
COUNTY OF FREDERICK, VIRGINIA

COMPREHENSIVE ANNUAL

FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2003

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ STAUNTON □ CHRISTIANSBURG



- Introductory Section -

COUNTY OF FREDERICK, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
JUNE 30, 2003**

Issued by

Cheryl B. Shiffler, Finance Director

Winchester, Virginia

COUNTY OF FREDERICK, VIRGINIA

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2003

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COUNTY OF FREDERICK, VIRGINIA

**DIRECTORY OF PRINCIPAL OFFICIALS
FISCAL YEAR ENDED JUNE 30, 2003**

BOARD OF SUPERVISORS

Richard C. Shickle, Chairman
W. Harrington Smith, Jr., Vice-Chairman

Margaret B. Douglas
Gina A. Forrester

Sidney A. Reyes

Robert M. Sager
Lynda J. Tyler

COUNTY SCHOOL BOARD

Stuart A. Wolk, Chairman
Patricia D. Stiles, Vice-Chairman

Richard Howett
John Lamanna

Melanie Mullinex

Barbara E. Van Oslen
Cary W. Smith

BOARD OF SOCIAL SERVICES

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

Richard Crane
Pamela Kennedy

Philip Roby
Linda Smith

OTHER OFFICIALS

John R. Riley, Jr. County Administrator
Kris C. Tierney Assistant County Administrator
Cheryl B. Shiffler Finance Director
Harvey E. Strawsnyder, Jr. Engineering and General Service Director
Gary A. DuBrueler Fire and Rescue Services Director
Debra E. Didawick Personnel Director
Charles B. Tyson Information Services Director
Eric R. Lawrence Planning and Development Director
Patrick E. Barker Economic Development Director
James M. Doran Parks and Recreation Director
Ellen E. Murphy Commissioner of the Revenue
C. William Orndoff, Jr. County Treasurer
Lawrence R. Ambrogi Commonwealth Attorney
Robert T. Williamson Sheriff
John Prosser Judge of the Circuit Court
John E. Wetsel, Jr. Judge of the Circuit Court
David S. Whitacre Judge of the General District Court
Carle F. Germelman, Jr. 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
Doris Trant Frederick County Extension Agent
Michael Janow Central Registrar
William C. Dean, Ph.D. Superintendent of Schools



John R. Riley, Jr.
County Administrator

540/665-5666
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December 18, 2003

Board of Supervisors
County of Frederick
Winchester, Virginia

To the Board Members:

The comprehensive annual financial report of the County of Frederick, Virginia for the fiscal year ended June 30, 2003 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

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

Beginning with the June 30, 2002 Comprehensive Financial Statements, the county implemented the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The new financial reporting model introduced by GASB Statement Number 34 is perhaps the most significant change in the history of governmental financial reporting. This report presents government-wide financial statements. GASB Statement Number 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it.

REPORTING ENTITY

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

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

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

ECONOMIC CONDITIONS AND OUTLOOK

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

In 2003, the population of the County was estimated at 62,400 based on the Weldon Cooper Center for Public Service. The County, which covers 427 square miles and borders the West Virginia line, was established in 1738. Its county administrator form of government was established in 1971.

In the southeastern portion of the county, there are two incorporated towns – Stephens City and Middletown. The projected per capita income in the County was \$28,063 in 2001, the last year for which the information is available, according to the Bureau of Economic Development.

The area is served by the Winchester Regional Airport, a 230-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

The local economy, like other areas, has experienced a slowdown. The reduction in projected state revenues has impacted the area and generated a need for additional local funds to continue to provide quality services. Our neighboring counties in Northern Virginia continue to infiltrate our job market while they attempt to offer solutions for their employee shortages with enticing salaries.

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

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

Initiatives

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

▪ **General Fund**

- One new position. A Data Collector was added to the Commissioner of the Revenue's Office in order to alleviate heavy workloads for existing employees.
- Eight new vehicles for various departments (five for Sheriff's Office).
- Funding for property reassessment to take place during FY 2004.
- Reductions in various departments due to state budget cuts.
- 1% Cost of Living Adjustment included for county employees.

▪ **School Funds**

- 103 new positions, including 90 for Millbrook High School and 1 for NREP.
- An average 2.5% increase is included to enhance all salary scales.
- Construction of Millbrook High School continues and will open in the fall of 2003. The projected cost is \$39,500,000.
- Extensive renovation for James Wood Middle School began in May of 2002. Completion of the project is slated for June 2004.
- Cost of opening Millbrook High School.
- Funding for technology needs.
- Funding for 9 school buses.
- Funding for the relocation of modular classrooms to the middle schools to accommodate enrollment increases.

A PROFILE OF FREDERICK COUNTY

History

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

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

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

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

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

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

Physical Characteristics

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

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

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

Population

During the last decade, population has increased from 49,698 in 1993 to 62,400 in 2003. This increase equates to an annual increase of approximately 2.5%.

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

Public School System

The Frederick County Public School System is composed of ten elementary schools serving students in grades kindergarten through fifth grade; three middle schools serving grades six through eight; and three high schools serving grades nine through twelve. The Northwest Regional Educational Program

(NREP) is a regional program that provides special education services to students from Frederick and Clarke Counties and the City of Winchester. Approximately 58% of the students who receive services attending NREP are from Frederick County. The Dowell J. Howard Center provides vocational education services for high school students and adults, and is also the location of The Learning Center, a high school alternative program.

While school enrollment continues to increase, the percentage of growth has declined. Since 1999, school enrollment has increased by 936 students, or on an average of a little over 2% annually. During 2003, school enrollment reached 11,343 students.

Employment Trends

The number of employed people living in Frederick County has grown in recent years despite fluctuations in the national economy. Annual statistics show that in 2002, Frederick County had a civilian work force of 35,156, with the employment of 34,187. This equates to 969 unemployed civilians, or 2.7%. Frederick County's unemployment rate falls below the state average for 2002 at 4.1%.

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 approximately 3,800 students.

Shenandoah University offers four-year undergraduate and graduate programs with a school enrollment of 2,500 students. The schools include Harry F. Byrd, Jr. School of Business, Health Professions, Arts and Sciences, Pharmacy and Conservatory.

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

Cost of Living According to the Virginia Association of Realtors, the average single family detached home sold for approximately \$153,000 in 2001. This low cost of living in such a close proximity to Washington, D.C. attributes to the attractiveness of the area to many working families.

Families 75% of households in Winchester-Frederick County are family households. The high percentage of families influences the orientation of community activities and quality of life, in particular, activities for youth and encouragement of academic accomplishment.

Crime The latest FBI report (data for 2001) indicates the national crime rate for Virginia per 100,000 people at 4,160. The crime rate for Frederick County was 2,153.4 for 2001.

Medical Care Winchester Medical Center is a 403-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

Medical Center anchors a 150 acre campus with an imaging center, outpatient diagnostic and surgery facilities, cancer center, retail pharmacy, medical office building, adult and adolescent behavioral health centers and a 250 seat conference center. Maintaining a breadth of quality services at a reasonable cost has been a point of pride for Winchester Medical Center.

Library Services Library service is provided free of charge to Frederick County through the Handley Regional Library, which also serves residents of Clarke County and Winchester. Frederick County residents may borrow and return materials at any regional library location: the Mary Jane & James L. Bowman Library on Tasker Road in Stephens City, the Handley Library in downtown Winchester, the Bookmobile in Gainesboro at Redland Church, a small branch at Apple Blossom Mall in Winchester, and the Clarke County Library in Berryville. Books, video tapes, books on tape, music on compact disc, reference service, computers for Internet and word processing, programs for children and for adults are available at most library locations. Frederick County currently has 25,126 active registered cardholders. During fiscal year 2003, Frederick County residents borrowed 321,430 items from Handley Regional Library.

Parks The County currently owns and operates two regional parks, Clearbrook Park located five miles north of Winchester, consists of approximately 55 acres and Sherando Park, located two miles 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. Four of these neighborhood parks are located on fire company property and one is located in a subdivision. Since 1987 Frederick County has completed the construction of two outdoor swimming pool complexes, four soccer fields, a maintenance building, one shelter, two playground areas, and two sand volleyball courts. Additional recreational facilities currently provided are athletic fields, playground and picnic areas, horseshoes, fishing, paddleboats 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. The Parks and Recreation Department also operates two community centers. The center at Sherando High School contains two racquetball courts, a weight room, and a multi-purpose room. The center located in the Orchard View Elementary School contains a gymnasium and office.

A recent amenity is the completion of a bikeway and trail system. The 2.45 mile bicycle facility serves several residential areas east of Stephens City. This bicycle trail system will link those residential areas with Sherando Park and Sherando High School. Additional trails will provide residents with the ability to travel safely from their homes to schools, stores, work or recreational areas without having to travel on busy roads.

FINANCIAL INFORMATION

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

Single Audit

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

As a part of the County's single audit described earlier, tests are made to determine the adequacy of the internal control structure including that portion related to federal financial assistance programs, as well as to determine that the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2003, are included in the Compliance Section.

Budgeting Controls

In addition, the County maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County's governing body. Activities of the general fund and special revenue funds, and the funds of the component unit School Board are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within an individual fund. Open encumbrance amounts, as of June 30, 2003, have been determined and the amount of these encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances generally are reappropriated as part of the following year's budget.

Management's Discussion & Analysis

In previous years, a brief summary of financial data was provided in the section of the Comprehensive Annual Financial Report. With the adoption of GASB 34, this information is provided in greater detail in the Management's Discussion & Analysis section.

OTHER INFORMATION

Independent Audit

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

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the fifteenth consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

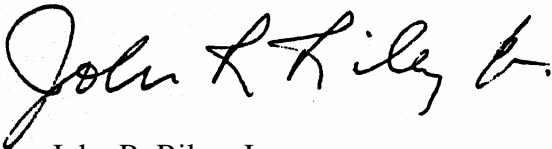
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the County also received GFOA's Award for Distinguished Budget Presentation for its fiscal year beginning 2001 and fourteen prior fiscal year annual budgets. In order to qualify for the Distinguished Budget Presentation Award, the County's budget was judged to be proficient in several categories including policy documentation, financial planning and organization.

Acknowledgments

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

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



John R. Riley, Jr.
County Administrator



Cheryl B. Shiffler
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Frederick,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

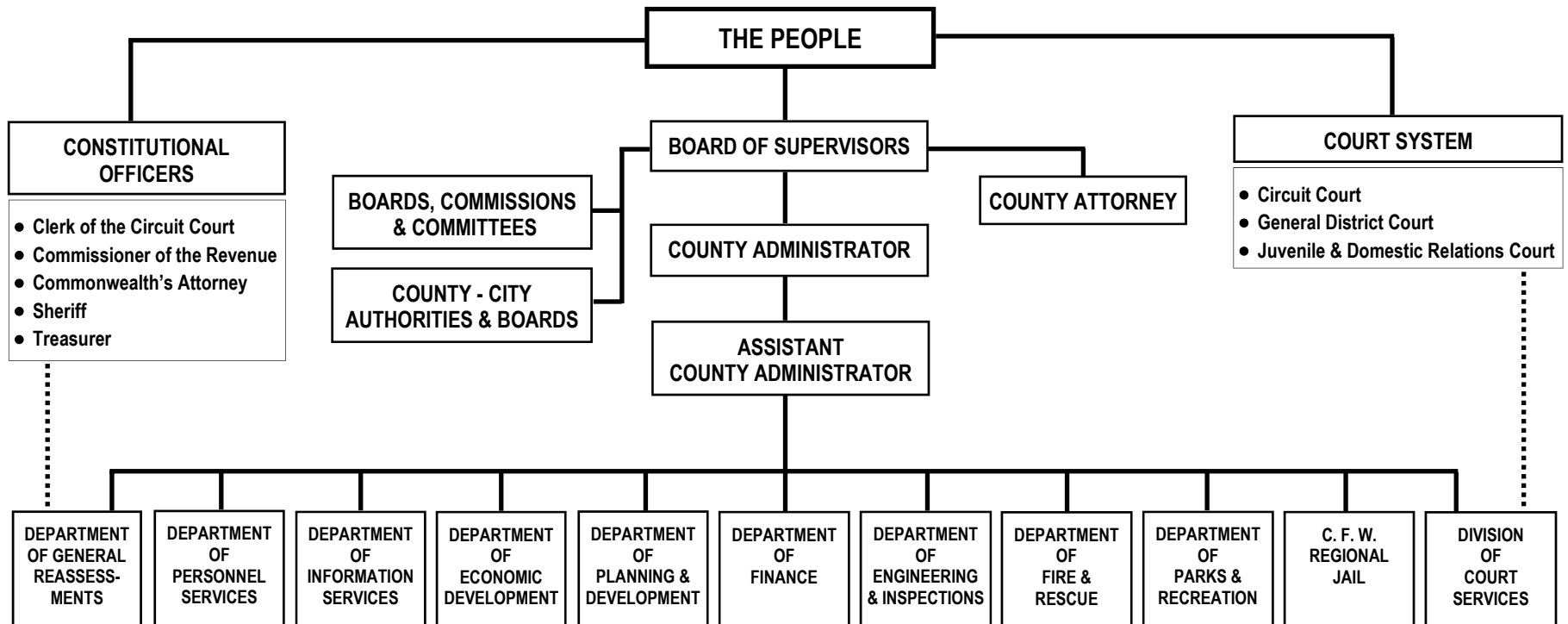
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

FREDERICK COUNTY ORGANIZATIONAL CHART



- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF FREDERICK, VIRGINIA

We have audited the accompanying basic financial statements and the combining fund financial statements of the County of Frederick, Virginia (the "County") as of and for the year ended June 30, 2003, identified as Exhibits 1 through 36 in the Financial Section of the accompanying table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the County as of June 30, 2003, and the results of its operations, cash flows of its proprietary funds, and changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the basic financial statements and the combining fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of the County as of June 30, 2003, and the results of operations of such funds, cash flows of each of the proprietary funds, and changes in net assets of each of the fiduciary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2003 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 9 in the Financial Section of the accompanying table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements and on the combining fund financial statements taken as a whole. The information identified as the Schedule of Expenditures of Federal Awards, required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections of the report are presented for the purposes of additional analysis and are not required parts of the financial statements of the County. Such additional information, except as described in the preceding paragraph, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Robinson, James, Co. Associates

Charlottesville, Virginia
September 11, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights for Fiscal Year 2003:

- On a government-wide basis for governmental activities the County had expenses net of program revenues of \$75.3 million, which was approximately \$1.2 million more than the general revenues of \$74.1 million.
- On a government-wide basis, the general activities total net assets totaled \$26.1 million.
- The fund financial statements reflect unreserved fund balance of \$21.1 million.
- Property taxes of \$44.3 million equaled to almost half of the total \$91.1 million in revenues in the governmental funds.
- The net change in fund balance for the general fund of the prior year increased by \$1.3 million.

Using the Comprehensive Annual Financial Report:

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

Government-Wide Statements:

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

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

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

Government-Wide Statements: (continued)

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

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

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

Fund Financial Statements:

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

The County has three kinds of funds:

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

Fund Financial Statements: (continued)

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

Notes to the Financial Statements:

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

Financial Analysis of the County as a Whole:

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

**Summary Statement of Net Assets
June 30, 2003**

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2003	2002	2003	2002	2003	2002	2003	2002
Current and Other Assets	\$ 44,358,519	\$ 47,535,183	\$ 24,143,744	\$ 21,266,697	\$ 68,502,263	\$ 68,801,880	\$ 25,284,179	\$ 31,893,600
Capital Assets (net)	95,981,146	79,103,599	10,735,752	10,900,601	106,716,898	90,004,200	46,302,625	38,811,077
Total Assets	\$ 140,339,665	\$ 126,638,782	\$ 34,879,496	\$ 32,167,298	\$ 301,857,943	\$ 193,685,576	\$ 71,586,804	\$ 70,704,677
Long-term Liabilities	\$ 108,025,091	\$ 93,791,635	\$ 6,633,256	\$ 5,875,220	\$ 114,658,347	\$ 99,666,855	\$ -	\$ -
Other Liabilities	6,181,730	5,559,848	411,106	232,287	6,592,836.00	5,792,135.00	23,613,023	28,127,124
Total Liabilities	\$ 114,206,821	\$ 99,351,483	\$ 7,044,362	\$ 6,107,507	\$ 220,602,666	\$ 112,503,352	\$ 23,613,023	\$ 28,127,124
Net Assets:								
Invested in Capital Assets, net of related debt	\$ (724,865)	\$ 480,380	\$ 10,735,752	\$ 10,900,601	\$ 10,010,887	\$ 11,380,981	\$ 46,302,625	\$ 38,811,077
Restricted for Capital Projects	1,055,812	1,742,288	-	-	1,055,812	1,055,812	117,729	1,460,095
Unrestricted	25,801,897	25,064,631	17,099,382	15,159,190	42,901,279	40,223,821	1,553,427	2,306,381
Total Net Assets	\$ 26,132,844	\$ 27,287,299	\$ 27,835,134	\$ 26,059,791	\$ 53,967,978	\$ 52,660,614	\$ 47,973,781	\$ 42,577,553

The County’s combined net assets increased to \$53,967,978 from \$53,347,090. This net increase in the amount of \$620,888 can be attributed to a decrease in governmental activities in the amount of \$1,154,455 and an increase in business-type activities in the amount of \$1,775,343. Further detail of these contributing factors are explained below.

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

County of Frederick's Changes in Net Assets For the Fiscal Year Ended June 30, 2003

	Governmental Activities		Business-Type Activities		Total		Component Units	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenues:								
Program Revenues								
Charges for Services	\$ 4,186,731	\$ 3,439,199	\$ 5,246,518	\$ 5,264,437	\$ 9,433,249	\$ 8,703,636	\$ 2,256,663	\$ 2,214,639
Operating Grants & Contributions	10,272,912	9,625,751	-	-	10,272,912	9,625,751	42,238,696	38,189,888
Capital Grants & Contributions	-	-	-	-	-	-	-	-
General Revenues								
Real Estate & Personal Property	44,827,985	40,221,258	-	-	44,827,985	40,221,258	-	-
Other Taxes	16,327,234	14,545,935	-	-	16,327,234	14,545,935	-	-
Payments from Primary Government	-	-	-	-	-	-	48,489,328	29,586,993
Non-restricted Grants	11,231,480	10,482,194	-	-	11,231,480	10,482,194	-	-
Use of Property	65,619	52,992	-	-	65,619	52,992	496,439	735,575
Investment Earnings	424,984	833,683	324,029	469,883	749,013	1,303,566	648	2,250
Miscellaneous	1,269,718	1,015,361	22,551	27,852	1,292,269	1,043,213	202,157	115,105
Total Revenues	\$ 88,606,663	\$ 80,216,373	\$ 5,593,098	\$ 5,762,172	\$ 94,199,761	\$ 85,978,545	\$ 93,683,931	\$ 70,844,450
Expenses:								
General Government	\$ 4,965,883	\$ 3,598,120	\$ -	\$ -	\$ 4,965,883	\$ 3,598,120	\$ -	\$ -
Judicial Administration	2,107,373	1,497,001	-	-	2,107,373	1,497,001	-	-
Public Safety	12,600,675	11,423,070	-	-	12,600,675	11,423,070	-	-
Public Works	1,927,189	2,234,665	-	-	1,927,189	2,234,665	-	-
Health / Welfare	7,171,401	6,375,250	-	-	7,171,401	6,375,250	-	-
Education	49,571,044	31,737,953	-	-	49,571,044	31,737,953	87,782,661	80,377,497
Parks, Recreation & Culture	4,011,890	3,600,216	-	-	4,011,890	3,600,216	-	-
Community Development	2,701,629	2,951,509	-	-	2,701,629	2,951,509	-	-
Interest on Long-term Debt	4,704,034	4,228,764	-	-	4,704,034	4,228,764	-	-
Landfill Operations	-	-	3,817,755	3,756,465	3,817,755	3,756,465	-	-
Industrial Development Authority	-	-	-	-	-	-	505,042	653,563
Total Expenses	\$ 89,761,118	\$ 67,646,548	\$ 3,817,755	\$ 3,756,465	\$ 93,578,873	\$ 71,403,013	\$ 88,287,703	\$ 81,031,060
Change in Net Assets	\$ (1,154,455)	\$ 12,569,825	\$ 1,775,343	\$ 2,005,707	\$ 620,888	\$ 14,575,532	\$ 5,396,228	\$ (10,186,610)
Net Assets, July 1	27,287,299	14,717,474	26,059,791	24,054,084	53,347,090	38,771,558	42,577,553	52,764,133
Net Assets, June 30	\$ 26,132,844	\$ 27,287,299	\$ 27,835,134	\$ 26,059,791	\$ 53,967,978	\$ 53,347,090	\$ 47,973,781	\$ 42,577,523

Revenues:

- **Governmental Activities:** For the fiscal year ended June 30, 2003, revenues from governmental activities totaled \$88,606,663. Real estate tax revenues, which account for approximately 47% of the County's property tax revenues, reflect accrued property tax billings and Shawneeland sanitary fees. Personal property taxes equate to approximately 53% of property tax revenue, which includes over \$10 million reimbursed from the Commonwealth under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA).

Other local taxes include sales tax, utilities tax, gross receipts tax, business license, bank stock taxes, franchise tax, hotel and meals tax, and motor vehicle licenses. This category increased over last fiscal year by \$1.7 million which was a result of increased taxes associated with motor vehicle licenses and increasing the local meals tax.

- **Business-Type Activities:** The Regional Landfill is the only category that is classified as a business-type activity. Fees generated from usage of the landfill are recorded along with interest earnings as revenue. The landfill increased net assets by \$1.7 million in FY03. A portion of these funds will be reserved for future development and funds that are required to be placed in a trust fund for future landfill closing costs.
- **Component Units:** Program revenues would include direct revenues such as charges for services and operating grants. Operating grants include state and federal funding that is primarily comprised of categorical funding.

Expenses:

- **Governmental Activities:** For the fiscal year ended June 30, 2003, expenses related to governmental activities totaled \$89,761,118. Net assets related to governmental activities decreased by \$1.15 million. The expenditures for education reflect an adjustment for unexpended bond proceeds, school board fixed asset activity, and depreciation.

Financial Analysis of the Fund Financial Statements:

- **Governmental Funds:** Reported combined ending fund balance is \$27,616,966, an increase of \$898,007 in comparison with the prior year. Approximately 79% (\$21,705,110) of the combined ending fund balance is unreserved, which is available for spending at the government's discretion. The FY04 budget appropriates over \$3.9 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 (\$2,816,041), (3) debt service (\$557,163), and (4) historical markers and prepaid items (\$14,154).

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

- The General Fund is the chief operating fund of the County of Frederick. The fund balance of the County's General Fund increased by \$1,309,082 during the 2002-03 fiscal year. Some key factors were:
 - Budget surplus in property tax revenue in the amount of \$2,595,303. The majority of this surplus was a result of the unbudgeted June 2003 tax increase.
 - Budget surplus in other local taxes in the amount of \$694,538 that was attributed to an increase in meals tax and motor vehicle licenses.
- The Shawneeland Sanitary District utilizes special property tax assessments to provide services for residents of the District. Expenditures exceeded revenues by \$158,757 for FY 2003.

- **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 \$1,775,343, while the internal service funds recognized an increase in net assets in the amount of \$414,969. The Landfill Fund purchased capital assets in the amount of \$876,398 and posted operating income of \$1,451,314. The Internal Service Funds had operating income of \$390,365.

General Budgetary Highlights:

Differences between the original budget and the final budget resulted in an increase of \$7,809,444 in additional appropriations. Highlights of the budget amendments are as follows:

- \$675,000 for Lord Fairfax Community College capital program.
- \$420,000 for grant funds to preserve the Grim Farm.
- \$250,000 for battlefield preservation.
- \$173,500 in carryforward funds for stormwater improvements.

General Budgetary Highlights: (continued)

- \$110,216 for new deputy positions in the Sheriff’s Office.
- \$1,065,466 for the construction of Warrior Drive.
- \$111,500 for construction of a bikeway for Parks and Recreation.
- \$100,088 for a federal funded telecommuting center.
- \$276,660 in carryforward funds for school operating.
- \$150,000 in Governor’s Opportunity funds from the state.
- \$145,507 for additional comprehensive services needs for “at risk” children.

Capital Assets:

At the end of the Fiscal Year 2003, Governmental Activities had invested \$66,852,970 and the Component Unit School Board had invested \$76,539,376 in capital assets. School Board capital assets are jointly owned by the County (Primary Government) and the Component Unit School Board to the extent of the proportion of general obligation debt owed on such assets by the County. The County reports depreciation on these assets as an element of its share of the costs of the public school system. The County and School Board have no infrastructure capital assets, such as roads and bridges, because all such items have been transferred to and are maintained by the Commonwealth of Virginia. The following two schedules reflect the capital assets of the Governmental Activities and Component Unit School Board. Additional information on capital assets can be found in Notes I-H, and 8 in this report.

	Capital Assets					
	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2003	2002	2003	2002	2003	2002
Capital Assets not being depreciated:						
Land and Land Improvements	\$ 1,408,159	\$ 1,408,159	\$ 2,186,839	\$ 2,186,839	\$ 3,594,998	\$ 3,594,998
Construction in Progress	148,520	5,783,368	110,425	-	258,945	5,783,368
School Construction in Progress	43,054,884	-	-	-	43,054,884	-
Total Capital Assets not being depreciated	<u>\$ 44,611,563</u>	<u>\$ 7,191,527</u>	<u>\$ 2,297,264</u>	<u>\$ 2,186,839</u>	<u>\$ 46,908,827</u>	<u>\$ 9,378,366</u>
Other Capital Assets:						
Building and Improvements	\$ 19,780,672	\$ 14,099,886	\$ 495,003	\$ 495,003	\$ 20,275,675	\$ 14,594,889
Landfill Improvements	-	-	14,031,660	13,329,944	14,031,660	13,329,944
School Building & Improvements	42,459,837	81,501,433	-	-	42,459,837	81,501,433
Furniture, Equipment & Vehicles	4,612,461	4,475,283	2,291,232	2,259,432	6,903,693	6,734,715
Total Other Capital Assets	<u>\$ 66,852,970</u>	<u>\$ 100,076,602</u>	<u>\$ 16,817,895</u>	<u>\$ 16,084,379</u>	<u>\$ 83,670,865</u>	<u>\$ 116,160,981</u>
Less: Accumulated Depreciation	15,483,387	28,164,530	8,379,406	7,370,617	23,862,793	35,535,147
Net Capital Assets	<u>\$ 95,981,146</u>	<u>\$ 79,103,599</u>	<u>\$ 10,735,753</u>	<u>\$ 10,900,601</u>	<u>\$ 106,716,899</u>	<u>\$ 90,004,200</u>

	Component Unit School Board Capital Assets	
	<u>2003</u>	<u>2002</u>
Capital Assets not being depreciated:		
Land and Land Improvements	\$ 4,121,136	\$ 3,791,136
Construction in Progress	44,461,856	18,530,079
Construction in Progress Allocated to County	(43,054,884)	-
Total Capital Assets not being depreciated	<u>\$ 5,528,108</u>	<u>\$ 22,321,215</u>
Other Capital Assets:		
Building and Improvements	\$ 103,079,056	\$ 104,425,216
School Buildings and Improvements allocated to County	(42,459,837)	(81,501,433)
Furniture, Equipment & Vehicles	15,920,157	11,550,626
Total Other Capital Assets	<u>\$ 76,539,376</u>	<u>\$ 34,474,409</u>
Less: Accumulated Depreciation	35,764,859	17,984,547
Net Capital Assets	<u>\$ 46,302,625</u>	<u>\$ 38,811,077</u>

Long-Term Debt:

On June 30, 2003, the Primary Government has \$106,819,057 in long-term obligations. The following schedule reflects long-term debt transactions for the Primary Government.

	<u>July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2003</u>
Lease Revenue Bonds Payable	\$ 7,220,000	\$ -	\$ 430,000	\$ 6,790,000
General Obligation Bonds:				
Library	4,380,418	-	126,115	4,254,303
School	65,456,257	19,752,296	4,522,265	80,686,288
State Literary Fund Loans:				
School	14,560,889	-	1,083,179	13,477,710
Intergovernmental Loans	1,484,287	-	371,073	1,113,214
Capital Leases	56,368	124,794	34,175	146,987
Retirement Incentive Obligation	675,144	-	324,589	350,555
Total	<u>\$ 93,833,363</u>	<u>\$ 19,877,090</u>	<u>\$ 6,891,396</u>	<u>\$ 106,819,057</u>

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

Contacting the Finance Department:

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

Basic Financial Statements:
- Government-wide Financial Statements -

COUNTY OF FREDERICK, VIRGINIA

Statement of Net Assets
At June 30, 2003

				Component Units	
	Governmental Activities	Business-Type Activities	Total	School Board	Industrial Development Authority
Assets:					
Cash and cash equivalents	\$ 27,900,297	\$ 23,560,702	\$ 51,460,999	\$ 22,123,648	\$ 159,515
Receivables, net	3,956,272	583,042	4,539,314	73,634	300,000
Due from other governments	1,893,323	-	1,893,323	2,625,705	-
Intergovernmental loan	845,496	-	845,496	-	-
Prepaid expenses	640	-	640	-	1,677
Due from component unit School Board	9,762,491	-	9,762,491	-	-
Capital assets:					
Land and construction in progress	44,611,563	2,297,263	46,908,826	5,528,108	-
Other capital assets, net of accumulated depreciation	51,369,583	8,438,489	59,808,072	40,774,517	-
Capital assets, net	\$ 95,981,146	\$ 10,735,752	\$ 106,716,898	\$ 46,302,625	\$ -
Total assets	\$ 140,339,665	\$ 34,879,496	\$ 175,219,161	\$ 71,125,612	\$ 461,192
Liabilities:					
Accounts payable and accrued expenses	\$ 2,722,128	\$ 322,104	\$ 3,044,232	\$ 11,158,301	\$ 300,105
Claims payable	245,748	-	245,748	826,167	-
Compensated absences	1,691,043	89,002	1,780,045	935,312	-
Deferred revenue	1,321,258	-	1,321,258	630,647	-
Amounts held for others	201,553	-	201,553	-	-
Due to primary government	-	-	-	9,762,491	-
Long-term liabilities:					
Due within one year:					
Bonds, loans and capital leases payable	7,296,165	-	7,296,165	-	-
Early retirement incentive obligation	350,555	-	350,555	-	-
Due in more than one year:					
Bonds, loans and capital leases payable	99,172,337	-	99,172,337	-	-
Early retirement incentive obligation	-	-	-	-	-
Unamortized bond premiums	1,772,014	-	1,772,014	-	-
Unamortized bond defeasance costs	(565,980)	-	(565,980)	-	-
Accrued landfill remediation costs	-	6,633,256	6,633,256	-	-
Total liabilities	\$ 114,206,821	\$ 7,044,362	\$ 121,251,183	\$ 23,312,918	\$ 300,105
Net Assets:					
Invested in capital assets, net of related debt	\$ (724,865)	\$ 10,735,752	\$ 10,010,887	\$ 46,302,625	\$ -
Restricted:					
Capital projects	1,055,812	-	1,055,812	117,729	-
Unrestricted	25,801,897	17,099,382	42,901,279	1,392,340	161,087
Total net assets	\$ 26,132,844	\$ 27,835,134	\$ 53,967,978	\$ 47,812,694	\$ 161,087

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities								
General government	\$ 4,965,883	\$ -	\$ 377,748	\$ -	\$ (4,588,135)	\$ -	\$ (4,588,135)	\$ -
Judicial administration	2,107,373	917,359	597,834	-	(592,180)	-	(592,180)	-
Public safety	12,600,675	2,319,311	2,710,079	-	(7,571,285)	-	(7,571,285)	-
Public works	1,927,189	-	10,235	-	(1,916,954)	-	(1,916,954)	-
Health and welfare	7,171,401	-	3,602,889	-	(3,568,512)	-	(3,568,512)	-
Education	49,571,044	-	1,901,777	-	(47,669,267)	-	(47,669,267)	-
Parks, recreation and cultural	4,011,890	936,863	5,000	-	(3,070,027)	-	(3,070,027)	-
Community development	2,701,629	13,198	1,067,350	-	(1,621,081)	-	(1,621,081)	-
Interest on long-term debt	4,704,034	-	-	-	(4,704,034)	-	(4,704,034)	-
Total governmental activities	\$ 89,761,118	\$ 4,186,731	\$ 10,272,912	\$ -	\$ (75,301,475)	\$ -	\$ (75,301,475)	\$ -
Business type activities								
Landfill operations	3,817,755	5,246,518	-	-	-	1,428,763	1,428,763	-
Total Primary Government	\$ 93,578,873	\$ 9,433,249	\$ 10,272,912	\$ -	\$ (75,301,475)	\$ 1,428,763	\$ (73,872,712)	\$ -
Component Units								
Frederick County Public Schools	\$ 87,782,661	\$ 2,240,245	\$ 42,238,696	\$ -				\$ (43,303,720)
Frederick County Industrial Development Authority	505,042	16,418	-	-				(488,624)
Total Component Units	\$ 88,287,703	\$ 2,256,663	\$ 42,238,696	\$ -				\$ (43,792,344)
General Revenues								
Taxes:								
General property taxes, real and personal					\$ 44,827,985	\$ -	\$ 44,827,985	\$ -
Other					16,327,234	-	16,327,234	-
Payment from County of Frederick:								
Education					-	-	-	48,189,328
Industrial Development Authority					-	-	-	300,000
Grants and contributions not restricted to specific programs					11,231,480	-	11,231,480	-
Use of property					65,619	-	65,619	496,439
Investment earnings					424,984	324,029	749,013	648
Miscellaneous					1,269,718	22,551	1,292,269	202,157
Total general revenues					\$ 74,147,020	\$ 346,580	\$ 74,493,600	\$ 49,188,572
Change in net assets					\$ (1,154,455)	\$ 1,775,343	\$ 620,888	\$ 5,396,228
Net assets, beginning of year					27,287,299	26,059,791	53,347,090	42,577,553
Net assets, end of year					\$ 26,132,844	\$ 27,835,134	\$ 53,967,978	\$ 47,973,781

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

Basic Financial Statements:
- Fund Financial Statements -

COUNTY OF FREDERICK, VIRGINIA

Balance Sheet
Governmental Funds
At June 30, 2003

	<u>General Fund</u>	<u>Shawneeland Sanitary District Fund</u>	<u>School Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 22,774,525	\$ 727,279	\$ 557,663	\$ 1,769,800	\$ 25,829,267
Property taxes receivable, net	2,171,629	554,694	-	-	2,726,323
Business licenses receivable	553,980	-	-	-	553,980
Accounts receivable	670,362	-	-	1,958	672,320
Due from other governments	1,643,913	-	-	249,410	1,893,323
Intergovernmental loan	845,496	-	-	-	845,496
Prepaid items	638	-	-	-	638
Total	<u>\$ 28,660,543</u>	<u>\$ 1,281,973</u>	<u>\$ 557,663</u>	<u>\$ 2,021,168</u>	<u>\$ 32,521,347</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 708,789	\$ 12,199	\$ 500	\$ 18,001	\$ 739,489
Amounts held for others	201,553	-	-	-	201,553
Deferred revenue - business licenses	553,980	-	-	-	553,980
Deferred revenue - prepaid taxes	1,285,234	36,024	-	-	1,321,258
Deferred revenue - property taxes	1,565,468	522,633	-	-	2,088,101
Total	<u>\$ 4,315,024</u>	<u>\$ 570,856</u>	<u>\$ 500</u>	<u>\$ 18,001</u>	<u>\$ 4,904,381</u>
Fund Balance					
Reserved for:					
Prepaid items	\$ 638	\$ -	\$ -	\$ -	\$ 638
Encumbrances	1,432,385	143,143	-	-	1,575,528
Non-current loans	845,496	-	-	-	845,496
Capital projects	818,287	-	-	-	818,287
Fire company capital	96,446	-	-	-	96,446
Historical markers	13,516	-	-	-	13,516
Economic development	687	-	-	-	687
Tri-centennial	928	-	-	-	928
Unreserved:					
Designated:					
Debt service	-	-	557,163	-	557,163
Subsequent year's expenditures:					
Special Revenue Funds	-	-	-	947,355	947,355
Capital projects	-	-	-	1,055,812	1,055,812
Unreserved/undesignated	21,137,136	567,974	-	-	21,705,110
Total fund balance	<u>\$ 24,345,519</u>	<u>\$ 711,117</u>	<u>\$ 557,163</u>	<u>\$ 2,003,167</u>	<u>\$ 27,616,966</u>
Total	<u>\$ 28,660,543</u>	<u>\$ 1,281,973</u>	<u>\$ 557,663</u>	<u>\$ 2,021,168</u>	<u>\$ 32,521,347</u>

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

COUNTY OF FREDERICK, VIRGINIA

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2003**

Total fund balances for governmental funds (Exhibit 3)	\$	27,616,966
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	\$	1,408,159
Construction in progress		148,520
Buildings and improvements, net of depreciation		16,243,760
Equipment, net of depreciation		1,621,092
School Board fixed assets, net of depreciation		<u>76,559,615</u>
Total capital assets		95,981,146
School bond proceeds for which capital assets have not been constructed or acquired. This adjustment is required to properly report actual debt used to construct or acquire capital assets.		
		9,762,491
Internal service funds are used by the County to charge the cost of health insurance, supplies, gasoline, duplicating and unemployment benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service funds net assets are:		
		1,811,785
Some of the County's taxes and business licenses will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as deferred revenue in the funds.		
		2,642,081
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Also, the County received a premium on its long-term debt issues and incurred defeasance costs when refunding debt. The premium and defeasance costs will be amortized over the life of the new bond issue as interest is paid. Balances of long-term liabilities affecting net assets are as follows:		
Accrued interest on debt	\$	(1,965,491)
Bonds, notes and capital leases payable		(106,468,502)
Early retirement incentive obligation		(350,555)
Unamortized bond premium		(1,772,014)
Unamortized defeasance costs		565,980
Compensated absences		<u>(1,691,043)</u>
Total		<u>(111,681,625)</u>
Total net assets of governmental activities (Exhibits 1 and 2)	\$	<u>26,132,844</u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003

	<u>General Fund</u>	<u>Shawneeland Sanitary District Fund</u>	<u>School Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 44,344,353	\$ 509,743	\$ -	\$ -	\$ 44,854,096
Other local taxes	16,189,296	-	-	-	16,189,296
Permits, privilege fees and regulatory licenses	1,556,839	-	-	-	1,556,839
Fines and forfeitures	133,549	-	-	-	133,549
Use of money and property	425,269	8,987	-	31,743	465,999
Charges for services	1,936,008	-	-	560,335	2,496,343
Miscellaneous	315,355	2,558	-	951,805	1,269,718
Recovered costs	2,413,809	1,393	-	244,879	2,660,081
Intergovernmental:					
Revenue from the Commonwealth	16,033,629	-	1,901,777	1,033,968	18,969,374
Revenue from the Federal Government	2,535,018	-	-	-	2,535,018
Total revenues	<u>\$ 85,883,125</u>	<u>\$ 522,681</u>	<u>\$ 1,901,777</u>	<u>\$ 2,822,730</u>	<u>\$ 91,130,313</u>
Expenditures					
Current:					
General government administration	\$ 4,945,481	\$ -	\$ -	\$ -	\$ 4,945,481
Judicial administration	1,327,545	-	-	1,040,966	2,368,511
Public safety	12,109,078	-	-	-	12,109,078
Public works	2,627,042	-	-	-	2,627,042
Health and welfare	5,549,107	-	-	1,631,869	7,180,976
Education - local community college	85,373	-	-	-	85,373
Education - public school system	62,304,535	-	-	-	62,304,535
Parks, recreation and cultural	3,817,096	-	-	-	3,817,096
Community development	3,554,320	363,924	-	-	3,918,244
Capital projects	-	-	-	703,787	703,787
Debt service:					
Principal payments	590,290	-	6,301,106	-	6,891,396
Interest and fiscal charges	538,876	-	3,832,768	-	4,371,644
Total expenditures	<u>\$ 97,448,743</u>	<u>\$ 363,924</u>	<u>\$ 10,133,874</u>	<u>\$ 3,376,622</u>	<u>\$ 111,323,163</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (11,565,618)</u>	<u>\$ 158,757</u>	<u>\$ (8,232,097)</u>	<u>\$ (553,892)</u>	<u>\$ (20,192,850)</u>
Other financing sources (uses)					
Long-term debt issued	\$ 19,752,296	\$ -	\$ -	\$ -	\$ 19,752,296
Bond premium	1,213,767	-	-	-	1,213,767
Capital lease proceeds	124,794	-	-	-	124,794
Transfers in	-	-	8,216,157	-	8,216,157
Transfers out	(8,216,157)	-	-	-	(8,216,157)
Total other financing sources (uses)	<u>\$ 12,874,700</u>	<u>\$ -</u>	<u>\$ 8,216,157</u>	<u>\$ -</u>	<u>\$ 21,090,857</u>
Net change in fund balance	\$ 1,309,082	\$ 158,757	\$ (15,940)	\$ (553,892)	\$ 898,007
Fund balance, beginning of year	<u>23,036,437</u>	<u>552,360</u>	<u>573,103</u>	<u>2,557,059</u>	<u>26,718,959</u>
Fund balance, end of year	<u>\$ 24,345,519</u>	<u>\$ 711,117</u>	<u>\$ 557,163</u>	<u>\$ 2,003,167</u>	<u>\$ 27,616,966</u>

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

COUNTY OF FREDERICK, VIRGINIA

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2003**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	898,007
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
		(580,331)
<p>Other adjustments relating to fixed assets in the capital projects funds</p>		
		-
<p>School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board.</p>		
		17,457,878
<p>Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.</p>		
		111,827
<p>Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
<p>Debt issued:</p>		
General obligation school bonds	\$	(19,752,296)
Capital leases		(124,794)
<p>Premium on debt:</p>		
School bonds		(1,213,767)
<p>Repayments:</p>		
Lease revenue bonds		430,000
General obligation library bonds		126,115
General obligation school bonds		4,522,265
State Literary Fund loans		1,083,179
Intergovernmental loans		371,073
Capital leases		34,175
Early retirement incentive obligation		324,589
Net adjustment		(14,199,461)
<p>Change in School bond proceeds for which capital assets have not been constructed or acquired.</p>		
		(4,772,509)
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:</p>		
Compensated absences	\$	(152,447)
Amortization of debt premium		53,489
Amortization of advanced refunding defeasance costs		(87,484)
Accrued interest on bonds and loans		(298,393)
Net adjustment		(484,835)
<p>Internal service funds are used by the County to charge the costs of health insurance, supplies and unemployment costs to individual funds. The net revenue of internal service funds is reported with governmental activities.</p>		
		414,969
<p>Change in net assets of governmental activities (Exhibit 2)</p>		
	\$	(1,154,455)

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Net Assets
Proprietary Funds
At June 30, 2003

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Landfill Fund	Internal Service Funds
Assets:		
Current assets:		
Cash and cash equivalents	\$ 23,560,702	\$ 2,071,030
Receivables, net	583,042	3,649
Total current assets	\$ 24,143,744	\$ 2,074,679
Noncurrent assets:		
Capital assets:		
Land	\$ 2,186,838	\$ -
Construction in progress	110,425	-
Other capital assets, net of accumulated depreciation	8,438,489	-
Total noncurrent assets	\$ 10,735,752	\$ -
Total assets	\$ 34,879,496	\$ 2,074,679
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 322,104	\$ 17,146
Compensated absences	89,002	-
Claims payable	-	245,748
Total current liabilities	\$ 411,106	\$ 262,894
Long-term liabilities:		
Accrued landfill remediation costs	6,633,256	-
Total liabilities	\$ 7,044,362	\$ 262,894
Net Assets:		
Invested in net capital assets	\$ 10,735,752	\$ -
Unrestricted	17,099,382	1,811,785
Total net assets	\$ 27,835,134	\$ 1,811,785

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2003

	Business-Type Activities - Enterprise Landfill Fund	Governmental Activities Internal Service Funds
Operating revenues:		
Charges for services, net	\$ 5,246,518	\$ 3,228,923
Miscellaneous	22,551	-
Total operating revenues	<u>\$ 5,269,069</u>	<u>\$ 3,228,923</u>
Operating expenses:		
Personal services	\$ 669,166	\$ -
Fringe benefits	189,765	2,652,378
Contractual services	585,034	-
Other charges	1,332,543	186,180
Depreciation	1,041,247	-
Total operating expenses	<u>\$ 3,817,755</u>	<u>\$ 2,838,558</u>
Operating income (loss)	<u>\$ 1,451,314</u>	<u>\$ 390,365</u>
Nonoperating revenues:		
Investment earnings	324,029	24,604
Change in net assets	<u>\$ 1,775,343</u>	<u>\$ 414,969</u>
Total net assets, beginning of year	<u>26,059,791</u>	<u>1,396,816</u>
Total net assets, end of year	<u><u>\$ 27,835,134</u></u>	<u><u>\$ 1,811,785</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2003

	Business-Type Activities - Enterprise Landfill Fund	Governmental Activities Internal Service Funds
Cash flows from operating activities		
Receipts from customers	\$ 5,105,044	\$ -
Receipts from insured	-	2,688,818
Receipts from services	-	540,447
Other receipts	22,551	-
Payments to employees	(660,690)	-
Payments to suppliers	(1,094,963)	(2,792,548)
Other payments	-	(6,993)
Net cash provided by operating activities	\$ 3,371,942	\$ 429,724
Cash flows from noncapital financing activities		
Transfers in	-	-
Cash flows from investing activities		
Investment earnings	324,029	24,604
Cash flows from capital and related financing activities		
Purchases of capital assets	(876,398)	-
Net increase (decrease) in cash and cash equivalents	\$ 2,819,573	\$ 454,328
Cash and cash equivalents, beginning of year	20,741,129	1,616,702
Cash and cash equivalents, end of year	\$ 23,560,702	\$ 2,071,030
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 1,451,314	\$ 390,365
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,041,247	-
Changes in assets and liabilities:		
Receivables	(57,474)	342
Accounts payable and accrued expenses	178,819	1,481
Claims payable	-	37,536
Increase in accrued landfill costs	758,036	-
Net cash provided by (used in) operating activities	\$ 3,371,942	\$ 429,724

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Fiduciary Net Assets
At June 30, 2003

	Private Purpose Trust Funds	Agency Funds	Total
Assets:			
Cash and cash equivalents	\$ 21,901	\$ 1,864,161	\$ 1,886,062
Receivables	-	402,010	402,010
Due from other governmental units	-	351,666	351,666
Total assets	<u>\$ 21,901</u>	<u>\$ 2,617,837</u>	<u>\$ 2,639,738</u>
Liabilities:			
Accounts payable	\$ -	\$ 722,833	\$ 722,833
Amounts held for others	-	1,895,004	1,895,004
Total liabilities	<u>\$ -</u>	<u>\$ 2,617,837</u>	<u>\$ 2,617,837</u>
Net Assets	<u>\$ 21,901</u>	<u>\$ -</u>	<u>\$ 21,901</u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 At June 30, 2003

	Private Purpose Trust Funds
	<u> </u>
Additions:	
Investment earnings	\$ 322
Deductions:	
Education	<u> 136</u>
Change in net assets	\$ 186
Net assets, beginning of year	<u> 21,715</u>
Net assets, end of year	<u><u> 21,901</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Statement of Activities
 Component Units
 Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Industrial Development Authority	
School Board							
Education	\$ 84,876,779	\$ 2,240,245	\$ 42,238,696	\$ -	\$ (40,397,838)	\$ -	\$ (40,397,838)
Depreciation	2,905,882	-	-	-	(2,905,882)	-	(2,905,882)
Total School Board	\$ 87,782,661	\$ 2,240,245	\$ 42,238,696	\$ -	\$ (43,303,720)	\$ -	\$ (43,303,720)
Industrial Development Authority							
Community development	505,042	16,418	-	-	-	(488,624)	(488,624)
Total component units	\$ 88,287,703	\$ 2,256,663	\$ 42,238,696	\$ -	\$ (43,303,720)	\$ (488,624)	\$ (43,792,344)
General revenues:							
Payment from County				\$ 48,189,328	\$ 300,000	\$ 48,489,328	
Use of property				496,439	-	496,439	
Interest and investment earnings				-	648	648	
Miscellaneous				201,172	985	202,157	
Total general revenues				\$ 48,886,939	\$ 301,633	\$ 49,188,572	
Change in net assets				\$ 5,583,219	\$ (186,991)	\$ 5,396,228	
Net assets, beginning of year				42,229,475	348,078	42,577,553	
Net assets, end of year				\$ 47,812,694	\$ 161,087	\$ 47,973,781	

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

The County of Frederick, located in northwest Virginia and bordered by West Virginia and the counties of Shenandoah, Warren, and Clarke, was founded in 1738. The County has a population of 62,400 and a land area of 427 square miles.

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

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

A. Financial Reporting Entity

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

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

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

A. Financial Reporting Entity (Continued)

- Statement of Net Assets: The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

- Statement of Program Activities: The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

- Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The County and many other governments revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results for its major funds.

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

Inclusions in the Reporting Entity:

1. Component Units:

a. Frederick County School Board:

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

A. Financial Reporting Entity (Continued)

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

b. Frederick County Industrial Development Authority:

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

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

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

- a. The Handley Regional Library Board provides library services to the Counties of Frederick and Clarke, and the City of Winchester. The participating localities provide annual contributions for operations based on usage of library services. The Library Board is composed of nine members, of which three are appointed by the County, five by the City of Winchester, and one by the County of Clarke. The County made operating grants of \$835,870 to the Library for fiscal 2003, and has no equity interest in the Library. The participating governments have no ongoing financial responsibility to fund the Library to assure its continued operations. The Library has a significant endowment trust.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

A. Financial Reporting Entity (Continued)

- b. The Clarke, Fauquier, Frederick, Winchester Jail Board was created in 1987 to construct and operate the Clarke, Fauquier, Frederick, Winchester Regional Adult Detention Center. The Center charges on a per diem basis other localities and the federal government for their prisoners placed in the jail. The fourteen member board consists of four members each from the County of Frederick and City of Winchester, and three from the Counties of Clarke and Fauquier. The County and the other participants have no equity interest in the jail. The County made operating contributions of \$930,441 to the regional jail in fiscal 2003.
- c. The Winchester Regional Airport Authority was created in 1987 to operate and maintain the regional airport. The City of Winchester and the Counties of Clarke, Frederick, Shenandoah and Warren contribute operating and capital funds as necessary to maintain, operate and construct the airport facilities. The Authority Board consists of seven members of which two each are appointed by the County of Frederick and the City of Winchester, and one each from the Counties of Clarke, Shenandoah and Warren. The participating localities do not retain an equity interest in the Authority. The County of Frederick serves as fiscal agent for the Authority, which is reported as an agency fund in the financial statements. The County made operating grants of \$114,409 and capital grants of \$0 to the Authority in fiscal 2003.
- d. The Frederick-Winchester Service Authority was created by the County of Frederick and City of Winchester to provide for the administration, planning and design of wastewater facilities. The Authority has nine Board Members of which four each are appointed by the County and City, and one member appointed at-large by the Authority Board. The participating localities do not retain an ongoing financial interest nor are responsible for the financial activities of the Authority. The County made no operating grants to the Authority in fiscal 2003.
- e. The Northwestern Community Services Board was created to provide Mental Health, Mental Retardation and Substance Abuse Services to the residents of the City of Winchester and the Counties of Clarke, Frederick, Page, Shenandoah and Warren. The Board has fifteen members of which three each are appointed by the City of Winchester and the Counties of Clarke, Frederick, Page and Warren. The participating localities contribute annual operating grants to the Board, but are not required to do so. The participants have no ongoing financial responsibilities to or equity interest in the Board. The County appropriated \$132,126 for an operating grant to the Board in fiscal 2003.
- f. The Northwestern Regional Juvenile Detention Center was created by the Counties of Clarke, Frederick, Page, Shenandoah and Warren, and the City of Winchester. Each participant jurisdiction has one representative on the Center's Board of Directors, and the Clarke, Fauquier, Frederick, Winchester Jail Board has one representative on the Board. The City of Winchester serves as the Center's fiscal agent. The participating localities contribute annual operating grants to the Center, but do not retain an ongoing financial interest in the Center. The County of Frederick appropriated \$180,715 in operating grants to the Center in fiscal 2003.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

A. Financial Reporting Entity (Continued)

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

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

2. Other Organizations:

The Frederick County Sanitation Authority was created by the Board of Supervisors to operate the County's water and sewer systems. The County appoints all six members of the Authority's Board of Directors. Other than making appointments to the Authority Board of Directors, the County is not involved with day-to-day management or rate setting processes. All obligations of the Authority are payable solely from and secured by revenues derived from the operation of the water and sewer systems. None of the obligations are issued against the credit of the County nor does the County have any legal or moral obligations to the holders of the bonds or notes. The County has made no contributions to the Authority for operations or capital asset acquisitions during fiscal year 2003. However, the County has made advances to the Authority at below market interest rates in order to provide operating capital. The Authority is excluded from the County's financial statements because it is not accountable to the County.

B. Government-Wide and Fund Financial Statements

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Internal service charges are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

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

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

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

The County's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the County in FY 2003.

1. Governmental Funds:

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

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

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

2. Proprietary Funds:

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

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

- Central Stores Fund - This fund accounts for the operations of duplicating, postage, gasoline and office supplies. Revenue is derived from sales to user departments.
- Unemployment Fund - This fund accounts for unemployment obligations of the primary government. Revenue is derived from interfund transfers and investment earnings.
- Volunteer Fire and Rescue Fund - This fund accounts for length of service stipends to be paid to volunteer fire and rescue personnel. Revenue is derived from transfers from the General Fund.

3. Fiduciary Funds (Trust and Agency Funds):

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

a. Private Purpose Trust Funds:

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

b. Agency Funds:

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

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

4. Component Units:

a. Frederick County School Board:

The Frederick County School Board has the following funds:

-- Governmental Funds:

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

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

- ~ School Cafeteria Fund - This fund accounts for the operations of the School Board's food service program. Financing is provided primarily by food and beverage sales, and state and federal grants.
- ~ Consolidated Services Fund - This fund accounts for the maintenance of County properties. Financing is provided by appropriations from the County.
- ~ School Textbook Fund - This fund accounts for the purchase of textbooks for the public school system. Funding is provided primarily by state grants and transfers from the School Operating Fund.
- ~ School Capital Projects Fund - This fund accounts for school construction and related expenditures of the public school system. Funding is primarily from investment earnings and appropriations from the County of Frederick. The School Capital Projects Fund is considered a major fund for financial reporting purposes.

-- Internal Service Fund:

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

b. Industrial Development Authority:

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

C. Basis of Accounting

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

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

C. Basis of Accounting (Continued)

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

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

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

D. Budgets and Budgetary Accounting

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

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

Encumbrances:

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

D. Budgets and Budgetary Accounting (Continued)

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

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

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

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

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. All appropriations lapse on June 30, for all County and School Board funds.
8. All budget data presented in the accompanying financial statements is the original budget as of June 30, 2003, as adopted, appropriated and legally amended.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

D. Budgets and Budgetary Accounting (Continued)

9. The expenditure budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government and at the function level for the School Board. State law requires that if budget amendments exceed 1% of the original adopted budget the Board of Supervisors may legally amend the budget only by following procedures used in the adoption of the original budget. There was one budget amendment during the year that exceeded the 1% or \$500,000 limitations. The Board of Supervisors must approve all appropriations and transfers of appropriated amounts.

E. Investments:

Investments are reported at fair value.

F. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$2,676,443 at June 30, 2003 and is composed of the following:

General Fund--taxes receivable	\$ 959,257
General Fund--street light assessments receivable	11,186
Shawneeland District--taxes receivable	1,622,000
Enterprise Fund--Landfill Fund--accounts receivable	<u>84,000</u>
Total	<u>\$ 2,676,443</u>

G. Prepaid Expenses:

Prepaid expenses are reported on the consumption method.

H. Capital Assets

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

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

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

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

H. Capital Assets (Continued)

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

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

All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The County and School Board do not capitalize historical treasures or works of art.

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

Interest on cost of construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2003.

I. Compensated Absences

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

Because the timing of the settlement of the liability related to compensated absences is not considered to be estimable, the entire amount of the liability has been classified as current in the government-wide financial statements.

J. Use of Estimates

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

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

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

K. Long-Term Obligations

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

NOTE 2 - CASH AND INVESTMENTS:

Cash and Cash Equivalents:

For purposes of reporting cash flows for proprietary funds, cash and cash equivalents include cash on hand, money market funds, certificates of deposit and investments with maturities of three months or less.

The County maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. The majority of funds in the County's accounts are invested at all times. The Industrial Development Authority maintains separate cash and investment accounts consisting of interest bearing checking and money market mutual fund accounts.

Deposits:

At year-end the County's and its component units' balances with banks were insured by federal depository insurance, or the equivalent, and/or secured in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. The State Treasury Board may make additional assessments against participating financial institutions in the event the pool cannot cover losses. The security for bank balances of deposit consists of U. S. government securities. The funds covered under the Act are considered to be collateralized. The collateral is held in the name of the State Treasury Board rather than the name of the locality. Deposits collateralized under the Act are considered to be insured. The book value of deposits does not differ materially from the bank balances.

Investments:

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 2 - CASH AND INVESTMENTS: (Continued)

Investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County and/or its component units or their safekeeping agent in the entity's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department (if a bank) or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker, dealer, or by a counterparty or safekeeping agent but not in the entity's name.

The following is a summary of investments:

	Category			Non-Categorized	Total	Fair Value
	1	2	3			
Commonwealth of Virginia Local						
Government Investment Pool	\$ -	\$ -	\$ -	\$ 5,809,300	\$ 5,809,300	\$ 5,809,300
Money market mutual funds	-	-	-	11,361,609	11,361,609	11,361,609
U.S. Government securities	2,866,325	-	-	-	2,866,325	2,866,325
Commercial paper	823,685	-	-	-	823,685	823,685
Corporate bonds	766,100	-	-	-	766,100	766,100
Repurchase agreements	-	-	488,891	-	488,891	488,891
Foreign government securities	257,704	-	-	-	257,704	257,704
Equity in Bond Pool Funds	-	-	-	11,108,595	11,108,595	11,108,595
Total	<u>\$4,713,814</u>	<u>\$ -</u>	<u>\$488,891</u>	<u>\$ 28,279,504</u>	<u>\$33,482,209</u>	<u>\$ 33,482,209</u>

The fair value of the external investment pools is the same as the value of the pool shares. Investments in the Local Government Investment Pool that are not SEC registered are subject to regulatory oversight and are monitored by the Treasurer of Virginia and other applicable state agencies. Investments in other external investment pools are all SEC registered or federal securities.

There were no involuntary participations in external investment pools. The County does not sponsor any external investment pools.

The following is a summary of the County's and component units' deposit and investment balances as of June 30, 2003.

	Pooled Cash and Investments	Other	Total
Cash on hand	\$ 1,150	\$ -	\$ 1,150
Petty cash and other	14,844	-	14,844
Bank deposits	42,116,804	15,217	42,132,021
Investments	33,337,911	144,298	33,482,209
Total	<u>\$ 75,470,709</u>	<u>\$ 159,515</u>	<u>\$ 75,630,224</u>

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 2 - CASH AND INVESTMENTS: (Continued)

(table continued from previous page)

	<u>Pooled Cash and Investments</u>	<u>Other</u>	<u>Total</u>
Per government-wide financial statements:			
Primary government:			
Governmental activities	\$ 27,900,297	\$ -	\$ 27,900,297
Business-type activities	23,560,702	-	23,560,702
Fiduciary responsibilities	<u>1,886,062</u>	<u>-</u>	<u>1,886,062</u>
Total primary government	\$ 53,347,061	\$ -	\$ 53,347,061
Component units:			
School Board:			
Governmental activities	22,123,648	-	22,123,648
Industrial Development Authority:			
Business-type activities	<u>-</u>	<u>159,515</u>	<u>159,515</u>
	<u>\$ 75,470,709</u>	<u>\$ 159,515</u>	<u>\$ 75,630,224</u>

NOTE 3 - PROPERTY TAXES:

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

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

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

Property taxes for calendar year 2002 were levied by the County Board of Supervisors on April 10, 2002, on the assessed value listed as of January 1, 2002.

Property taxes for calendar year 2003 were levied by the County Board of Supervisors on April 9, 2003, on the assessed value listed as of January 1, 2003.

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

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 4 - RECEIVABLES:

Receivables at June 30, 2003 consist of the following:

	Primary Government				Business- Type Activities	Component Units		
	Governmental Activities					School Board	Industrial Development Authority	Fiduciary Activities
	General	Special Revenue	Internal Service	Total				
Property taxes	\$ 3,130,886	\$2,176,694	\$ -	\$5,307,580	\$ -	\$ -	\$ -	\$ -
Business licenses	553,980	-	-	553,980	-	-	-	-
Utility taxes	224,325	-	-	224,325	-	-	-	-
Meals taxes	207,648	-	-	207,648	-	-	-	-
Lodging taxes	26,656	-	-	26,656	-	-	-	-
Landfill fees	-	-	-	-	661,540	-	-	-
E-911 fees	127	-	-	127	-	-	-	-
Prisoner fees	-	-	-	-	-	-	-	311,418
Interest	48,133	-	-	48,133	-	-	-	-
Street lights	11,186	-	-	11,186	-	-	-	-
Other	163,473	1,958	3,649	169,080	5,502	73,634	300,000	90,592
Total	\$ 4,366,414	\$2,178,652	\$3,649	\$6,548,715	\$667,042	\$73,634	\$ 300,000	\$402,010
Allowance for uncollectibles	(970,443)	(1,622,000)	-	(2,592,443)	(84,000)	-	-	-
Net receivables	\$ 3,395,971	\$ 556,652	\$3,649	\$3,956,272	\$583,042	\$73,634	\$ 300,000	\$402,010

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

	Governmental Activities				Business- Type Activities	Component Units		
	General	Special Revenue	Internal Service	Total		School Board	Industrial Development Authority	Fiduciary Activities
Local sales taxes	\$ 959,606	\$ -	\$ -	\$ 959,606	\$ -	\$ -	\$ -	\$ 38,632
State sales taxes	-	-	-	-	-	-	-	-
Comprehensive Services Act	-	249,410	-	249,410	-	-	-	-
Shared expenses and grants	609,267	-	-	609,267	-	-	-	-
State school funds	-	-	-	-	-	1,419,477	-	-
Federal pass-through school funds	-	-	-	-	-	1,206,228	-	-
Jail operations and costs	-	-	-	-	-	-	-	275,486
Federal government:								
Telecommuting center	75,040	-	-	-	-	-	-	-
Prisoner fees	-	-	-	-	-	-	-	37,548
Total	\$ 1,643,913	\$ 249,410	\$ -	\$ 1,893,323	\$ -	\$ 2,625,705	\$ -	\$ 351,666

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 6 - INTERFUND BALANCES AND ACTIVITY:

Primary Government:

Balances due to/from other funds at June 30, 2003:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the School Debt Service Fund to pay school debt service and related costs	\$ 8,216,157
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Component Unit School Board:

Transfers from the School Operating Fund to the School Cafeteria Fund for food service	\$ 22,000
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Transfers from the School Operating Fund to the School Textbook Fund to provide funding for future textbook purchases	311,351
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Total transfers	\$ 333,351
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There were no interfund obligations in the component unit School Board.

NOTE 7 - INTERGOVERNMENTAL LOANS:

Frederick County Sanitation Authority:

The County has made loans to the Frederick County Sanitation Authority. The loans shall bear interest at the rate of 5% per annum, for a term of 20 years beginning July 1, 1989	\$ 152,492
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Interest accrued through June 30, 2003	693,004
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Total	\$ 845,496
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NOTE 8 - CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2003.

Governmental Activities

	Balance July 1, 2002	Increases	Decreases	Adjustments	Balance June 30, 2003
Capital assets not being depreciated:					
Land and land improvements	\$ 1,408,159	\$ -	\$ -	\$ -	\$ 1,408,159
Construction in progress	5,783,368	-	5,634,848	-	148,520
School construction in progress allocated to County *	-	24,524,805	-	18,530,079	43,054,884
Total capital assets not being depreciated	\$ 7,191,527	\$ 24,524,805	\$ 5,634,848	\$ 18,530,079	\$ 44,611,563
Other capital assets:					
Buildings and improvements	\$ 14,099,886	\$ 5,680,786	\$ -	\$ -	\$ 19,780,672
School buildings and improvements *	81,501,433	-	-	(39,041,596)	42,459,837
Furniture, equipment and vehicles	4,475,283	557,110	419,932	-	4,612,461
Total other capital assets	\$100,076,602	\$ 6,237,896	\$ 419,932	\$(39,041,596)	\$ 66,852,970

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 8 - CAPITAL ASSETS: (Continued)

Governmental Activities (continued)
(table continued from previous page)

	Balance July 1, 2002	Increases	Decreases	Adjustments	Balance June 30, 2003
Less: Accumulated depreciation for:					
Buildings and improvements	\$ 2,747,907	\$ 789,005	\$ -	\$ -	\$ 3,536,912
School buildings and improvements *	22,533,193	1,296,343	-	(14,874,430)	8,955,106
Furniture, equipment and vehicles	2,883,430	527,871	419,932	-	2,991,369
Total accumulated depreciation	<u>\$ 28,164,530</u>	<u>\$ 2,613,219</u>	<u>\$ 419,932</u>	<u>\$(14,874,430)</u>	<u>\$ 15,483,387</u>
Other capital assets, net	<u>\$ 71,912,072</u>	<u>\$ 3,624,677</u>	<u>\$ -</u>	<u>\$(24,167,166)</u>	<u>\$ 51,369,583</u>
Net capital assets	<u>\$ 79,103,599</u>	<u>\$ 28,149,482</u>	<u>\$ 5,634,848</u>	<u>\$(5,637,087)</u>	<u>\$ 95,981,146</u>

Depreciation expense was allocated as follows:

General government administration	\$ 297,693
Judicial administration	112,826
Public safety	517,626
Public works	34,394
Health and welfare	28,881
Education	1,296,343
Parks, recreation and cultural	317,924
Community development	7,532
Total depreciation expense	<u>\$ 2,613,219</u>

Component Unit School Board

	Balance July 1, 2002	Increases	Decreases	Adjustments	Balance June 30, 2003
Capital assets not being depreciated:					
Land and land improvements	\$ 3,791,136	\$ 330,000	\$ -	\$ -	\$ 4,121,136
Construction in progress	18,530,079	25,931,777	-	-	44,461,856
Construction in progress allocated to County *	-	(24,524,805)	-	(18,530,079)	(43,054,884)
Total capital assets not being depreciated	<u>\$ 22,321,215</u>	<u>\$ 1,736,972</u>	<u>\$ -</u>	<u>\$(18,530,079)</u>	<u>\$ 5,528,108</u>
Other capital assets:					
Buildings and improvements	\$104,425,216	\$ 61,095	\$ -	\$ (1,407,255)	\$ 103,079,056
School buildings and improvements allocated to County *	(81,501,433)	-	-	39,041,596	(42,459,837)
Furniture, equipment and vehicles	11,550,626	2,962,276	-	1,407,255	15,920,157
Total other capital assets	<u>\$ 34,474,409</u>	<u>\$ 3,023,371</u>	<u>\$ -</u>	<u>\$ 39,041,596</u>	<u>\$ 76,539,376</u>
Less: Accumulated depreciation for:					
Buildings and improvements	\$ 31,988,017	\$ 2,698,887	\$ -	\$ -	\$ 34,686,904
School buildings and improvements allocated to County *	(22,533,193)	(1,296,343)	-	14,874,430	(8,955,106)
Furniture, equipment and vehicles	8,529,723	1,503,338	-	-	10,033,061
Total accumulated depreciation	<u>\$ 17,984,547</u>	<u>\$ 2,905,882</u>	<u>\$ -</u>	<u>\$ 14,874,430</u>	<u>\$ 35,764,859</u>
Other capital assets, net	<u>\$ 16,489,862</u>	<u>\$ 117,489</u>	<u>\$ -</u>	<u>\$ 24,167,166</u>	<u>\$ 40,774,517</u>
Net capital assets	<u>\$ 38,811,077</u>	<u>\$ 1,854,461</u>	<u>\$ -</u>	<u>\$ 5,637,087</u>	<u>\$ 46,302,625</u>
Depreciation expense allocated to education		<u>\$ 2,905,882</u>			

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 8 - CAPITAL ASSETS: (Continued)

Component Unit School Board (continued)

(table continued from previous page)

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

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

Net capital assets		\$ 95,981,146
Long-term debt applicable to capital assets at June 30, 2003	\$106,468,502	
Less: School bond proceeds received but not expended on capital assets at June 30, 2003	9,762,491	<u>96,706,011</u>
Net assets invested in capital assets, less related debt		<u>\$ (724,865)</u>

Business Type Activities

Landfill Operations

	Balance July 1, 2002	Increases	Decreases	Adjustments	Balance June 30, 2003
Capital assets not being depreciated:					
Land and land improvements	\$ 2,186,839	\$ -	\$ -	\$ -	\$ 2,186,839
Construction in progress	-	110,425	-	-	110,425
Total capital assets not being depreciated	<u>\$ 2,186,839</u>	<u>\$ 110,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,297,264</u>
Other capital assets:					
Buildings and improvements	\$ 495,003	\$ -	\$ -	\$ -	\$ 495,003
Landfill improvements	13,329,944	701,716	-	-	14,031,660
Furniture, equipment and vehicles	2,259,432	64,258	32,458	-	2,291,232
Total other capital assets	<u>\$ 16,084,379</u>	<u>\$ 765,974</u>	<u>\$ 32,458</u>	<u>\$ -</u>	<u>\$ 16,817,895</u>
Less: Accumulated depreciation for:					
Buildings and improvements	\$ 191,249	\$ 23,750	\$ -	\$ -	\$ 214,999
Landfill improvements	5,264,812	935,902	-	-	6,200,714
Furniture, equipment and vehicles	1,914,556	81,595	32,458	-	1,963,693
Total accumulated depreciation	<u>\$ 7,370,617</u>	<u>\$ 1,041,247</u>	<u>\$ 32,458</u>	<u>\$ -</u>	<u>\$ 8,379,406</u>
Other capital assets, net	<u>\$ 8,713,762</u>	<u>\$ (275,273)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,438,489</u>
Net capital assets	<u>\$ 10,900,601</u>	<u>\$ (164,848)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,735,753</u>

NOTE 9 - LONG-TERM OBLIGATIONS:

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

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2003.

	Amounts Payable July 1, 2002	Increases	Decreases	Amounts Payable June 30, 2003
Primary Government:				
Lease revenue bonds payable	\$ 7,220,000	\$ -	\$ 430,000	\$ 6,790,000
General obligation bonds:				
Library	4,380,418	-	126,115	4,254,303
School	65,456,257	19,752,296	4,522,265	80,686,288
State Literary Fund loans:				
School	14,560,889	-	1,083,179	13,477,710
Intergovernmental loans	1,484,287	-	371,073	1,113,214
Capital leases	56,368	124,794	34,175	146,987
Retirement incentive obligation	675,144	-	324,589	350,555
Total primary government	<u>\$ 93,833,363</u>	<u>\$ 19,877,090</u>	<u>\$ 6,891,396</u>	<u>\$ 106,819,057</u>

Reconciliation to Exhibit 1:

Long-term liabilities due within one year:

General obligation bonds	\$ 6,892,951
Intergovernmental loans	371,072
Capital leases	32,142
Early retirement incentive obligation	350,555

Long-term liabilities due in more than one year:

General obligation bonds	98,315,350
Intergovernmental loans	742,142
Capital leases	114,845
Early retirement incentive obligation	-

Total long-term debt	<u>\$ 106,819,057</u>
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Annual requirements to amortize all long-term debt and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 7,646,720	\$ 4,918,486
2005	7,893,344	4,689,392
2006	7,864,354	4,320,134
2007	7,419,888	3,950,551
2008	6,913,178	3,593,737
2009-2013	31,320,673	12,984,148
2014-2018	23,136,351	6,371,381
2019-2023	13,994,549	1,690,222
2024	630,000	14,490
Total	<u>\$ 106,819,057</u>	<u>\$ 42,532,541</u>

Note: The above includes all long-term debt, capital leases and early retirement incentive obligation.

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness:	Amount Outstanding
<u>Lease Revenue Bonds:</u>	
\$7,515,000 Industrial Development Authority bonds, issued December 1, 1994, interest at various rates from 4.7% to 6.5%, maturing in various annual installments, interest payable semiannually, through December 1, 2014	\$ 660,000
\$6,425,000 Industrial Development Authority refunding lease revenue bonds, issued December 1, 2001, interest at various rates from 2% to 5%, maturing in various annual installments, interest payable semiannually, through December 1, 2015	6,130,000
<u>General Obligation Bonds:</u>	
\$4,500,000 general obligation bonds, issued March 1, 2000, interest at 5.39%, maturing in various annual installments, interest payable semiannually, through January 15, 2022	4,254,303
Total lease revenue and general obligation bonds	<u>\$ 11,044,303</u>
<u>General Obligation School Bonds:</u>	
\$2,010,000 School Bonds, 1990, issued September 1990, maturing in various annual installments of \$75,000 to \$120,000 through December 2010, interest in various rates	\$ 895,000
\$5,350,000 School Bonds, 1993, issued April 1993, maturing in various installments of \$105,000 to \$280,000 through December 2010, interest at various rates	2,130,000
\$775,132 School Bonds, 1991, issued July 1991, maturing in various installments of \$25,400 to \$59,032 through July 15, 2011, interest at various rates	388,992
\$3,820,000 School Bonds, 1992, issued December 1992, maturing in various installments of \$115,000 to \$275,000 through June 15, 2013, interest at various rates	1,715,000
\$5,740,000 School Bonds, 1993, issued April 1993, maturing in various installments of \$180,000 to \$515,000 through June 15, 2013, interest at various rates	2,520,000
\$18,175,000 School Bonds, 1993 series B, issued December 1993, due in annual installments ranging from \$1,155,000 to \$465,000, interest payable semiannually at various interest rates	7,320,000
\$990,000 School Bonds, 1994, issued May 1994, maturing in various installments of \$85,000 to \$105,000 through July 1, 2003, interest at 6.1%, payable semiannually	100,000
\$3,700,000 School Bonds, 1995, issued December 1995, maturing in installments of \$185,000 through July 15, 2016, interest at 5.10%, payable semiannually	2,405,000
\$1,200,000 School Bonds, 1996 B, issued November 1996, maturity in annual installments of \$60,000 through July 15, 2017, interest at various rates from 5.1% to 5.6%	840,000
\$1,355,000 School Bonds, 1997 A, issued April 1997, maturity in annual installments of \$70,000 and \$65,000 through January 15, 2018, interest at various rates from 5.4% to 6.1%	1,005,000

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness: (continued)

Amount
Outstanding

General Obligation School Bonds: (continued)

\$3,200,000 School Bonds, 1998 A, issued April 1998, maturity in annual installments of \$160,000 through January 15, 2019, interest at various rates from 4.1% to 5.35%	2,560,000
\$4,650,000 School Bonds, issued April 1999, maturing in annual installments of \$236,000 to \$448,000 through January 2020, interest at 5%	3,945,000
\$4,100,000 School Bonds, issued November 1999, maturing in annual installments of \$205,000 through July 2019, interest at various rates from 5.62% to 6.10%	3,485,000
\$18,600,000 School Bonds, issued April 2001, maturing in annual installments of \$840,000 to \$1,200,000 through July 2021, interest at various rates from 4.1% to 5.35%	17,400,000
\$6,150,000 School Bonds, issued November 15, 2001, maturing in annual installments of \$305,000 to \$310,000 through July 15, 2021, interest at 4.55%	5,840,000
\$8,385,000 School Bonds, issued April 30, 2002, maturing in annual installments of \$415,000 to \$420,000 through July 15, 2022, interest at 4.667%	8,385,000
\$3,315,000 School Bonds, issued November 7, 2002, maturing in annual installments of \$165,000 to \$170,000 through July 15, 2022, interest at 4.77%	3,315,000
\$3,782,296 School Bonds, issued November 7, 2002, maturing in annual installments of \$173,528 to \$215,784 through July 15, 2022, interest at 4.77%	3,782,296
\$12,655,000 School Bonds, issued May 15, 2003, maturing in annual installments of \$630,000 to \$635,000 through July 15, 2023, interest at 3.10% to 5.35%	<u>12,655,000</u>
Total School Bonds	<u>\$ 80,686,288</u>

State Literary Fund Loans:

\$1,000,000, issued June 15, 1987, due in annual installments of \$50,000 through June 15, 2007, interest payable annually at 3%	\$ 200,000
\$2,000,000, issued February 15, 1989, due in annual installments of \$100,000, interest payable annually at 4%	600,000
\$540,640, issued February 15, 1989, due in annual installments of \$27,030 through January 15, 2009, interest payable annually at 4%	162,180
\$1,839,424, issued April 6, 1989, due in annual installments of \$92,000 through October 1, 2010, interest at 4%	735,424
\$5,000,000, issued May 30, 1997, due in annual installments of \$250,000 through July 1, 2017, interest at 3%	3,500,000
\$1,500,052, issued May 30, 1997, due in annual installments of \$75,002 through July 1, 2017, interest at 3%	1,050,040

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS: (Continued)

Details of Long-Term Indebtedness: (continued)

Amount
Outstanding

State Literary Fund Loans: (continued)

\$2,142,948, issued May 30, 1997, due in annual installments of \$107,147 through July 1, 2017, interest at 3%	1,500,066
\$3,000,000, issued September 2, 1997, due in annual installments of \$150,000 through September 2, 2017, interest at 3%	3,480,000
\$4,640,000, issued September 2, 1997, due in annual installments of \$232,000 through September 2, 2017, interest at 3%	2,250,000
Total State Literary Fund Loans	<u>\$ 13,477,710</u>

Intergovernmental Loans:

\$1,558,500, payable to Winchester City Schools, due in semiannual installments of \$111,321 through June 30, 2006, interest at 0%	\$ 667,929
\$1,039,000, payable to Clarke County Schools, due in semiannual installments of \$74,214 through June 30, 2006, interest at 0%	445,285
Total intergovernmental loans	<u>\$ 1,113,214</u>

Capital Leases:

The County leases various types of equipment under capital lease agreements. Title to the equipment passes to the entity upon completion of payment of the minimum lease payments. There are no restrictions imposed by the agreements.

The balance of capital leases at June 30, 2003 is \$ 146,987

Early Retirement Incentive Costs:

The Frederick County School Board adopted the early retirement incentive program. The Board's share of the liability for those employees who elected to participate totaled \$2,540,436. This liability is being amortized over a ten year period. The County is responsible for the funding of this debt. The balance of this liability is

Total long-term obligations \$ 106,819,057

Advance Refunding of Debt:

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

At June 30, 2003, \$4,835,000 of bonds outstanding are considered to be defeased.

Federal Arbitrage Regulations:

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

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 10 - CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:

In accordance with GASB Statement 16 "*Accounting for Claims, Judgments and Compensated Absences*," the County and its components units has accrued the liability arising from all outstanding claims, judgments and compensated absences. The liability for future vacation and sick leave benefits is accrued when such benefits meet the following conditions:

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

The amount of accrued vacation and sick pay for the Enterprise Fund is accrued as incurred.

The balances at June 30, 2003 are:	<u>Balance</u> <u>July 1, 2002</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2003</u>
Primary Government:			
Governmental activities	\$ 1,538,596	\$ 152,447	\$ 1,691,043
Business-type activities	80,527	8,475	89,002
Total primary government	<u>\$ 1,619,123</u>	<u>\$ 160,922</u>	<u>\$ 1,780,045</u>
Component Unit School Board	<u>873,838</u>	<u>61,474</u>	<u>935,312</u>
Total	<u><u>\$ 2,492,961</u></u>	<u><u>\$ 222,396</u></u>	<u><u>\$ 2,715,357</u></u>

Gross increases and decreases are not available.

NOTE 11 - DEFINED BENEFIT PENSION PLAN:

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

Plan Description:

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable

COUNTY OF FREDERICK, VIRGINIA

Notes to Financial Statements As of June 30, 2003 (Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLAN: (Continued)

Plan Description: (continued)

monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature. Actuarial valuations are performed on an annual basis.

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

Funding Policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be and has been assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County and School Board non-professional employee contribution rates for the fiscal year ended 2003 were 4.00% and 3.25% of annual covered payroll, respectively.

The School Board's contribution rate for the VRS statewide cost sharing pool for its professional employees averaged 4.44%.

Annual Pension Cost:

For fiscal 2003, the County's annual pension cost of \$726,947 (does not include the employee share assumed by the County which was \$908,683) was equal to the County's required and actual contributions. The required contributions were determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

In fiscal 2003, the County School Board's annual pension cost for the Board's non-professional employees was \$168,786 (does not include the employee share assumed by the Board which was \$259,671) which was equal to the Board's required and actual contributions. The required contributions were determined as a part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

The School Board professional employees are included in the VRS statewide cost-sharing pool. The Board's required employer and employee contributions to this pool was \$2,149,637 and \$2,420,763, respectively.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLAN: (Continued)

Annual Pension Cost: (continued)

The actuarial assumptions are as follows:

	<u>County</u>	<u>Non-Professional School Board</u>
Valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	9 years	12 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return (1)	8.00%	8.00%
Projected salary increases (1)	4.25% to 6.10%	4.25% to 6.10%
Cost-of-living adjustments	3.0%	3.0%

(1) Includes inflation at 3.0%

Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County:			
June 30, 2001	\$ 729,951	100%	\$ -
June 30, 2002	659,017	100%	-
June 30, 2003	726,947	100%	-
School Board Non-Professional:			
June 30, 2001	\$ 23,495	100%	\$ -
June 30, 2002	125,385	100%	-
June 30, 2003	168,786	100%	-

(1) Employer portion only

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLAN: (Continued)

Annual Pension Cost: (continued)

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
County:						
June 30, 2000	\$ 28,357,056	\$ 24,552,513	\$ (3,804,543)	115.5%	\$ 13,942,401	-27.3%
June 30, 2001	32,231,816	29,139,503	(3,092,313)	110.6%	14,859,174	-20.8%
June 30, 2002	34,680,329	33,892,912	(787,417)	102.3%	17,081,659	-4.6%
School Board Non-Professional:						
June 30, 2000	\$ 5,868,956	\$ 4,637,047	\$ (1,231,909)	126.6%	\$ 2,298,737	-53.6%
June 30, 2001	6,505,625	5,333,186	(1,172,439)	121.9%	2,667,893	-44.0%
June 30, 2002	7,047,107	6,704,774	(342,333)	105.1%	4,895,905	-7.0%

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were no excess of expenditures over appropriations in any of the County or School Board funds for the year ended June 30, 2003.

NOTE 13 - DEFERRED REVENUE:

	Government-wide Statements Governmental Activities	Balance Sheet Governmental Funds
Primary Government:		
Deferred property tax revenue:		
Deferred revenue representing billings for business licenses for which asset recognition criteria has not been met. The business license receivables are not available for the funding of current expenditures.	\$ -	\$ 553,980
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	-	2,088,101
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	1,321,258	1,321,258
Total primary government	\$ 1,321,258	\$ 3,963,339
Component Unit School Board:		
Prepaid health insurance premiums applicable to the subsequent year	630,647	630,647
Total deferred revenue	\$ 1,951,905	\$ 4,593,986

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

Primary Government and Component Unit School Board:

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

The County and School Board have authorized and/or commenced construction on various capital projects. At June 30, 2003 the following significant items were in process:

Primary Government:

- Upgrade of aerated lagoon wastewater facility at landfill – estimated completion cost is approximately \$464,000.
- Construction of Warrior Road - estimated completion cost is approximately \$897,000.

Component Unit School Board:

- Construction of Millwood High School - estimated completion cost is \$1,837,000.
- Other school projects - estimated cost at this stage of their development is \$262,000.
- James Wood Middle School renovations – estimated completion cost is \$2,762,000.

NOTE 15 - LITIGATION:

At June 30, 2003 there were no matters of litigation involving the County or its component units that would have an adverse material affect on the financial position of the reporting entity.

NOTE 16 - SURETY BONDS:

	<u>Amount</u>
Virginia Department of Risk Management:	
Rebecca Hogan, Clerk of the Circuit Court	\$ 230,000
C. William Orndoff, Jr., Treasurer	750,000
Ellen E. Murphy, Commissioner of Revenue	55,000
Robert T. Williamson, Sheriff	30,000
Above constitutional officers' employees - blanket bond - each loss	500,000

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 16 - SURETY BONDS: (Continued)

(table continued from previous page)	<u>Amount</u>
Fidelity and Deposit Company of Maryland - Surety:	
All School Board employees - blanket bond	10,000
Virginia Association of Counties Risk Pool:	
All County employees, including members of any duty constituted board, commission, department or entity under the County's control	100,000

NOTE 17 - SELF INSURANCE/RISK MANAGEMENT:

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

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

Employee Health Insurance:

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

Claims liability is reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued as a liability based upon prior history and estimates from the insurance carrier. Changes in the estimated claims liability for fiscal years 2001, 2002 and 2003 are listed as follows:

<u>Funds</u>	<u>Estimated Claims Liability Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Estimated Claims Liability End of Fiscal Year</u>
Primary Government:				
Insurance Internal Service Fund				
2001	\$ 219,100	\$ 2,123,871	\$ 2,045,518	\$ 297,453
2002	297,453	2,244,009	2,333,250	208,212
2003	208,212	2,685,528	2,647,992	245,748

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 17 - SELF INSURANCE/RISK MANAGEMENT: (Continued)

(table continued from previous page)

	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
Component Unit School Board:				
School Operating and Health Insurance Funds				
2001	\$ 707,664	\$ 5,044,215	\$ 4,960,167	\$ 791,712
2002	791,712	5,602,170	5,728,299	671,583
2003	671,583	7,458,605	7,304,021	826,167

Unemployment Insurance:

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

Property and Casualty Insurance:

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

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

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

NOTE 18 - ACCRUED LANDFILL REMEDIATION COST:

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

COUNTY OF FREDERICK, VIRGINIA

**Notes to Financial Statements
As of June 30, 2003 (Continued)**

NOTE 18 - ACCRUED LANDFILL REMEDIATION COST: (Continued)

The \$6,633,256 reported as landfill closure and postclosure care liability at June 30, 2003 represents the cumulative amount reported to date based on the use of the estimated capacity of the landfill. On October 8, 1993 the County opened the new landfill and initiated closure of the old landfill. The \$6,633,256 reported as the accrued landfill liability and postclosure costs reflects usage on the new landfill from October 5, 1993 to June 30, 2003. The County will recognize the remaining estimated cost of closure and postclosure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

At June 30, 2003, the solid waste landfill capacity used to date was approximately 30% and 8.8% for the construction/demolition debris section of the landfill.

The remaining estimated landfill life approximates 30 years. The remaining estimated postclosure cost remaining to be recognized at June 30, 2003 is \$18,960,000 for the municipal solid waste landfill and \$2,400,000 for the construction/demolition debris landfill.

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS:

Primary Government:

In addition to the pension benefits described in Note 11, the County provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed on or after July 1, 1995, and who retire from County service until full VRS benefits (i.e. 50 years of age and 30 years of continuous service), will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the County will provide 100% supplemental insurance benefits. Persons employed prior to July 1, 1995 are only required to be 50 years of age and have 20 years of continuous service to be eligible for these benefits. Currently, eleven retirees are eligible and are receiving these benefits. The County pays all of the health insurance premium for the employees. These costs are financed on a pay-as-you-go basis. During the year, \$35,366 was expended for post-retirement health care by the County.

NOTE 20 - SUBSEQUENT EVENT:

On September 25, 2002 the County authorized the issuance of \$7,097,296 of general obligation school bonds for school construction and renovation projects.

- Required Supplementary Information -

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 41,749,050	\$ 41,749,050	\$ 44,344,353	\$ 2,595,303
Other local taxes	15,494,758	15,494,758	16,189,296	694,538
Permits, privilege fees and regulatory licenses	946,395	1,004,895	1,556,839	551,944
Fines and forfeitures	25,000	25,000	133,549	108,549
Use of money and property	931,680	943,360	425,269	(518,091)
Charges for services	1,921,845	1,924,815	1,936,008	11,193
Miscellaneous	148,696	179,732	315,355	135,623
Recovered costs	1,346,259	2,029,197	2,413,809	384,612
Intergovernmental:				
Revenue from the Commonwealth	15,370,539	17,754,218	16,033,629	(1,720,589)
Revenue from the Federal Government	2,011,424	2,449,317	2,535,018	85,701
Total revenues	\$ 79,945,646	\$ 83,554,342	\$ 85,883,125	\$ 2,328,783
Expenditures				
Current:				
General Government Administration:				
Board of supervisors	\$ 211,769	\$ 213,656	\$ 197,839	\$ 15,817
County administrator	373,148	394,150	382,432	11,718
Personnel	215,657	227,021	220,323	6,698
Independent auditor	44,000	44,000	44,000	-
Commissioner of the Revenue	811,225	836,156	813,907	22,249
Treasurer	929,442	953,640	886,211	67,429
Finance	491,015	510,943	506,362	4,581
Data processing	360,538	334,184	446,363	(112,179)
Geographic information systems	612,770	615,889	407,559	208,330
Other	717,683	1,332,647	916,393	416,254
Elections	37,352	50,117	42,329	7,788
Registrar	97,630	97,679	81,763	15,916
Total general government administration	\$ 4,902,229	\$ 5,610,082	\$ 4,945,481	\$ 664,601
Judicial Administration:				
Circuit court	\$ 48,300	\$ 48,300	\$ 36,044	\$ 12,256
General district court	7,964	8,264	5,227	3,037
Juvenile and domestic relations court	6,370	6,550	4,131	2,419
Clerk of the circuit court	132,088	135,106	111,276	23,830
Law library	7,200	7,200	6,895	305
Detox center	32,800	32,800	32,800	-
Juvenile court probation	367,929	391,798	192,148	199,650

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures (Continued)				
Judicial Administration: (Continued)				
Commonwealth attorney	854,501	886,918	852,828	34,090
Victim/witness program	71,322	90,883	86,196	4,687
Total judicial administration	\$ 1,528,474	\$ 1,607,819	\$ 1,327,545	\$ 280,274
Public Safety:				
Sheriff	\$ 5,790,645	\$ 6,148,642	\$ 5,688,079	\$ 460,563
Volunteer fire departments	1,163,131	1,114,551	1,018,323	96,228
Ambulance and rescue service	376,976	376,976	370,453	6,523
Fire and rescue	2,524,089	2,686,635	2,567,672	118,963
Regional jail	930,441	930,441	930,441	-
Juvenile detention center	180,715	180,715	180,715	-
Inspections	603,101	700,444	675,144	25,300
Public safety communications	766,122	870,637	677,251	193,386
Other protection	300	1,000	1,000	-
Total public safety	\$ 12,335,520	\$ 13,010,041	\$ 12,109,078	\$ 900,963
Public Works:				
Road administration, street lights	\$ 49,933	\$ 49,933	\$ 25,861	\$ 24,072
General engineering and administration	229,711	579,087	359,535	219,552
Refuse collection	880,028	947,020	775,731	171,289
Refuse disposal	917,100	917,100	848,248	68,852
Litter control	25,090	26,202	18,194	8,008
General properties	516,210	560,087	401,157	158,930
Animal shelter	218,894	223,285	198,316	24,969
Total public works	\$ 2,836,966	\$ 3,302,714	\$ 2,627,042	\$ 675,672
Health and Welfare:				
Health department	\$ 293,503	\$ 293,503	\$ 293,503	\$ -
Northwestern Community Services Board	132,126	132,126	132,126	-
Welfare and social services	3,703,536	4,101,957	3,893,110	208,847
Tax relief for the elderly	240,000	240,000	263,563	(23,563)
Area Agency on Aging	15,000	15,000	15,000	-
Comprehensive Services Act	806,298	951,805	951,805	-
Total health and welfare	\$ 5,190,463	\$ 5,734,391	\$ 5,549,107	\$ 185,284
Education:				
Community college	\$ 45,123	\$ 482,623	\$ 85,373	\$ 397,250
Appropriation to public school system	72,002,985	71,825,449	62,304,535	9,520,914
Total education	\$ 72,048,108	\$ 72,308,072	\$ 62,389,908	\$ 9,918,164

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures (Continued)				
Parks, recreation and cultural:				
Parks and recreation	\$ 3,172,697	\$ 3,380,374	\$ 2,980,926	\$ 399,448
Regional library	836,170	836,170	836,170	-
Total parks, recreation and cultural	<u>\$ 4,008,867</u>	<u>\$ 4,216,544</u>	<u>\$ 3,817,096</u>	<u>\$ 399,448</u>
Community Development:				
Planning and community development	\$ 789,381	\$ 4,247,879	\$ 2,170,503	\$ 2,077,376
Economic Development Commission	537,014	657,940	627,585	30,355
Economic development incentives	350,000	500,000	450,000	50,000
Zoning board	4,750	4,750	2,759	1,991
Building appeals board	550	550	-	550
NSV Regional Commission	24,414	24,414	24,414	-
Gypsy moth suppression	368,643	369,839	40,012	329,827
Soil and Water Conservation District	163,855	162,901	108,677	54,224
Cooperative extension program	153,854	157,427	130,370	27,057
Total community development	<u>\$ 2,392,461</u>	<u>\$ 6,125,700</u>	<u>\$ 3,554,320</u>	<u>\$ 2,571,380</u>
Debt Service:				
Principal	\$ -	\$ 591,953	\$ 590,290	\$ 1,663
Interest and fiscal charges	-	545,216	538,876	6,340
Total debt service	<u>\$ -</u>	<u>\$ 1,137,169</u>	<u>\$ 1,129,166</u>	<u>\$ 8,003</u>
Total expenditures	<u>\$ 105,243,088</u>	<u>\$ 113,052,532</u>	<u>\$ 97,448,743</u>	<u>\$ 15,603,789</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (25,297,442)</u>	<u>\$ (29,498,190)</u>	<u>\$ (11,565,618)</u>	<u>\$ 17,932,572</u>
Other Financing Sources (Uses)				
Long-term debt issued	\$ 29,145,000	\$ 29,145,000	\$ 19,752,296	\$ (9,392,704)
Bond premium	-	-	1,213,767	1,213,767
Capital lease proceeds	-	-	124,794	124,794
Transfers in	-	-	-	-
Transfers out	(8,215,157)	(8,216,157)	(8,216,157)	-
Total other financing sources (uses)	<u>\$ 20,929,843</u>	<u>\$ 20,928,843</u>	<u>\$ 12,874,700</u>	<u>\$ (8,054,143)</u>
Net change in fund balance	<u>\$ (4,367,599)</u>	<u>\$ (8,569,347)</u>	<u>\$ 1,309,082</u>	<u>\$ 9,878,429</u>
Fund balance, beginning of year	<u>4,367,599</u>	<u>8,569,347</u>	<u>23,036,437</u>	<u>14,467,090</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,345,519</u></u>	<u><u>\$ 24,345,519</u></u>

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

COUNTY OF FREDERICK, VIRGINIA

Budgetary Comparison Schedule
Shawneeland Sanitary District Fund
Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 507,850	\$ 507,850	\$ 509,743	\$ 1,893
Use of money and property	15,000	15,000	8,987	(6,013)
Miscellaneous	4,000	4,000	2,558	(1,442)
Recovered costs	-	-	1,393	1,393
Total revenues	<u>\$ 526,850</u>	<u>\$ 526,850</u>	<u>\$ 522,681</u>	<u>\$ (4,169)</u>
Expenditures				
Current:				
Community Development:				
Community development	\$ 526,850	\$ 660,753	\$ 363,924	\$ 296,829
Net change in fund balance	\$ -	\$ (133,903)	\$ 158,757	\$ 292,660
Fund balance, beginning of year	<u>-</u>	<u>133,903</u>	<u>552,360</u>	<u>418,457</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 711,117</u></u>	<u><u>\$ 711,117</u></u>

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

- Other Supplementary Information -

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2003

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 713,988	\$ 1,055,812	\$ 1,769,800
Accounts receivable	1,958	-	1,958
Due from other governments	249,410	-	249,410
Total	<u>\$ 965,356</u>	<u>\$ 1,055,812</u>	<u>\$ 2,021,168</u>
Liabilities			
A/P and accrued liabilities	\$ 18,001	\$ -	\$ 18,001
Total	<u>\$ 18,001</u>	<u>\$ -</u>	<u>\$ 18,001</u>
Fund Balance			
Designated:			
Subsequent year's expenditures	\$ 947,355	\$ -	\$ 947,355
Capital projects	-	1,055,812	1,055,812
Unreserved/undesignated	-	-	-
Total fund balance	<u>\$ 947,355</u>	<u>\$ 1,055,812</u>	<u>\$ 2,003,167</u>
Total	<u>\$ 965,356</u>	<u>\$ 1,055,812</u>	<u>\$ 2,021,168</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003

	Special Revenue	Capital Projects	Total
Revenues			
Use of money and property	\$ 14,432	\$ 17,311	\$ 31,743
Charges for services	560,335	-	560,335
Miscellaneous	951,805	-	951,805
Recovered costs	244,879	-	244,879
Intergovernmental:			
Revenue from the Commonwealth	1,033,968	-	1,033,968
Total revenues	\$ 2,805,419	\$ 17,311	\$ 2,822,730
Expenditures			
Current:			
Judicial administration	\$ 1,040,966	\$ -	\$ 1,040,966
Health and welfare	1,631,869	-	1,631,869
Capital projects	-	703,787	703,787
Debt service:			
Principal payments	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	\$ 2,672,835	\$ 703,787	\$ 3,376,622
Net change in fund balance	\$ 132,584	\$ (686,476)	\$ (553,892)
Fund balance, beginning of year	814,771	1,742,288	2,557,059
Fund balance, end of year	\$ 947,355	\$ 1,055,812	\$ 2,003,167

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2003

	Division of Court Services Fund	Comprehensive Services Act Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 713,988	\$ -	\$ 713,988
Receivables	1,958	-	1,958
Due from other governments	-	249,410	249,410
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 715,946	\$ 249,410	\$ 965,356
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable and accrued liabilities	\$ 18,001	\$ -	\$ 18,001
	<u> </u>	<u> </u>	<u> </u>
Fund Balance			
Designated:			
Subsequent year's expenditures	\$ 697,945	\$ 249,410	\$ 947,355
Unreserved/undesignated	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	\$ 697,945	\$ 249,410	\$ 947,355
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 715,946	\$ 249,410	\$ 965,356
	<u> </u>	<u> </u>	<u> </u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2003

	Division of Court Services Fund	Comprehensive Services Act Fund	Total
Revenues			
Use of money and property	\$ 14,432	\$ -	\$ 14,432
Charges for services	560,335	-	560,335
Miscellaneous	-	951,805	951,805
Recovered costs	244,879	-	244,879
Intergovernmental:			
Revenue from the Commonwealth	241,171	792,797	1,033,968
Total revenues	<u>\$ 1,060,817</u>	<u>\$ 1,744,602</u>	<u>\$ 2,805,419</u>
Expenditures			
Current:			
Judicial administration	\$ 1,040,966	\$ -	\$ 1,040,966
Health and welfare	-	1,631,869	1,631,869
Total expenditures	<u>\$ 1,040,966</u>	<u>\$ 1,631,869</u>	<u>\$ 2,672,835</u>
Net change in fund balance	\$ 19,851	\$ 112,733	\$ 132,584
Fund balance, beginning of year	<u>678,094</u>	<u>136,677</u>	<u>814,771</u>
Fund balance, end of year	<u><u>\$ 697,945</u></u>	<u><u>\$ 249,410</u></u>	<u><u>\$ 947,355</u></u>

COUNTY OF FREDERICK, VIRGINIA

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2003

	Detox Center Construction Fund	Administration Building Renovation Fund	Library Building Fund	Total
Assets				
Cash and cash equivalents	\$ 40,036	\$ 793,472	\$ 222,304	\$ 1,055,812
Liabilities				
A/P and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balance				
Designated:				
Capital projects	\$ 40,036	\$ 793,472	\$ 222,304	\$ 1,055,812
Unreserved/undesignated	-	-	-	-
Total fund balance	\$ 40,036	\$ 793,472	\$ 222,304	\$ 1,055,812
Total	\$ 40,036	\$ 793,472	\$ 222,304	\$ 1,055,812

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 Year Ended June 30, 2003

	Detox Center Construction Fund	Administration Building Renovation Fund	Library Building Fund	Total
Revenues				
Use of money and property	\$ 584	\$ 13,482	\$ 3,245	\$ 17,311
Expenditures				
Capital projects	\$ -	\$ 703,787	\$ -	\$ 703,787
Excess (deficiency) of revenues over expenditures	\$ 584	\$ (690,305)	\$ 3,245	\$ (686,476)
Net change in fund balance	\$ 584	\$ (690,305)	\$ 3,245	\$ (686,476)
Fund balance, beginning of year	39,452	1,483,777	219,059	1,742,288
Fund balance, end of year	<u>\$ 40,036</u>	<u>\$ 793,472</u>	<u>\$ 222,304</u>	<u>\$ 1,055,812</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Net Assets
Internal Service Funds
At June 30, 2003

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Total Internal Service Funds</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,578,380	\$ 52,437	\$ 77,588	\$ 362,625	\$ 2,071,030
Accounts receivable	-	3,649	-	-	3,649
Total current assets	<u>\$ 1,578,380</u>	<u>\$ 56,086</u>	<u>\$ 77,588</u>	<u>\$ 362,625</u>	<u>\$ 2,074,679</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 337	\$ 16,424	\$ 385	\$ -	\$ 17,146
Claims payable	245,748	-	-	-	245,748
Total current liabilities	<u>\$ 246,085</u>	<u>\$ 16,424</u>	<u>\$ 385</u>	<u>\$ -</u>	<u>\$ 262,894</u>
NET ASSETS					
Unrestricted	<u>\$ 1,332,295</u>	<u>\$ 39,662</u>	<u>\$ 77,203</u>	<u>\$ 362,625</u>	<u>\$ 1,811,785</u>
Total net assets	<u>\$ 1,332,295</u>	<u>\$ 39,662</u>	<u>\$ 77,203</u>	<u>\$ 362,625</u>	<u>\$ 1,811,785</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2003

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Total Internal Service Funds</u>
Operating revenues					
Charges for service	\$ 2,688,818	\$ 177,480	\$ -	\$ 362,625	\$ 3,228,923
Operating Expenses					
Benefits and related expenses	\$ 2,647,992	\$ -	\$ 4,386	\$ -	\$ 2,652,378
Services and supplies	-	186,180	-	-	186,180
Total operating expenses	\$ 2,647,992	\$ 186,180	\$ 4,386	\$ -	\$ 2,838,558
Operating income (loss)	\$ 40,826	\$ (8,700)	\$ (4,386)	\$ 362,625	\$ 390,365
Nonoperating revenues					
Investment earnings	22,606	825	1,173	-	24,604
Change in net assets	\$ 63,432	\$ (7,875)	\$ (3,213)	\$ 362,625	\$ 414,969
Net assets, beginning of year	1,268,863	47,537	80,416	-	1,396,816
Net assets, end of year	<u>\$ 1,332,295</u>	<u>\$ 39,662</u>	<u>\$ 77,203</u>	<u>\$ 362,625</u>	<u>\$ 1,811,785</u>

COUNTY OF FREDERICK, VIRGINIA

Combining Statement of Cash Flows
Internal Service Funds
At June 30, 2003

	<u>Health Insurance Fund</u>	<u>Central Stores Fund</u>	<u>Unemploy- ment Fund</u>	<u>Volunteer Fire and Rescue Fund</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities					
Receipts from insured	\$ 2,688,818	\$ -	\$ -	\$ -	\$ 2,688,818
Receipts from services	-	177,822	-	362,625	540,447
Payments to suppliers	(2,610,119)	(182,429)	-	-	(2,792,548)
Other payments	-	-	(6,993)	-	(6,993)
Net cash provided (used) by operating activities	<u>\$ 78,699</u>	<u>\$ (4,607)</u>	<u>\$ (6,993)</u>	<u>\$ 362,625</u>	<u>\$ 429,724</u>
Cash flows from investing activities					
Investment earnings	\$ 22,606	\$ 825	\$ 1,173	\$ -	\$ 24,604
Net increase (decrease) in cash and cash equivalents	\$ 101,305	\$ (3,782)	\$ (5,820)	\$ 362,625	\$ 454,328
Balances, beginning of year	<u>1,477,075</u>	<u>56,219</u>	<u>83,408</u>	<u>-</u>	<u>1,616,702</u>
Balance, end of year	<u>\$ 1,578,380</u>	<u>\$ 52,437</u>	<u>\$ 77,588</u>	<u>\$ 362,625</u>	<u>\$ 2,071,030</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 40,826	\$ (8,700)	\$ (4,386)	\$ 362,625	\$ 390,365
Change in assets and liabilities:					
Receivables, net	-	342	-	-	342
Accounts payable	337	3,751	(2,607)	-	1,481
Claims payable	37,536	-	-	-	37,536
Deferred revenue	-	-	-	-	-
Net cash provided (used) by operating activities	<u>\$ 78,699</u>	<u>\$ (4,607)</u>	<u>\$ (6,993)</u>	<u>\$ 362,625</u>	<u>\$ 429,724</u>

COUNTY OF FREDERICK, VIRGINIA

Private Purpose Trust Funds
Combining Statement of Changes in Fiduciary Net Assets
At June 30, 2003

	Laura Bates Trust Fund	Harriet Sides Trust Fund	Olin Larrick Trust Fund	Total
Additions:				
Investment earnings	\$ 154	\$ 139	\$ 29	\$ 322
Deductions:				
Education	-	136	-	136
Change in net assets	\$ 154	\$ 3	\$ 29	\$ 186
Net assets, beginning of year	<u>10,365</u>	<u>9,383</u>	<u>1,967</u>	<u>21,715</u>
Net assets, end of year	<u>\$ 10,519</u>	<u>\$ 9,386</u>	<u>\$ 1,996</u>	<u>\$ 21,901</u>

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2003

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Special Welfare Fund:				
Assets:				
Cash	\$ 10,577	\$ 254,379	\$ 152,887	\$ 112,069
Liabilities:				
Amounts held for others	\$ 10,577	\$ 254,379	\$ 152,887	\$ 112,069
Clarke, Fauquier, Frederick, Winchester Regional Jail Fund:				
Assets:				
Cash	\$ 903,310	\$ 7,733,661	\$ 7,800,529	\$ 836,442
Receivables	86,562	311,418	86,562	311,418
Due from other governmental units	588,257	313,034	588,257	313,034
Total assets	\$ 1,578,129	\$ 8,358,113	\$ 8,475,348	\$ 1,460,894
Liabilities:				
Accounts payable and accrued liabilities	\$ 131,124	\$ 226,450	\$ 131,124	\$ 226,450
Amounts held for others	1,447,005	8,131,663	8,344,224	1,234,444
Total liabilities	\$ 1,578,129	\$ 8,358,113	\$ 8,475,348	\$ 1,460,894
Winchester Regional Airport Fund:				
Assets:				
Cash	\$ 319,301	\$ 1,349,125	\$ 1,264,644	\$ 403,782
Receivables	58,426	54,535	58,426	54,535
Due from other governmental units	35,725	-	35,725	-
Total assets	\$ 413,452	\$ 1,403,660	\$ 1,358,795	\$ 458,317
Liabilities:				
Accounts payable and accrued liabilities	\$ 140,382	\$ 83,740	\$ 140,382	\$ 83,740
Amounts held for others	273,070	1,319,920	1,218,413	374,577
Total liabilities	\$ 413,452	\$ 1,403,660	\$ 1,358,795	\$ 458,317
Undistributed Local Sales Tax Fund:				
Assets:				
Cash	\$ -	\$ 209,356	\$ 209,356	\$ -
Due from other governmental units	35,586	38,632	35,586	38,632
Total assets	\$ 35,586	\$ 247,988	\$ 244,942	\$ 38,632

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2003 (Continued)

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Undistributed Local Sales Tax Fund: (Continued)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 35,586	\$ 38,632	\$ 35,586	\$ 38,632
Due to other funds	<u>-</u>	<u>209,356</u>	<u>209,356</u>	<u>-</u>
Total liabilities	<u>\$ 35,586</u>	<u>\$ 247,988</u>	<u>\$ 244,942</u>	<u>\$ 38,632</u>
State Sales Tax Fund:				
Assets:				
Cash	<u>\$ 570</u>	<u>\$ 969</u>	<u>\$ 1,054</u>	<u>\$ 485</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 174	\$ 97	\$ 174	\$ 97
Amounts held for others	<u>396</u>	<u>872</u>	<u>880</u>	<u>388</u>
Total liabilities	<u>\$ 570</u>	<u>\$ 969</u>	<u>\$ 1,054</u>	<u>\$ 485</u>
Employee Cafeteria Plan Fund:				
Assets:				
Cash	<u>\$ 4,223</u>	<u>\$ 59</u>	<u>\$ 4,000</u>	<u>\$ 282</u>
Liabilities:				
Amounts held for others	<u>\$ 4,223</u>	<u>\$ 59</u>	<u>\$ 4,000</u>	<u>\$ 282</u>
Northwestern Regional Education Program Fund:				
Assets:				
Cash	\$ 450,100	\$ 3,061,640	\$ 3,000,639	\$ 511,101
Receivables	<u>7,688</u>	<u>36,057</u>	<u>7,688</u>	<u>36,057</u>
Total assets	<u>\$ 457,788</u>	<u>\$ 3,097,697</u>	<u>\$ 3,008,327</u>	<u>\$ 547,158</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 342,979	\$ 373,914	\$ 342,979	\$ 373,914
Amounts held for others	<u>114,809</u>	<u>2,723,783</u>	<u>2,665,348</u>	<u>173,244</u>
Total liabilities	<u>\$ 457,788</u>	<u>\$ 3,097,697</u>	<u>\$ 3,008,327</u>	<u>\$ 547,158</u>

COUNTY OF FREDERICK, VIRGINIA

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2003 (Continued)

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 1,688,081	\$ 12,609,189	\$ 12,433,109	\$ 1,864,161
Receivables	152,676	402,010	152,676	402,010
Due from other governmental units	<u>659,568</u>	<u>351,666</u>	<u>659,568</u>	<u>351,666</u>
Total assets	<u>\$ 2,500,325</u>	<u>\$ 13,362,865</u>	<u>\$ 13,245,353</u>	<u>\$ 2,617,837</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 650,245	\$ 722,833	\$ 650,245	\$ 722,833
Amounts held for others	1,850,080	12,430,676	12,385,752	1,895,004
Due to other funds	<u>-</u>	<u>209,356</u>	<u>209,356</u>	<u>-</u>
Total liabilities	<u>\$ 2,500,325</u>	<u>\$ 13,362,865</u>	<u>\$ 13,245,353</u>	<u>\$ 2,617,837</u>

COUNTY OF FREDERICK, VIRGINIA

**Revenue and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds				
Division of Court Services Fund				
Revenues				
Revenue from use of money and property	\$ 2,760	\$ 2,760	\$ 14,432	\$ 11,672
Charges for services	590,723	590,723	560,335	(30,388)
Recovered costs	231,324	231,324	244,879	13,555
Intergovernmental:				
Revenue from the Commonwealth	239,336	239,336	241,171	1,835
Total revenues	<u>\$ 1,064,143</u>	<u>\$ 1,064,143</u>	<u>\$ 1,060,817</u>	<u>\$ (3,326)</u>
Expenditures				
Judicial Administration				
Division of Court Services	\$ 461,501	\$ 489,858	\$ 438,540	\$ 51,318
Division of Court Services Administration	118,806	124,728	118,129	6,599
Detox Center	336,707	346,982	304,446	42,536
Community Corrections	183,410	189,759	179,850	9,909
Total expenditures	<u>\$ 1,100,424</u>	<u>\$ 1,151,327</u>	<u>\$ 1,040,965</u>	<u>\$ 110,362</u>
Capital Projects Funds				
Administration Building Renovation Fund				
Revenues				
Revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,482</u>	<u>\$ 13,482</u>
Expenditures				
Capital projects - building renovation	<u>\$ -</u>	<u>\$ 757,476</u>	<u>\$ 703,787</u>	<u>\$ 53,689</u>
Debt Service Funds				
School Debt Service Fund				
Revenues				
Categorical aid:				
Revenue from the Commonwealth	<u>\$ 1,597,144</u>	<u>\$ 1,597,144</u>	<u>\$ 1,901,777</u>	<u>\$ 304,633</u>
Expenditures				
Principal and interest	<u>\$ 9,775,310</u>	<u>\$ 10,153,910</u>	<u>\$ 10,133,874</u>	<u>\$ 20,036</u>

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

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
 Combining Balance Sheet
 At June 30, 2003

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>Consolidated Maintenance Fund</u>	<u>School Textbook Fund</u>	<u>School Capital Projects Fund</u>	<u>School Capital Fund</u>	<u>Total Governmental Funds</u>
Assets							
Cash and cash equivalents	\$ 6,863,682	\$ 775,352	\$ 568,283	\$ 369,475	\$ 11,101,193	\$ 179,452	\$ 19,857,437
Accounts receivable	64,080	6,601	-	2,953	-	-	73,634
Due from other governments	2,501,860	123,845	-	-	-	-	2,625,705
Total	<u>\$ 9,429,622</u>	<u>\$ 905,798</u>	<u>\$ 568,283</u>	<u>\$ 372,428</u>	<u>\$ 11,101,193</u>	<u>\$ 179,452</u>	<u>\$ 22,556,776</u>
Liabilities							
Accounts payable and accrued liabilities	\$ 9,429,622	\$ 237,219	\$ 18,433	\$ 7,626	\$ 1,338,702	\$ -	\$ 11,031,602
Deferred revenue	-	-	-	-	-	-	-
Total	<u>\$ 9,429,622</u>	<u>\$ 237,219</u>	<u>\$ 18,433</u>	<u>\$ 7,626</u>	<u>\$ 1,338,702</u>	<u>\$ -</u>	<u>\$ 11,031,602</u>
Fund Balance							
Reserved for:							
Encumbrances	\$ -	\$ -	\$ -	\$ 299	\$ 6,882,140	\$ 61,723	\$ 6,944,162
Designated:							
Subsequent year's expenditures	-	668,579	549,850	364,503	-	-	1,582,932
Capital projects	-	-	-	-	2,880,351	117,729	2,998,080
Unreserved/undesignated	-	-	-	-	-	-	-
Total fund balance	<u>\$ -</u>	<u>\$ 668,579</u>	<u>\$ 549,850</u>	<u>\$ 364,802</u>	<u>\$ 9,762,491</u>	<u>\$ 179,452</u>	<u>\$ 11,525,174</u>
Total	<u>\$ 9,429,622</u>	<u>\$ 905,798</u>	<u>\$ 568,283</u>	<u>\$ 372,428</u>	<u>\$ 11,101,193</u>	<u>\$ 179,452</u>	<u>\$ 22,556,776</u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

At June 30, 2003

Total fund balances for governmental funds (Exhibit 28)	\$ 11,525,174
Total net assets reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land	\$ 4,121,136
Construction in progress	44,461,856
Buildings and improvements, net of depreciation	68,392,152
Equipment, net of depreciation	5,887,096
School Board fixed assets in primary government, net of depreciation	<u>(76,559,615)</u>
Total capital assets	46,302,625
School bond proceeds for which capital assets have not been constructed or acquired. This adjustment is required to properly report actual debt used to construct or acquire capital assets.	(9,762,491)
An internal service fund is used by the School Board to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The internal service net assets are:	682,698
Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net assets are compensated absences.	<u>(935,312)</u>
Total net assets of governmental activities (Exhibits 1 and 12)	<u>\$ 47,812,694</u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2003

	School Operating Fund	School Cafeteria Fund	Consolidated Maintenance Fund	School Textbook Fund	School Capital Projects Fund	School Capital Fund	Total Governmental Funds
Revenues							
Use of money and property	\$ 299,131	\$ 11,498	\$ 5,876	\$ 4,206	\$ 145,264	\$ -	\$ 465,975
Charges for services	291,046	1,933,207	2,613	13,379	-	-	2,240,245
Miscellaneous	60,003	36,331	-	136	-	104,702	201,172
Recovered costs	109,981	-	-	-	-	-	109,981
Intergovernmental:							
Appropriation from primary government	40,432,124	-	296,348	-	20,966,063	610,000	62,304,535
Revenue from the Commonwealth	37,263,421	59,586	-	509,486	431,216	-	38,263,709
Revenue from the Federal Government	3,242,472	732,515	-	-	-	-	3,974,987
Total revenues	\$ 81,698,178	\$ 2,773,137	\$ 304,837	\$ 527,207	\$ 21,542,543	\$ 714,702	\$ 107,560,604
Expenditures							
Current:							
Education:							
Instruction	\$ 64,712,982	\$ -	\$ -	\$ 1,202,923	\$ -	\$ 535,250	\$ 66,451,155
Administration, attendance and health	4,111,650	-	-	-	-	-	4,111,650
Transportation	4,944,788	-	-	-	-	-	4,944,788
Facilities operations	7,547,811	-	217,605	-	-	-	7,765,416
Building improvements	47,596	-	-	-	-	-	47,596
School food services	-	2,941,690	-	-	-	-	2,941,690
Capital projects	-	-	-	-	27,775,147	-	27,775,147
Total expenditures	\$ 81,364,827	\$ 2,941,690	\$ 217,605	\$ 1,202,923	\$ 27,775,147	\$ 535,250	\$ 114,037,442
Excess (deficiency) of revenues over expenditures	\$ 333,351	\$ (168,553)	\$ 87,232	\$ (675,716)	\$ (6,232,604)	\$ 179,452	\$ (6,476,838)
Other financing sources (uses)							
Transfers in	\$ -	\$ 22,000	\$ -	\$ 311,351	\$ -	\$ -	\$ 333,351
Transfers out	(333,351)	-	-	-	-	-	(333,351)
Total other financing sources (uses)	\$ (333,351)	\$ 22,000	\$ -	\$ 311,351	\$ -	\$ -	\$ -
Net change in fund balance	\$ -	\$ (146,553)	\$ 87,232	\$ (364,365)	\$ (6,232,604)	\$ 179,452	\$ (6,476,838)
Fund balance, beginning of year	-	815,132	462,618	729,167	15,995,095	-	18,002,012
Fund balance, end of year	\$ -	\$ 668,579	\$ 549,850	\$ 364,802	\$ 9,762,491	\$ 179,452	\$ 11,525,174

COUNTY OF FREDERICK, VIRGINIA

**Component Unit School Board
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2003**

Net change in fund balances - total governmental funds (Exhibit 30)	\$	(6,476,838)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		25,400,328
School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board.		(17,457,878)
Adjustment to capital assets		(450,902)
Change in School bond proceeds for which capital assets have not been constructed or acquired		4,772,509
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:		
Compensated absences		(61,474)
Internal service funds are used by the County to charge the costs of health insurance, supplies and unemployment costs to individual funds. The net revenue of internal service funds is reported with governmental activities.		(142,526)
Change in net assets of governmental activities (Exhibit 12)	\$	<u>5,583,219</u>

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

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Statement of Net Assets
Internal Service Fund
At June 30, 2003

	Health Insurance Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ <u>2,266,211</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 126,699
Claims payable	826,167
Deferred revenue	<u>630,647</u>
Total current liabilities	\$ <u>1,583,513</u>
Net Assets	
Unrestricted	<u>682,698</u>
Total net assets	\$ <u>682,698</u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
Year Ended June 30, 2003

	Health Insurance Fund
Operating revenues	
Charges for service	\$ 7,131,032
 Operating Expenses	
Benefits and related expenses	7,304,022
Operating income (loss)	\$ (172,990)
 Nonoperating revenues	
Investment earnings	30,464
Change in net assets	\$ (142,526)
Net assets, beginning of year	825,224
Net assets, end of year	\$ 682,698

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Combining Statement of Cash Flows
Internal Service Fund
At June 30, 2003

	Health Insurance Fund
<hr/>	
Cash flows from operating activities	
Receipts from insured	\$ 7,231,997
Payments to suppliers	<u>(7,023,739)</u>
Net increase (decrease) in cash and cash equivalents	\$ 208,258
 Cash flows from investing activities	
Interest	<u>30,464</u>
Net increase (decrease) in cash and cash equivalents	\$ 238,722
Balances, beginning of year	<u>2,027,489</u>
Balance, end of year	<u><u>\$ 2,266,211</u></u>
 Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (172,990)
Change in assets and liabilities:	
Accounts payable	125,699
Claims payable	154,584
Deferred revenue	<u>100,965</u>
Net cash provided (used) by operating activities	<u><u>\$ 208,258</u></u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
School Operating Fund
Budgetary Comparison Schedule
Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Use of money and property	\$ 301,403	\$ 301,403	\$ 299,131	\$ (2,272)
Charges for services	304,637	304,637	291,046	(13,591)
Miscellaneous	65,000	74,000	60,003	(13,997)
Recovered costs	128,683	131,102	109,981	(21,121)
Intergovernmental:				
Appropriation from primary government	41,232,385	41,774,101	40,432,124	(1,341,977)
Revenue from the Commonwealth	37,424,468	37,067,100	37,263,421	196,321
Revenue from the Federal Government	3,196,852	3,542,801	3,242,472	(300,329)
Total revenues	<u>\$ 82,653,428</u>	<u>\$ 83,195,144</u>	<u>\$ 81,698,178</u>	<u>\$ (1,496,966)</u>
Expenditures				
Current:				
Education:				
Instruction	\$ 66,142,352	\$ 65,848,528	\$ 64,712,982	\$ 1,135,546
Administration, attendance and health	4,154,043	4,219,586	4,111,650	107,936
Transportation	4,810,868	5,099,167	4,944,788	154,379
Facilities operations	7,171,314	7,646,266	7,547,811	98,455
Building improvements	41,500	48,246	47,596	650
Total expenditures	<u>\$ 82,320,077</u>	<u>\$ 82,861,793</u>	<u>\$ 81,364,827</u>	<u>\$ 1,496,966</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 333,351</u>	<u>\$ 333,351</u>	<u>\$ 333,351</u>	<u>\$ -</u>
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	<u>(333,351)</u>	<u>(333,351)</u>	<u>(333,351)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (333,351)</u>	<u>\$ (333,351)</u>	<u>\$ (333,351)</u>	<u>\$ -</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COUNTY OF FREDERICK, VIRGINIA

Component Unit School Board
Revenue and Expenditure Budgetary Comparison Schedule
Nonmajor and Other Funds
Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Cafeteria Fund				
Revenues:				
Revenue from use of money and property	\$ 25,000	\$ 25,000	\$ 11,498	\$ (13,502)
Charges for services	1,960,345	1,960,345	1,933,207	(27,138)
Miscellaneous	25,000	25,000	36,331	11,331
Intergovernmental:				
Revenue from the Commonwealth	60,038	60,038	59,856	(182)
Revenue from the Federal Government	722,688	722,688	732,515	9,827
Total revenues	<u>\$ 2,793,071</u>	<u>\$ 2,793,071</u>	<u>\$ 2,773,407</u>	<u>\$ (19,664)</u>
Expenditures:				
School food service operations	<u>\$ 3,710,234</u>	<u>\$ 3,760,234</u>	<u>\$ 2,941,690</u>	<u>\$ 818,544</u>
Consolidated Maintenance Fund				
Revenues:				
Revenue from use of money and property	\$ 15,000	\$ 15,000	\$ 5,876	\$ (9,124)
Charges for services	10,000	10,000	2,613	(7,387)
Intergovernmental:				
Appropriation from primary government	296,348	296,348	296,348	-
Total revenues	<u>\$ 321,348</u>	<u>\$ 321,348</u>	<u>\$ 304,837</u>	<u>\$ (16,511)</u>
Expenditures:				
Maintenance operations	<u>\$ 340,455</u>	<u>\$ 340,455</u>	<u>\$ 217,605</u>	<u>\$ 122,850</u>
School Textbook Fund				
Revenues:				
Revenue from use of money and property	\$ 5,000	\$ 5,000	\$ 4,206	\$ (794)
Charges for services	17,500	17,500	13,379	(4,121)
Miscellaneous	-	-	136	136
Intergovernmental:				
Revenue from the Commonwealth	517,610	517,610	509,486	(8,124)
Total revenues	<u>\$ 540,110</u>	<u>\$ 540,110</u>	<u>\$ 527,207</u>	<u>\$ (12,903)</u>
Expenditures:				
Instruction	<u>\$ 1,579,005</u>	<u>\$ 1,579,563</u>	<u>\$ 1,202,923</u>	<u>\$ 376,640</u>

COUNTY OF FREDERICK, VIRGINIA

**Component Unit School Board
Revenue and Expenditure Budgetary Comparison Schedule
Nonmajor and Other Funds
Year Ended June 30, 2003 (Continued)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Capital Projects Fund				
Revenues:				
Revenue from use of money and property	\$ -	\$ -	\$ 145,264	\$ 145,264
Intergovernmental:				
Appropriation from primary government	29,145,000	29,145,000	20,966,063	(8,178,937)
Revenue from the Commonwealth	<u>-</u>	<u>-</u>	<u>431,216</u>	<u>431,216</u>
Total revenues	<u>\$ 29,145,000</u>	<u>\$ 29,145,000</u>	<u>\$ 21,542,543</u>	<u>\$ (7,602,457)</u>
Expenditures:				
Capital projects - school construction projects	<u>\$ 33,350,000</u>	<u>\$ 62,249,042</u>	<u>\$ 27,775,147</u>	<u>\$ 34,473,895</u>
School Capital Fund				
Revenues:				
Miscellaneous	\$ -	\$ -	\$ 104,072	\$ 104,072
Intergovernmental:				
Appropriation from primary government	<u>610,000</u>	<u>610,000</u>	<u>610,000</u>	<u>-</u>
Total revenues	<u>\$ 610,000</u>	<u>\$ 610,000</u>	<u>\$ 714,072</u>	<u>\$ 104,072</u>
Expenditures:				
Capital outlay - equipment, etc.	<u>\$ 610,000</u>	<u>\$ 610,000</u>	<u>\$ 535,250</u>	<u>\$ 74,750</u>

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

- Statistical Section -

Table 1

COUNTY OF FREDERICK, VIRGINIA

GOVERNMENTAL REVENUES BY SOURCE (1)

Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
1994	\$ 27,337,530	\$ 7,774,724	\$ 609,696	\$ 7,781	\$ 912,636	\$ 2,595,413	\$ 658,654	\$ 1,573,439	\$ 25,365,695	\$ 66,835,568
1995	30,026,712	8,457,794	707,169	18,618	1,417,367	2,741,184	489,500	1,428,559	27,492,229	72,779,132
1996	32,724,914	9,284,972	764,866	18,634	2,127,036	3,071,357	551,909	1,337,011	29,691,186	79,571,885
1997	35,542,217	9,967,981	881,984	45,096	1,817,450	3,338,065	1,344,374	1,409,171	33,650,249	87,996,587
1998	36,309,700	10,646,378	821,361	31,725	1,494,304	3,544,384	885,474	2,956,649	36,876,255	93,566,230
1999	37,961,053	11,402,222	980,745	24,502	1,525,673	3,878,578	537,011	2,530,661	41,982,187	100,822,632
2000	38,389,226	12,323,081	974,484	27,733	1,795,084	4,085,339	2,398,189	1,930,757	48,239,879	110,163,772
2001	39,780,459	13,787,234	1,111,056	31,196	1,941,583	4,139,893	7,108,806	1,851,564	56,899,053	126,650,844
2002	40,052,675	14,129,893	1,181,812	59,492	1,544,153	4,394,599	1,129,766	2,191,209	58,297,833	122,981,432
2003	44,854,096	16,189,296	1,556,839	133,549	931,974	4,736,588	1,366,188	2,770,062	63,311,872	135,850,464

Notes:

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

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

Table 2

COUNTY OF FREDERICK, VIRGINIA

GOVERNMENTAL EXPENDITURES BY FUNCTION (1) (2)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	(3) Education	Recreation and Cultural	Community Development	Capital Projects	Debt Service	Total
1994	\$ 2,079,420	\$ 1,622,155	\$ 4,342,643	\$ 1,705,527	\$ 2,429,360	\$ 44,683,107	\$ 1,829,389	\$ 2,157,843	\$ 4,968,176	\$ 6,140,470	\$ 71,958,090
1995	2,711,162	1,705,237	4,824,270	1,853,470	3,073,118	46,206,397	2,090,752	1,817,699	5,339,023	6,508,646	76,129,774
1996	4,104,628	1,370,865	5,487,441	2,130,085	3,413,930	50,253,969	2,213,216	1,601,191	14,011,424	7,027,067	91,613,816
1997	3,648,187	1,384,237	5,868,619	2,211,822	3,516,862	55,163,091	2,472,843	2,032,776	12,628,534	17,448,080	106,375,051
1998	4,361,878	1,394,769	7,276,929	1,937,700	3,975,883	62,209,349	2,782,192	3,609,690	3,878,342	16,477,420	107,904,152
1999	4,972,064	1,516,045	8,191,687	2,109,154	4,956,312	66,266,022	2,734,630	2,505,617	2,308,057	7,973,553	103,533,141
2000	6,656,140	1,701,577	8,087,971	2,300,987	5,472,225	69,769,381	2,988,116	2,112,934	11,188,046	8,261,775	118,539,152
2001	6,296,713	1,862,426	9,247,838	2,568,834	4,892,004	80,541,117	3,155,426	4,660,369	7,622,385	8,805,439	129,652,551
2002	3,820,691	2,428,766	11,419,185	2,744,931	6,334,307	80,778,668	3,608,713	3,606,104	16,609,468	5,380,977	136,731,810
2003	4,945,481	2,368,511	12,109,078	2,627,042	7,180,976	86,191,018	3,817,096	3,918,244	28,478,934	11,263,040	162,899,420

Notes:

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

Table 3

COUNTY OF FREDERICK, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1994	\$ 26,246,253	\$ 24,596,201	93.71%	\$ 1,042,160	\$ 25,638,361	97.68%	\$ 3,295,901	12.56%
1995	29,510,860	27,992,683	94.86%	1,182,130	29,174,813	98.86%	3,809,855	12.91%
1996	33,366,333	31,507,828	94.43%	1,316,685	32,824,513	98.38%	4,011,031	12.02%
1997	35,898,083	33,573,361	93.52%	1,959,958	35,533,319	98.98%	4,099,416	11.42%
1998	37,234,603	34,133,759	91.67%	1,242,591	35,376,350	95.01%	4,270,771	11.47%
1999	38,295,661	36,484,598	95.27%	1,735,069	38,219,667	99.80%	4,117,773	10.75%
2000	42,532,680	40,479,322	95.17%	1,224,420	41,703,742	98.05%	3,857,416	9.07%
2001	46,716,011	45,166,257	96.68%	1,243,875	46,410,132	99.35%	3,368,568	7.21%
2002	49,692,168	47,788,594	96.17%	1,157,814	48,946,408	98.50%	3,787,091	7.62%
2003	56,707,435	53,814,205	94.90%	2,483,603	56,297,808	99.28%	4,799,436	8.46%

Notes:

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

Real estate taxes became due in semiannual installments in the 1984 fiscal year.

Personal property taxes became due in semiannual installments in the 1992 fiscal year.

Public Utility taxes became due in semiannual installments in the 1993 fiscal year.

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

Levies, collections and delinquent amounts for 1999 through 2003 include amounts reimbursed and/or owed to the County by the Commonwealth of Virginia for personal property taxes.

Source - prior year audit reports and County Treasurer

Table 4

COUNTY OF FREDERICK, VIRGINIA

ASSESSED VALUE OF ALL TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utility		Total
					Real Estate	Personal Property	
1994	\$ 2,450,174,758	\$ 218,079,652	\$ 108,823,445	\$ 19,345,884	\$ 197,930,057	\$ 1,122,296	\$ 2,995,476,092
1995	2,545,677,135	295,171,335	137,159,812	18,972,992	152,848,058	911,618	3,150,740,950
1996	2,645,924,021	313,249,071	156,349,543	24,772,375	163,799,347	1,525,125	3,305,619,482
1997	2,708,112,775	392,434,457	163,617,271	27,977,702	158,282,200	1,404,079	3,451,828,484
1998	2,847,707,041	448,951,343	164,129,903	27,322,566	177,085,001	1,446,296	3,666,642,150
1999	2,957,535,874	488,131,686	171,195,719	27,279,966	186,452,596	1,151,445	3,831,747,286
2000	3,052,227,934	562,969,701	194,433,899	25,338,868	193,267,067	1,014,175	4,029,251,644
2001	3,307,251,040	618,705,456	220,973,344	25,936,422	209,475,199	1,058,556	4,383,400,017
2002	3,512,434,751	662,564,655	231,920,311	27,888,418	208,166,364	1,448,563	4,644,423,062
2003	3,806,927,513	720,516,577	234,640,199	30,878,859	183,456,775	1,617,850	4,978,037,773

Notes: Beginning in fiscal year 1984, the County elected to collect real estate taxes on semiannual installments. Accordingly, assessed values for real property (not including public utility property) through the 1992 fiscal year includes assessments for the second half of the preceding fiscal year and the first half of the current fiscal year. In fiscal year 1993 the County began assessing public utility and personal property on a semiannual basis.

In fiscal year 1992 the County elected to collect personal property on semiannual installments. As a result of this action, the assessed value for personal property, machinery and tools, and mobile home taxes beginning in fiscal year 1992 include assessments for the second half of the prior calendar year and first half of the current calendar year.

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

Source - Commissioner of Revenue

Table 5

COUNTY OF FREDERICK, VIRGINIA

PROPERTY TAX RATES

Last Ten Fiscal Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Airplanes	Mobile Homes
1994	\$ 0.55	\$ 4.25	\$ 2.00	\$ 0.425	\$ 0.55
1995	0.55	4.25	2.00	0.425	0.55
1996	0.60	4.25	2.00	0.425	0.60
1997	0.59	4.20	2.00	0.425	0.59
1998	0.59	4.20	2.00	0.425	0.59
1999	0.59	4.20	2.00	0.425	0.59
2000	0.64	4.20	2.00	0.425	0.64
2001	0.61	4.20	2.00	0.425	0.61
2002	0.61	4.20	2.00	0.425	0.61
2003	0.73	4.20	2.00	0.425	0.73

Notes:

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

There are no overlapping tax rates of other governments.

COUNTY OF FREDERICK, VIRGINIA

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

Fiscal Year	Popu- lation (1)	Assessed Values	Gross Bonded Debt (2)	Less: City of Winchester Share	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
1994	49,861	\$ 2,995,476,092	\$ 41,538,688	\$ 15,876	\$ 41,522,812	0.0139	\$ 833
1995	52,200	3,150,740,950	56,038,825	5,238	56,033,587	0.0178	1,073
1996	53,200	3,305,619,482	64,435,131	-	64,435,131	0.0195	1,211
1997	54,200	3,451,828,484	62,150,908	-	62,150,908	0.0180	1,147
1998	54,200	3,666,642,150	61,039,029	-	61,039,029	0.0166	1,126
1999	54,200	3,831,747,286	61,623,577	-	61,623,577	0.0161	1,137
2000	55,800	4,029,251,644	61,956,927	-	61,956,927	0.0154	1,110
2001	59,209	4,383,400,017	82,022,073	-	82,022,073	0.0187	1,385
2002	61,200	4,644,423,062	93,101,851	-	93,101,851	0.0200	1,521
2003	62,400	4,978,037,773	106,371,525	-	106,371,525	0.0214	1,705

(1) Bureau of Economic Development for years 1993 through 2000, Bureau of the Census for 2001, and Weldon Cooper Center for Public Service for 2002 and 2003

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

The County does not have any overlapping debt.

Table 7

COUNTY OF FREDERICK, VIRGINIA

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

Fiscal Year	(3) Principal	Interest and and Fiscal Charges	Total Debt Service (1)	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1994	\$ 2,950,704	\$ 2,534,905	\$ 5,485,609	\$ 71,982,392	7.62%
1995	3,014,863	2,383,697	5,398,560	76,129,744	7.09%
1996	3,093,694	2,707,410	5,801,104	91,613,816	6.33%
1997	13,262,223	3,136,725	16,398,948	106,375,051	15.42%
1998	11,949,879	2,978,160	14,928,039	107,904,152	13.83%
1999	4,067,452	2,998,160	7,065,612	103,533,141	6.82%
2000	4,882,001	3,001,174	7,883,175	118,539,152	6.65%
2001	4,884,854	3,294,709	8,179,563	129,652,551	6.31%
2002	5,380,977	3,759,721	9,140,698	136,731,810	6.69%
2003	7,097,456	3,749,042	10,846,498	162,899,420	6.66%

Notes:

(1) Does not include capital leases and payments on the VRS early retirement incentive obligation.

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

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

The County has no legal debt margin.

Table 8

COUNTY OF FREDERICK, VIRGINIA

PROPERTY VALUE CONSTRUCTION AND BANK DEPOSITS

Last Ten Fiscal Years

Fiscal Year	Deposits in Thousands (1)	Number of Permits	Commercial Industrial Construction (2)	Number of Permits	Residential Construction (2)	Property Value (3)	
						Commercial/Residential	Nontaxable
1994	\$ 130,069	163	\$ 17,356,528	1,392	\$ 49,021,005	\$ 2,251,416,594	\$ 192,561,600
1995	117,782	221	20,649,207	1,313	47,090,693	2,565,755,241	192,441,300
1996	146,930	193	22,829,732	1,391	47,995,360	2,645,924,021	200,783,000
1997	N/A	200	47,339,911	1,269	53,852,511	2,744,965,556	218,847,900
1998	123,289	171	20,757,146	1,047	51,975,748	2,847,726,208	223,348,500
1999	74,495	221	41,375,548	1,269	66,154,318	2,957,535,874	232,516,600
2000	96,995	192	72,899,520	1,558	68,979,282	3,081,652,197	264,737,561
2001	119,478	177	60,115,925	1,025	82,648,057	3,343,136,257	311,781,722
2002	148,077	201	56,296,826	1,353	113,386,329	3,645,894,766	362,658,372
2003	181,608	201	35,842,080	1,353	127,771,262	3,859,186,065	373,199,150

Sources:

- (1) Tayloe-Murph Institute, University of Virginia, 1991, Bureau of Economic Development 1992-1996, Frederick County Commissioner of Revenue 1998 - 2003
- (2) Frederick County Inspections Department
- (3) Frederick County Commissioner of Revenue

N/A - Not available

Table 9**COUNTY OF FREDERICK, VIRGINIA****DEMOGRAPHIC STATISTICS****Last Ten Fiscal Years**

Calendar Year	Population (1)	Per Capita Income (1)	School Enrollment (2)	Unemployment Rate (3) (4)
1993	49,698	\$ 18,787	8,961	4.92%
1994	49,861	18,752	9,614	4.60%
1995	52,200	20,960	9,632	4.40%
1996	53,200	22,071	9,516	4.20%
1997	54,200	23,030	9,878	3.60%
1998	54,200	24,362	10,521	2.60%
1999	54,200	26,451	10,407	2.10%
2000	55,800	27,251	10,765	1.60%
2001	59,209	28,063	10,778	2.60%
2002	61,200	N/A	11,007	2.70%
2003	62,400	N/A	11,343	3.50%

Sources:

- (1) Bureau of Economic Development through 2000, Bureau of the Census in 2001, Weldon Cooper Center for Public Service in 2002 and 2003
- (2) Frederick County School Board
- (3) Virginia Employment Commission
- (4) Includes City of Winchester beginning in 1994

N/A - Not available

Table 10

COUNTY OF FREDERICK, VIRGINIA

PRINCIPAL REAL PROPERTY TAXPAYERS

At June 30, 2003

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation (1)
Potomac Edison	Utility - electric power	\$ 92,460,492	2.42%
Verizon Virginia	Utility - communications	37,273,154	0.98%
H. P. Hood, Inc.	Dairy Plant	25,816,600	0.68%
Washington Gas Light	Utility - natural gas	20,462,404	0.54%
A T & T	Utility - communications	14,648,122	0.38%
General Electric Co.	Incandescent lamps	14,174,400	0.37%
Kohl Department Stores	Distribution	12,468,800	0.33%
Trex Company	Decking	12,423,400	0.32%
Fort Collier Group	Industrial Park	12,312,400	0.32%
Kraft General Foods	Pasta food manufacturing	<u>11,198,900</u>	<u>0.29%</u>
Total		\$ <u><u>253,238,672</u></u>	<u><u>6.63%</u></u>
Total assessed valuation for all real property - 2003 calendar year assessment		\$ <u><u>3,822,708,399</u></u>	<u><u>100.00%</u></u>

(1) Percentage of total assessed valuation is based on 2002 tax year assessed value for real property taxes

Table 11

COUNTY OF FREDERICK, VIRGINIA

MISCELLANEOUS STATISTICS

At June 30, 2003

Form of government	County administrator	
Land area	427 square miles	
Fire protection	Number of volunteer fire stations	11
	Number of volunteer firefighters	250
	Number of career firefighters	47
Police protection	Number of stations	1
	Number of deputies	78
Education	Number of schools	16
	Number of technical schools	1
	Number of regional schools	1
	Number of students	11,343
	Number of teachers	1,741
Parks and recreation	Number of regional parks	2
	Total acreage	396
	Number of community parks	5
	Total acreage	14
	Number of shelters	16
	Number of lakes	2
	Number of baseball/softball fields	10
	Number of playgrounds	9
	Number of tennis courts	2
	Number of basketball courts	1
	Number of golf courses (disc golf)	1
	Number of swimming pools	2
	Number of soccer fields	4
Building permits issued (excluding mobile homes)		1,484
County employees	Full time	459

- Compliance Section -

COUNTY OF FREDERICK, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>PRIMARY GOVERNMENT:</u>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Virginia Department of Social Services:		
Food stamp administration	10.561	\$ 518,798
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Pass through payments:</u>		
Virginia Department of Social Services:		
Family Preservation and Support Services	93.556	\$ 46,153
Temporary Assistance for Needy Families	93.558	129,019
Refugee and Entrant Assistance	93.566	175
Low-income Home Energy Assistance	93.568	9,935
Child Care Assistance	93.575	301,734
Child Care and Development Fund	93.596	68,959
Adoption incentive	93.603	2,809
Foster Care - Title IV-E	93.658	630,702
Adoption Assistance	93.659	53,543
Social Services Block Grant	93.667	192,184
Independent Living	93.669	15,080
Medical Assistance Program	93.778	124,968
Total Department of Health and Human Services		\$ 1,575,261
<u>DEPARTMENT OF THE INTERIOR:</u>		
<u>Direct payments:</u>		
Bureau of Land Management:		
Payment in-lieu of taxes PL - 97-258:		
National Forest Acreage payment (31-USC-6901)	15.000	\$ 4,804
National Park Service:		
American Battlefield Protection Program - GA 2255-99-009	* 15.926	420,000
Total National Park Service		\$ 424,804
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Virginia Department of Transportation:		
Repeat Intoxicated Driver	20.000	\$ 6,084
Total Department of Transportation		\$ 6,084

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003 (Continued)**

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>PRIMARY GOVERNMENT: (Continued)</u>		
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Direct payments:</u>		
Public Safety and Community Policing Grants	16.710	\$ 11,654
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
State Domestic Preparedness Equipment Support Program	16.007	53,520
Juvenile Justice and Delinquency	16.548	65,000
Victim-Witness	16.575	16,755
Drug Control and System Improvement	16.579	24,600
Total Department of Justice		\$ 171,529
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u>		
<u>Pass through payments:</u>		
Department of Emergency Services:		
State and Local All Hazards Emergency Operations Planning	83.544	\$ 26,458
Emergency Management Preparedness Grant	83.552	16,037
Disaster Relief Public Assistance	83.562	11,473
Total Federal Emergency Management Agency		\$ 53,968
Total Primary Government		\$ 2,750,444
<u>COMPONENT UNIT SCHOOL BOARD:</u>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Virginia Department of Agriculture:		
Food distribution	10.555	\$ 222,655
Department of Education:		
National School Breakfast Program	10.553	71,731
National School Lunch Program	10.555	660,784
Forest reserve funds	10.665	2,757
Total Department of Agriculture		\$ 957,927

Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2003 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<u>COMPONENT UNIT SCHOOL BOARD: (Continued)</u>		
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Pass through payments:</u>		
Virginia Department of Education:		
Adult Education	84.002	\$ 211,818
Education Consolidation and Improvement Act of 1981:		
Title I:		
Financial Assistance to Meet Special Educational Needs of Disadvantaged Children - Program operated by local education agencies	* 84.010	765,435
Title III:		
Immigrant Education	84.365	63,380
Title VI:		
Consolidation of Federal Programs for Elementary and Secondary Education Block Grant	84.298	92,098
Title VI-B:		
Assistance to States for Education of Handicapped Children - Preschool and School Programs	* 84.027	1,372,565
Vocational Education:		
Basic grants to states	84.048	137,117
Special Projects:		
Title II - Economic Security	84.164	16,197
Drug-free Schools and Communities	84.186	217,099
Literary Challenge	84.318	32,416
Innovative Education Program Strategies	84.298	54,900
Class Size Reduction	84.340	217,561
Employment Services and Job Training	17.249	59,129
Total Department of Education		\$ 3,239,715
Total Component Unit School Board		\$ 4,197,642
Total Expenditures of Federal Awards		\$ 6,948,086

* Major program

This schedule is prepared on the accrual basis of accounting.

COUNTY OF FREDERICK, VIRGINIA

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2003**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
15.926	American Battlefield Protection Program
84.027	Title VI-B - Education of the Handicapped

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

Finding 2003-1:

Program - American Battlefield Protection Program

The final project report was due to the grantor agency on or before March 31, 2003. The report was completed and filed with the grantor agency on June 16, 2003. The grantor agency accepted the report as filed. There were no questioned costs.

COUNTY OF FREDERICK, VIRGINIA

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003**

There were no findings reported for the year ended June 30, 2002.

ADDITIONAL COMPLIANCE REQUIREMENTS

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

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF FREDERICK, VIRGINIA

We have audited the financial statements of the County of Frederick, Virginia as of and for the year ended June 30, 2003, and have issued our report thereon dated September 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County of Frederick, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Frederick, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters that we have communicated to management in a separate letter dated September 11, 2003.

This report is intended for the information of the Board of Supervisors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 11, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF FREDERICK, VIRGINIA

Compliance

We have audited the compliance of the County of Frederick, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County of Frederick, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of Frederick, Virginia's management. Our responsibility is to express an opinion on the County of Frederick, Virginia's compliance based on our audit.

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

In our opinion, the County of Frederick, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

This report is intended for the information of the Board of Supervisors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robinson, James, Co. Associates

Charlottesville, Virginia
September 11, 2003