Virginia Landmarks Register and the National Register of Historic Places. They include Belle

Grove and Cedar Creek Battlefield, Monte Vista, Springdale House and Mill Complex, Willow Shade, Sunrise, Rose Hill, Hopewell Friends Meeting House, County Poor House, Willa Cather's Birthplace, Newtown/Stephensburg District and the St. Thomas Episcopal Church in Middletown.

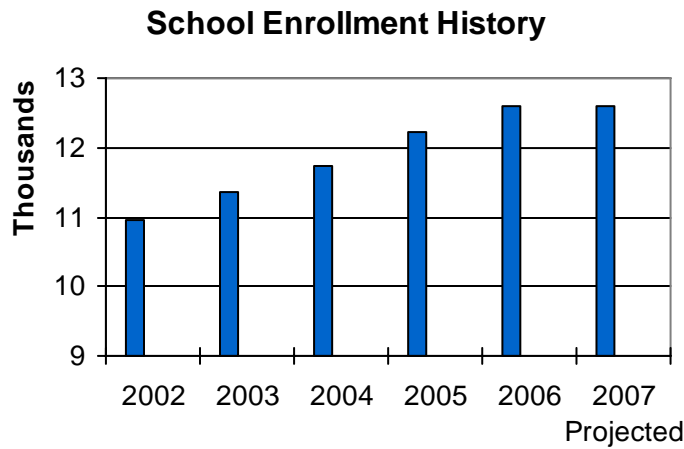
There are six battlefields of great national importance located in Frederick County and Winchester. They are the First and Second Battles of Winchester, the First and Second Battles of Kernstown, Stephenson's Depot, Third Battle of Winchester, Cedar Creek and Rutherford's Farm.

▼
"There are six battlefields of great national importance located in Frederick County and Winchester."

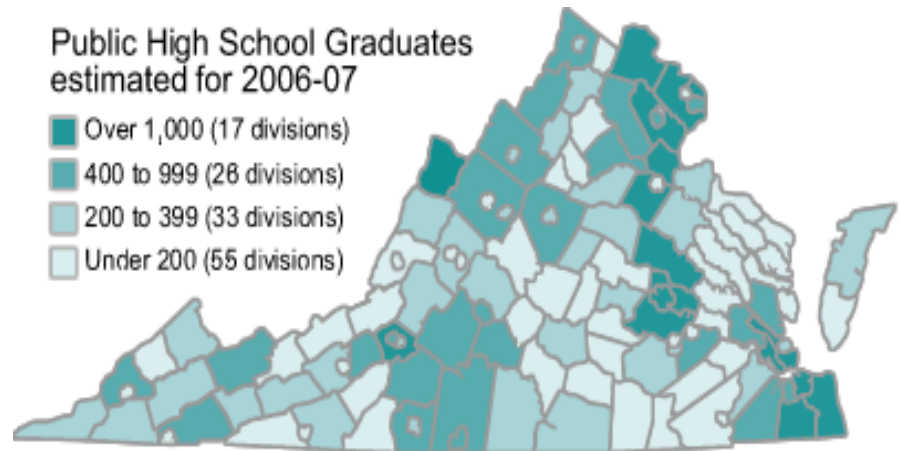
Public School System

The Frederick County Public School System, the 22nd largest school division in Virginia, 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; and one alternative/vocational school. Frederick County participates and is fiscal agent for a regional facility, Northwestern Regional Educational Program that provides services to some of its special education population. Other support facilities include the administration building, the maintenance and warehousing facility and the transportation facility. The school system also provides building maintenance services for the county government office buildings and the regional library.

In 1998, student enrollment was 10,376. In 2006, student enrollment was 12,605 according to the Virginia Department of Education, which represents an increase of 2,229 students, or 21%, since 1998. Program capabilities for Frederick County Public Schools were projected at 12,982 on June 30, 2007.



Admiral Richard E. Byrd Middle School



Source: Demographics and Workforce Section, Weldon Cooper Center, UVA [Public High School Graduation Forecasts, SY 2006-7 to 2011-12](#), June 2007

Population

Since the turn of the century, the population of Frederick County has skyrocketed 347 percent, growing from 13,239 people in 1900 to over 59,000 in 2000. Much of the population growth occurred since 1970's.

In 2006 the population estimate for Frederick County was 71,187, according to the U.S. Census Bureau, an increase of 20.2% since 2000. According to the Weldon Cooper Center, from 2000 to 2005 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 77,864, 95,648 by 2020 and 114,539 by 2030.

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.



Frederick County Public Safety Building

<p>Higher Education</p>	<p>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 7,987 students for the 2006—2007 school year.</p> <p>Shenandoah University offers four-year undergraduate and graduate programs with a school enrollment of more than 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 Institute for Government and Public Service is also located at the university.</p> <p>There are 22 colleges and universities within a 125 mile radius of Frederick County.</p>
<p>Crime</p>	<p>Frederick County traditionally experiences less crime than the total for the United States. The latest FBI report (2005) lists the crime rate per 100,000 people for the United States at 469.2, while the local rate was 207.4.</p>
<p>Cost of Living</p>	<p>The cost of living in the Frederick County area is about 110% of the national average. According to the Metropolitan Real Estate Information System, the average selling price of a home in Frederick County in 2006 was \$322,000. By comparison, the northern Virginia region's average home price was over \$539,000.</p>
<p>Medical Care</p>	<p>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 275 board certified physicians on the attending staff representing nearly every specialty. The Medical Center anchors a 165-acre campus which includes two physician office buildings, cancer center, pharmacy, outpatient diagnostic center, same-day surgery facility, imaging center with MRI, CT and Mobile Pet scanning, adult psychiatric center, 250 seat conference facility, employee child care center, restaurant, parks with walking trails and a 1,600 space parking deck.</p> <p>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, Urgent Care Center, Lynn Care Center, Warren Memorial Hospital in Front Royal, VA, Shenandoah Memorial Hospital in Woodstock, VA, War Memorial Hospital in Berkeley Springs, WV, Valley Home Care, Valley Medical Transport, Valley Pharmacy and Piedmont Medical Laboratory.</p>
<p>Library Services</p>	<p>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 31,421 active registered library card holders in Frederick County. During the 2007 fiscal year, Frederick County residents checked out 418,151 items from the library system.</p>
<p>Parks</p>	<p>The county currently owns and operates two regional parks. Clearbrook Park, north of Winchester, consists of approximately 55 acres and Sherando Park, east of Stephens City, consists of approximately 330 acres. Both regional parks currently serve the county's population with both active and passive recreational programs and facilities. In addition to these regional parks, five neighborhood parks have been developed consisting primarily of playground equipment for young children. Additional recreational facilities currently provided are two outdoor swimming pool complexes, athletic fields, playground and picnic areas, horseshoes, fishing, paddle-boats and volleyball. As a result of a joint operating agreement with the County School Board, the Parks and Recreation Department has use of the following Sherando High School facilities when they are not in use by the high school: lighted football field and track, baseball field, eight outdoor lighted tennis courts and four outdoor lighted basketball courts.</p> <p>The joint efforts of County Board of Supervisors, County Parks and Recreation Department and the County School Board resulted in the co-location of recreational facilities in three elementary schools and one high school. The Community Center at Sherando High School has a fitness room with cardio and resistance training equipment, two racquetball courts and a 2,000 square foot multi-purpose room which includes a kitchen area. The multi-purpose room can be divided into two rooms for the public. The Community Center at Orchard View Elementary School has a full sized gymnasium which seats approximately 150. The Community Center at Evendale Elementary has a full sized gymnasium seating approximately 300, a 500 square foot multi-purpose room with a kitchen area, a 1,150 square foot aerobics room and two offices. The Community Center at Gainesboro Elementary has a full sized gymnasium seating approximately 300, a 500 square foot multi-purpose room, a 1,150 square foot aerobics room, a cardio equipment room and an office.</p>

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.

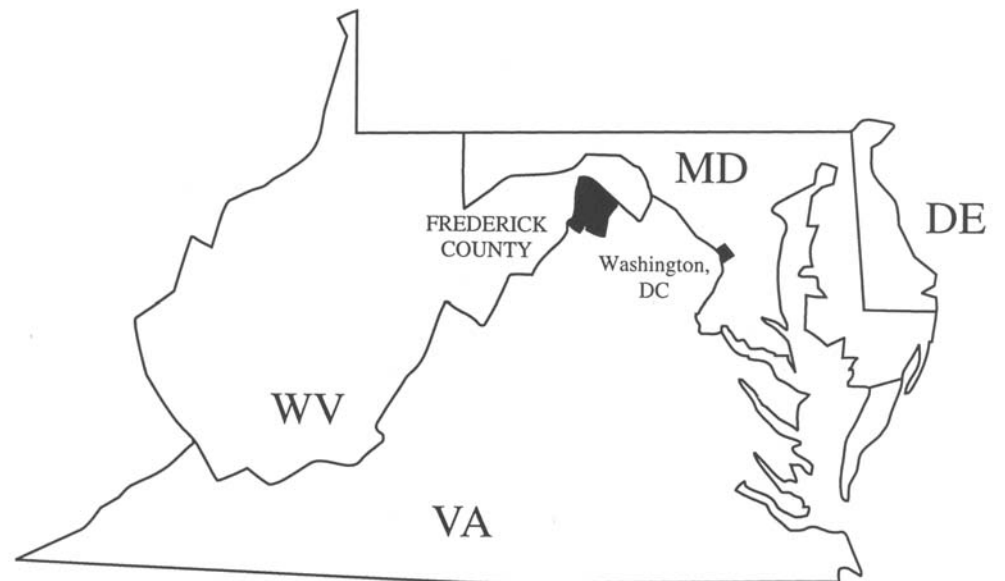
The illustrations below show how local tax dollars were distributed to county functions for FY 2007 and a real estate tax comparison with surrounding localities.



Kohl's Distribution Center

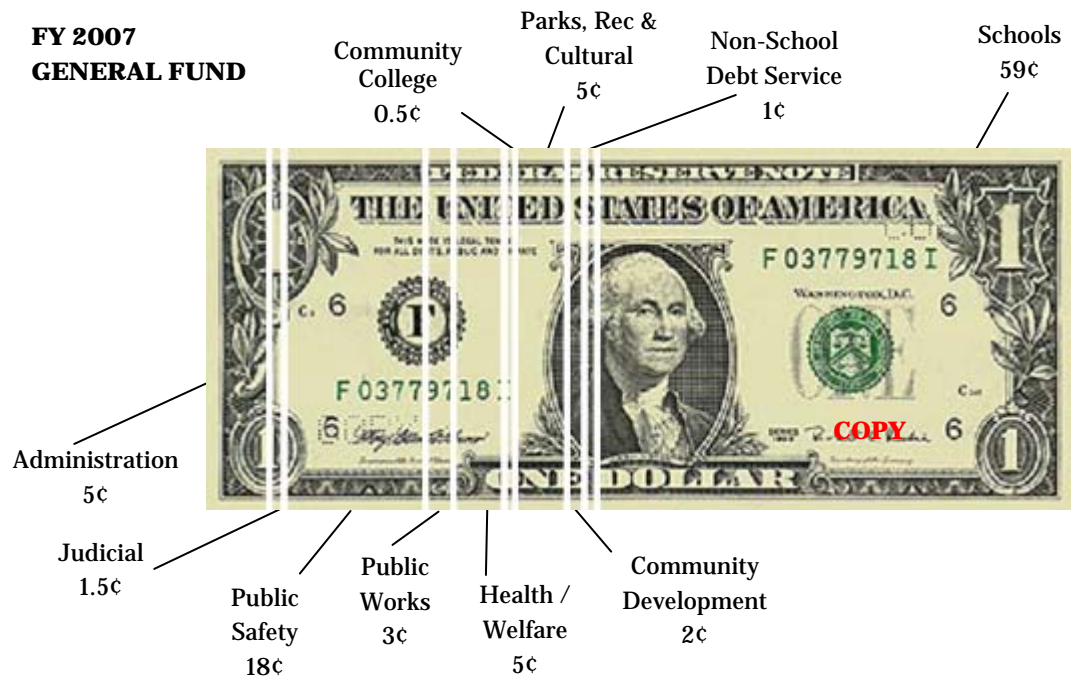


Winchester Medical Center



REAL ESTATE TAX RATES	Residential Owner Occupied Comparable Rate per \$100
Hampshire County	41.5¢
Clarke County	48¢
Shenandoah County	51¢
Frederick County	52.5¢
Fauquier County	60¢
Morgan County	63.4¢
City of Winchester	65¢
Berkeley County	66.3¢
Jefferson County	67.1¢
Warren County	79¢
Loudoun County	91.7¢

Comparable rates are calculated for comparison reasons since VA districts are assessed at 100% of appraised value compared to WV districts at 60%.



Employment Trends

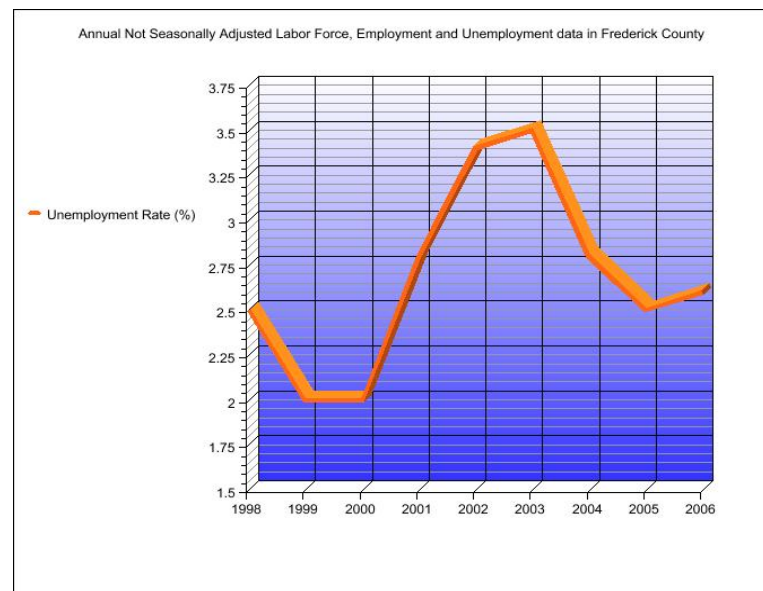
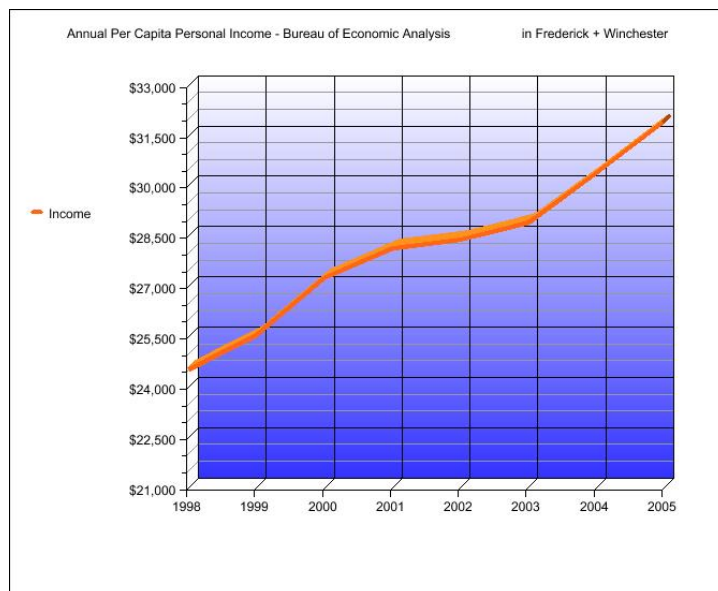
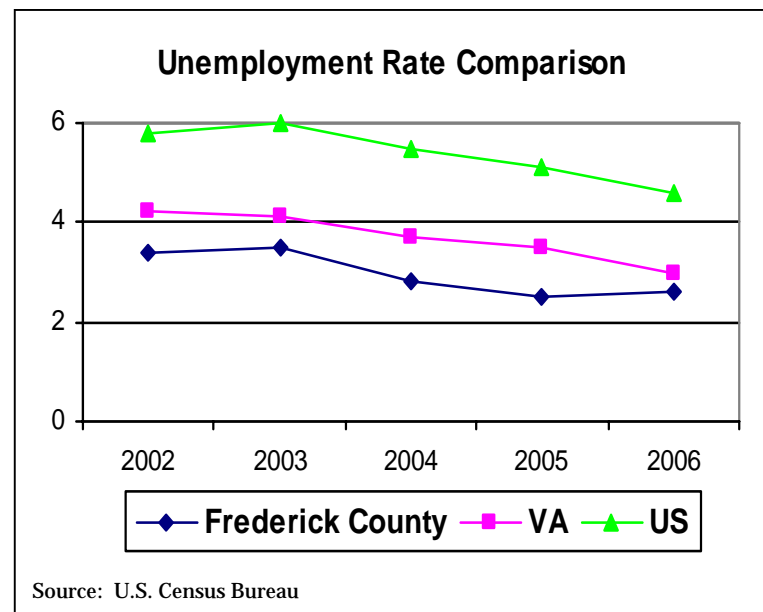
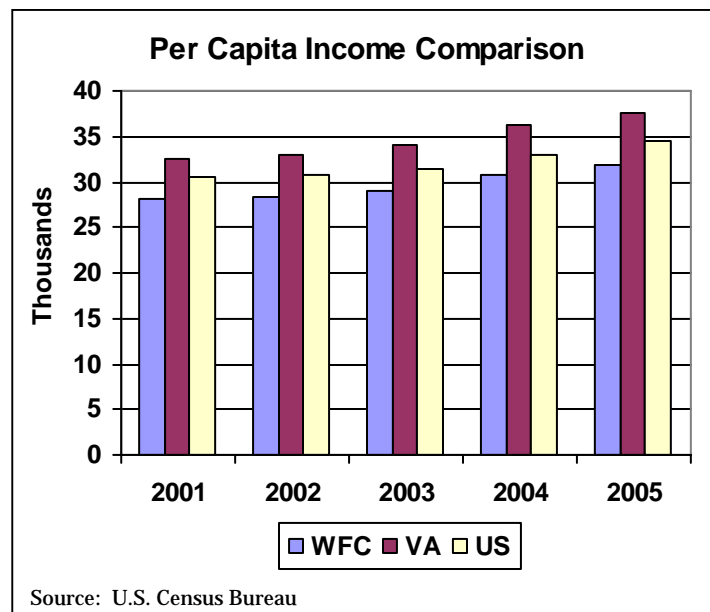
"... the annual unemployment rate in Frederick County for 2006 was 2.6% ..."

Annual statistics showed that Winchester and Frederick County had a total of 53,000 jobs in 2006 according to the Winchester-Frederick County Economic Development Commission. According to the Virginia Employment Commission for the 3rd quarter of 2005, the top three employment sectors in Winchester and Frederick County are Manufacturing (22%), Construction (13%) and Retail Trade (95). Virginia's top sectors were Retail Trade (12%), Health Care and Social Assistance (10%) and Professional, Scientific &

Technical Services (9%).

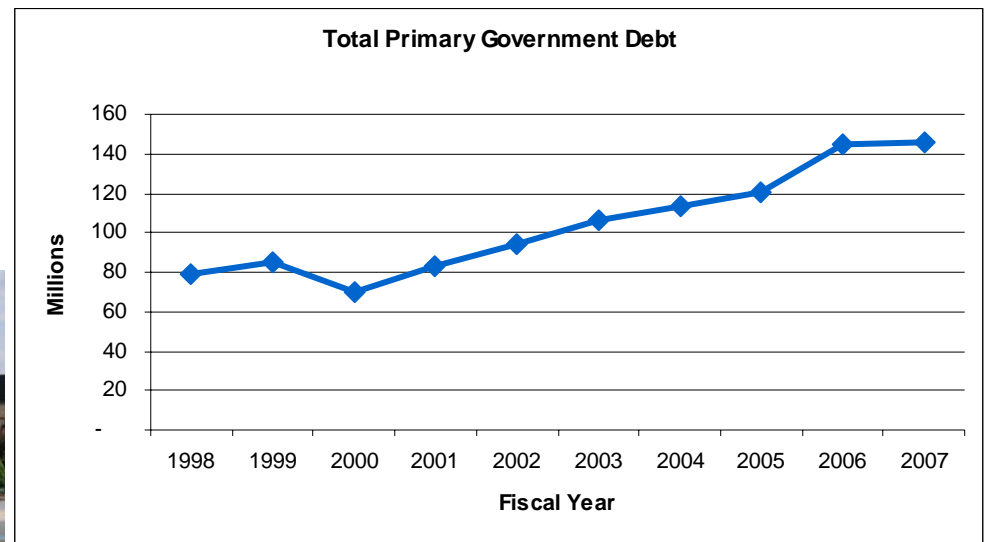
Employment and income are the two broad economic measures that give the best picture of major developments. According to the Bureau of Labor Statistics, the annual unemployment rate in Frederick County for 2006 was 2.6%, an increase 0.1% from the previous year. For 2005, Frederick County's unemployment rate was 0.4% lower than the State of Virginia's annual rate and 2.0% lower than the national annual average.

Winchester-Frederick County's per capita personal income in 2005 was \$31,887 according to the U.S. Census Bureau. This is 17.6% less than the state of Virginia's per capita income of \$37,503 and 8.1% less than the national per capita income of \$34,471. 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. The average weekly wage for Frederick County is \$673 compared to \$815 for the State of Virginia (3rd Q 2005).



Debt Administration

The total outstanding debt on the books of the County of Frederick as of the end of FY 2007 was \$145.5 million, an increase of \$1.0 million over last fiscal year. The total debt equates to approximately \$1,980 per citizen. This chart shows ten year history of debt for the total primary government.



Financial Statement Information

This section contains financial statement information for the County of Frederick, VA for the fiscal year ending June 30, 2007.

Frederick County government reports on its finances on the basis of a fiscal year which starts on July 1st and ends the following June 30th. All information presented in this report is for the fiscal year that began July 1, 2006 and ended on June 30, 2007. This is referred to as fiscal year 2007, or FY 2007.

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 broadened basis of comparison and enhance the County's accountability.



Belle Grove Plantation

Financial Analysis: 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.

Fund Statements

Governmental Funds

Reported combined ending fund balance is \$53,043,745, a decrease of \$10,451,809 in comparison with the prior year. A large part of the decrease in fund balance can be attributed to capital project spending of \$14,273,970 with bond funds received in the prior year for the projects. Approximately 77% (\$41,212,142) of the combined ending fund balance is unreserved, which is available for spending at the government’s discretion. The FY08 budget appropriates \$6.5 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 (\$1,453,661) of the prior period and subsequent years expenditures, (2) non-current loans and capital projects (\$2,483,677), (3) debt service (\$352,345), (4) historical markers and prepaid items (\$4,281) and (5) employee benefits (\$93,121).

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 2007 the General Fund received \$133.7 million in resources, including transfers and financing sources. Property and other local taxes accounted for 67% of the total resources for the General Fund.

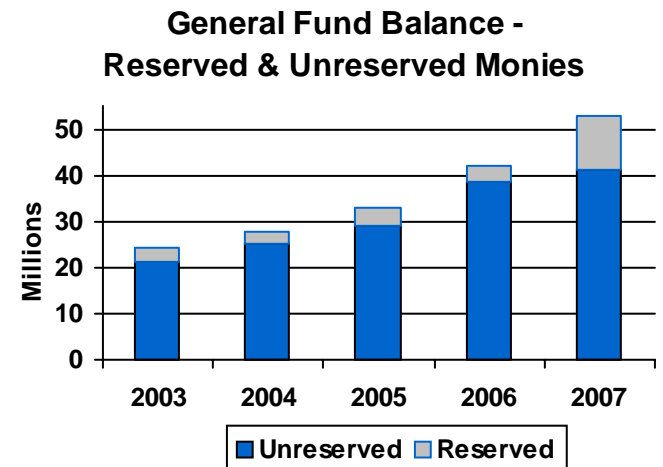
General Fund disbursements, including transfers, for FY 2007 totaled \$130.6 million. Expenditures totaled \$117.6 million and transfers out were \$13.0 million. Education accounted for 53% of General Fund spending, which includes \$60,265 for Lord Fairfax Community College and \$69,196,158 for the public school system. General Fund expenditures (not including transfers) increased by \$6,104,924 over the prior year.

General Fund revenues and net transfers exceeded expenditures by \$3.1 million, which means that the General Fund had an operating gain for the year (the general fund balance increased).

As previously stated, the fund balance of the County’s General Fund increased by \$3.1 million over the previous fiscal year. General Fund balance at the end of FY 2007 was \$45.2 million of which \$4.0 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 \$41.2 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 2007 the undesignated fund balance was 33% of the General Operating Fund revenues. \$6.5 million of that balance was used to fund the FY 2008 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 2007 revenues in the amount of \$1,998,357 from the Commonwealth of Virginia and a transfer from the General Fund of \$11,853,876. Expenses paid for principal and interest payments totaled to \$13,555,194. This fund had an FY 2007 ending fund balance of \$352,345, 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 2007 with a fund balance of \$2,742,604. There were revenues in this fund in the amount of \$667,597, while there were expenditures in the amount of \$15,385,787 with financing from prior year bond proceeds.



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 \$2.2 million, while the Internal Service Funds also recognized an increase in net assets in the amount of \$328,768. The Landfill Fund purchased capital assets in the amount of \$5.9 million and posted operating income of \$828,851. The Internal Service Funds had an operating income of \$194,595.

Component Unit

School Board has a total governmental fund balance of \$5.2 million of which all is reserved/designated. This is a decrease of fund balance in the amount of \$7.2 million when compared to the FY 2006 fund balance. \$3.1 million of the fund balance amount is reserved for School Capital Projects. The School Operating Fund does not carry a 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.

Financial Analysis: The County as a Whole

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 Activity—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.



**Millwood Station
Volunteer Fire and
Rescue Station**

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 2007, Frederick County had Primary Government, which includes Governmental and Business-Type, assets (i.e. cash, investments, property and monies owed to the County) of \$257.4 million and Component Units assets of \$105.6 million. These assets were partially offset by Primary Government liabilities (i.e. monies owed by the County to others) of \$169.6 million and Component Units liabilities of \$19.1 million. This leaves the County government with Primary Government net assets, monies left after liabilities are subtracted from assets, of \$87.8 million and Component Units net assets of \$86.5 million. The \$7,059,334 decrease in Primary Government net assets can be attributed to an decrease in governmental activities in the amount of \$9,291,029 and an increase in business-type activities in the amount of \$2,195,695. The decrease in governmental activities, as discussed in the further detail in the next section, is a result of the transfer of school assets from the County to the School Board.

Summary Statement of Net Assets June 30, 2007

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2007	2006	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 66,010,255	\$ 89,425,581	\$29,648,894	\$30,795,751	\$ 95,659,149	\$ 120,221,332	\$ 27,821,941	\$ 31,642,549
Capital Assets (net)	144,167,245	130,577,582	17,552,174	13,271,904	161,719,419	143,849,486	77,786,320	62,131,056
Total Assets	\$210,177,500	\$220,003,163	\$47,201,068	\$44,067,655	\$257,378,568	\$ 264,070,818	\$105,608,261	\$ 93,773,605
Long-term Liabilities	\$151,346,277	\$150,068,660	\$ 9,957,149	\$ 8,801,920	\$161,303,426	\$ 158,870,580	\$ 1,570,919	\$ 1,280,046
Other Liabilities	7,897,714	9,709,965	420,898	638,409	8,318,612	10,348,374.00	17,570,289	21,744,476
Total Liabilities	\$159,243,991	\$159,778,625	\$10,378,047	\$ 9,440,329	\$169,622,038	\$ 169,218,954	\$ 19,141,208	\$ 23,024,522
Net Assets:								
Invested in Capital Assets, net of related debt	\$ 24,916,051	\$ 13,474,232	\$17,552,174	\$13,271,904	\$ 42,468,225	\$ 26,746,136	\$ 77,786,320	\$ 62,131,056
Restricted for Capital Projects	-	-	-	-	-	-	-	2,747,565
Unrestricted	26,017,458	46,750,306	19,270,847	21,355,422	45,288,305	68,105,728	8,680,733	5,870,462
Total Net Assets	\$ 50,933,509	\$ 60,224,538	\$36,823,021	\$34,627,326	\$ 87,756,530	\$ 94,851,864	\$ 86,467,053	\$ 70,749,083

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.

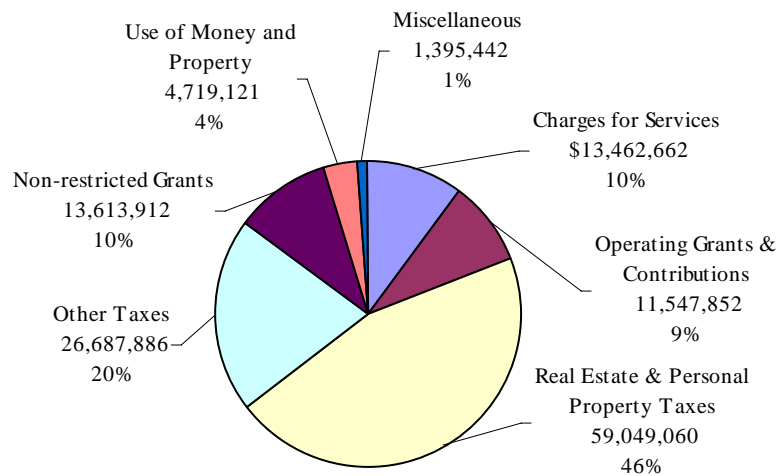
Frederick County recognized \$130.5 million in total Primary Government revenues which was used to pay for expenses in the amount of \$137.6 million. \$7.6 million was reflected as an increase in education expenses due to the transfers of assets to the School Board which are affected by the debt to assets ratio on a year to year basis. Since the school assets are jointly owned by the County and the School Board, the county's share of the assets is in direct proportion to the debt owed on the assets. Property tax revenues account for approximately \$59 million of the total revenues received. Other local taxes include sales tax, utilities tax, gross receipts tax, business licenses, back stock taxes, franchise tax, hotel and meals tax and motor vehicle licenses. This category increased over last fiscal year by \$661,279.

The charts below show the percentage of total revenues (\$\$ received) and expenses (\$\$ spent) for fiscal year 2007 compared to the same for fiscal year 2006.

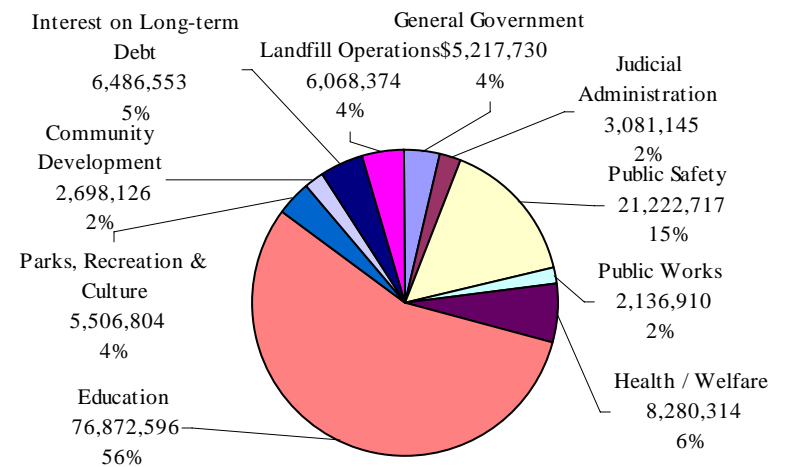


**Sherando High School
Stephens City, VA**

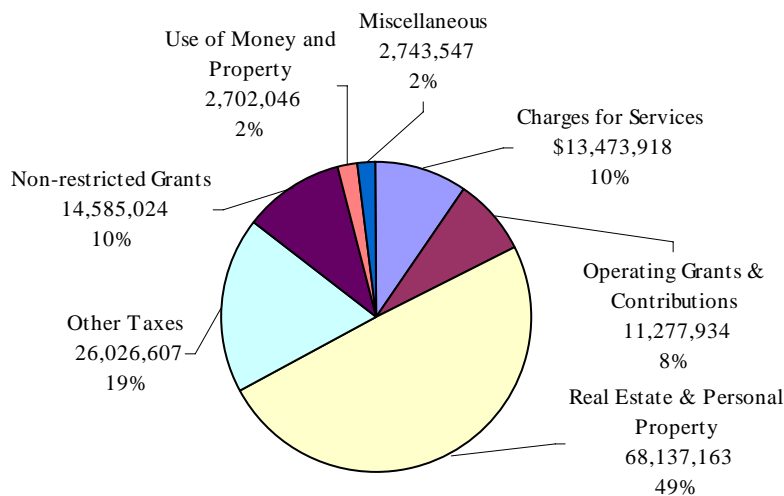
FY 2007 Revenues



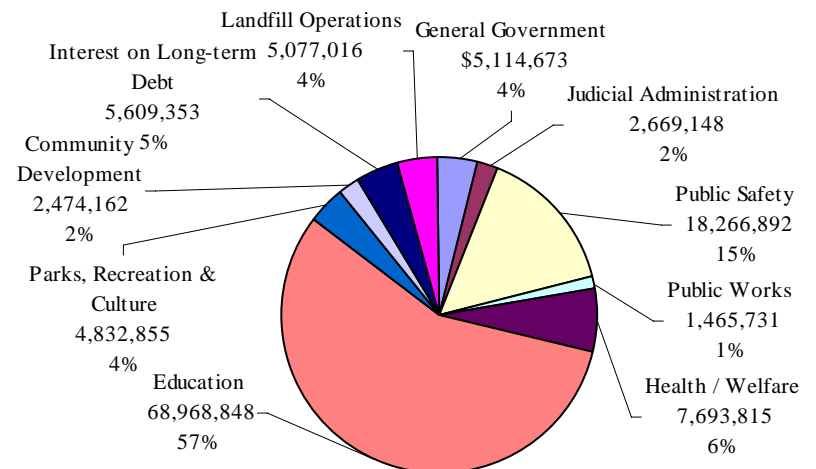
FY 2007 Expenses



FY 2006 Revenues



FY 2006 Expenses



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

Financial Management Policies & 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.



Old Frederick County Courthouse

- 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

(Continued on page 15)

Policies & Goals

(Continued from page 14)

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 any one 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

(Continued on page 16)

Budget Initiatives (Budget Year July 1, 2007—June 30, 2008)

General Fund

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

- Thirteen new positions to be added to the departments of Commissioner of the Revenue, Information Technology, Sheriff, Fire and Rescue, Maintenance, Animal Shelter and Parks and Recreation.
- Sixteen new vehicles for various departments (fourteen for Sheriff's Office).
- Purchase of check scanners for the Treasurer's Office.
- Purchase of GIS web server and software.
- Funds budgeted for local transportation issues.
- Wireless equipment to connect all county fire stations.
- Bicycle/Pedestrian Trail near Sherando Park.
- Increased funding to Handley Library, Health Department, CLEAN, Inc., Our Health, Inc., Northwestern Community Services, Shenandoah Area Agency on Aging and Lord Fairfax Community College.
- 5% merit for county employees.

School Board

- 35.18 new full-time equivalent (fte) positions including 14.68 ftes for the opening of the replacement Gainesboro Elementary School, enrollment growth and compliance needs.
- An average 4.5% increase is included to enhance teacher salary scales and an average 3.5% increase for administrative and support salary scales.
- Significant increase in the mandated VA Retirement System contribution rate.
- Significant increase in the utility budget due to expected increases in electricity and heating costs.



**James Wood Middle School
Winchester, VA**

Policies & Goals

(Continued from page 15)

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.



Frederick County Water Tower

County of
Frederick, Virginia

107 North Kent Street
Winchester, Virginia 22601

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Fund Balance: Why is it important?

Fund balance is the difference between assets and liabilities (assets less liabilities).



**Sherando Park
Pathway**

There are several reasons that it is important to maintain a healthy fund balance? It is a critical factor in financial planning and budgeting. It

provides funds for unforeseen expenses or emergencies. Fund balance reduces the need for short-term borrowing for operation. REMEMBER—half of the largest revenue source is collected at the end of the budget year. Personal property and real estate taxes are collected June 5th which is only 25 days before the end of the county's fiscal year. Finally, fund balance demonstrates financial stability, which enhances bond rating, thereby lowering debt issuance costs.