

Popular Annual Financial Report

County of Frederick, VA
DECEMBER 2012



Photo courtesy of Lorraine Mossburg

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PAFR PURPOSE

The purpose of this report is to summarize and simplify the presentation of information contained in the audited Frederick County 2012 Comprehensive Annual Financial Report (CAFR). The County's financial statements are prepared using the financial reporting model prescribed by the Governmental Accounting Standards Board (GASB) and are independently audited in accordance with auditing standards generally accepted in the United States of America by the accounting firm of Robinson, Farmer, Cox Associates of Charlottesville, VA. We encourage you to read the CAFR, which is comprised of detailed financial statements, notes, schedules and reports. The CAFR, in its entirety, is available in the Frederick County Finance Department and online at www.frederickcountyva.gov.

To the residents of Frederick County:

We face a steady influx of facts, figures and statistics in today's busy world. Sorting through this information, deciding what is important and then putting that information to good use can be a difficult task. In an effort to provide you with easily accessible, reliable information, we are pleased to present the Frederick County, Virginia's Popular Annual Financial Report (PAFR) for the fiscal year July 1, 2011 through June 30, 2012.

The PAFR is presented in a simple and easy to understand format to better inform the public about the County's financial condition, without excessive detail or the use of technical accounting terms. This report represents the ongoing commitment of County officials to keep Frederick County citizens informed about County finances, and to be accountable for the receipt and expenditure of public funds. It is intended to be a supplement to the CAFR, not a replacement. It does not conform to accounting principles generally accepted in the United States of America (GAAP) and focuses solely on primary governmental activities. Financial information related to the County Schools, Landfill, Adult Detention Center, Regional Airport, Shawneeland and Court Services are not included. Although the PAFR is not audited and excludes many material disclosures, financial statements, schedules and notes to the financial statements, figures are extracted from the County's CAFR.

Your Board of Supervisors



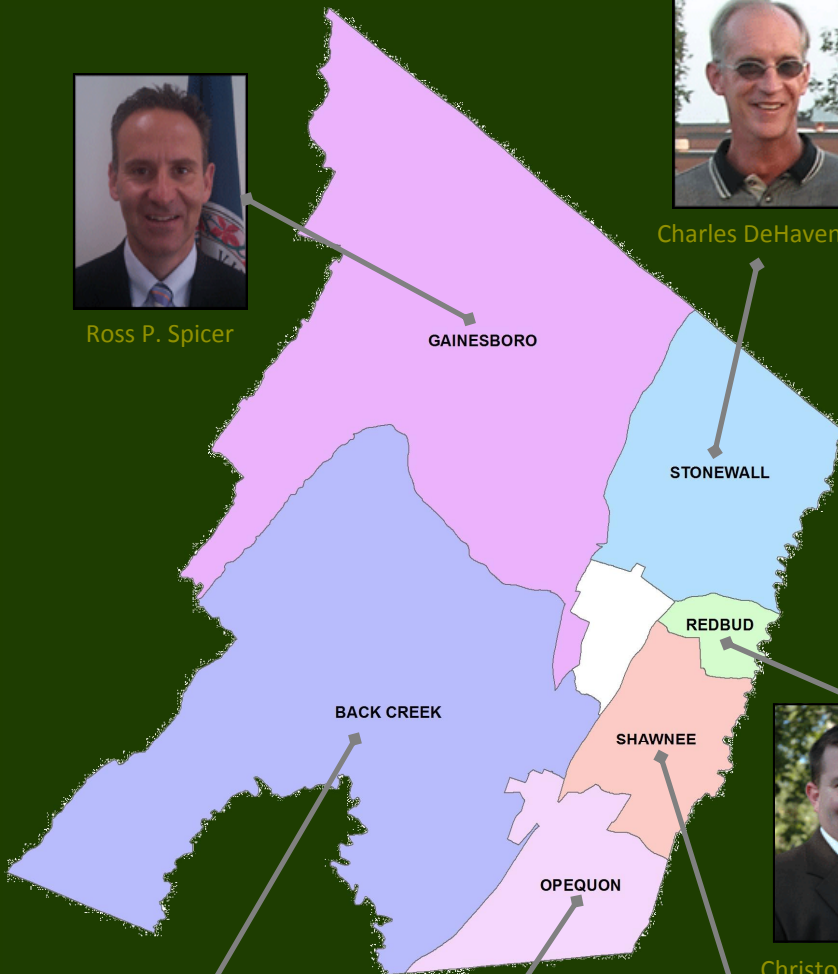
Richard C. Shickle
Chairman-at-Large



Ross P. Spicer



Charles DeHaven, Jr.



Christopher Collins



Gary A. Lofton



Bill M. Ewing



Gene E. Fisher



County Administration Building

photo courtesy of Lorraine Mossburg

Vision Statement & Core Values

Insuring the quality of life of all Frederick County citizens by preserving the past and planning for the future through sound fiscal management.

A government that is accountable and dedicated to providing responsible stewardship for county funds and to insure the citizens receive the best services possible for the funds expended.

A government concerned with long range planning that protects our rural heritage and directs its future growth through planned infrastructure.

A government concerned with expanding commercial and industrial tax base in order to insure a viable and thriving economy.

A government that looks to the future and implements plans to insure that the quality of life for future generations is preserved.

A government that emphasizes a quality education through a cooperative effort with the school board.

A government that recognizes the importance of maintaining a highly trained public safety program to provide efficient services and protection to county citizens.

A government that promotes the spirit of cooperation with its regional local government partners.

A government unit based on honesty, trust, integrity, and respect that understands the importance of clear communication and a willingness to listen.



Sherando Park Lake photo courtesy of Karen Vacchio

Frederick County At A Glance

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

The County, which covers 424 square miles and borders the West Virginia line, was established in 1738. Its county administrator form of government was established in 1971.

In the southeastern portion of the county, there are two incorporated towns – Stephens City and Middletown. The per capita income for Winchester-Frederick County was \$37,382 in 2011, the last year for which the information is available, according to the Bureau of Economic Analysis.

The area is served by the Winchester Regional Airport, a 376-acre, all-weather general aviation airport. It is the only general aviation airport in the state manned and open for service 24 hours a day that has a U.S. Customs Service on call 24 hours a day.

There are over 12,000 acres of land in battlefields that maintain high historic character. Without a concentrated and effective effort, most battlefield sites in Winchester and Frederick County will be lost to development during the next twenty years because of their location. Significant efforts are underway on the part of the City and County government, the Kernstown Battlefield Association, the Cedar Creek Battlefield Foundation and others to protect local battlefield sites

and create a battlefield park network. A battlefield park network in Frederick County and Winchester will provide substantial economic and educational benefits.

The Frederick County Public School System, the 19th largest school division in Virginia, is composed of eleven elementary schools serving students in grades kindergarten through fifth grade; four middle schools serving grades six through eight; three high schools serving grades nine through twelve; and one alternative/vocational school. Frederick County participates and is fiscal agent for a regional facility, Northwestern Regional Educational Program that provides services to some of its special education population. Other support facilities include the administration building, the maintenance and warehousing facility and the transportation facility.

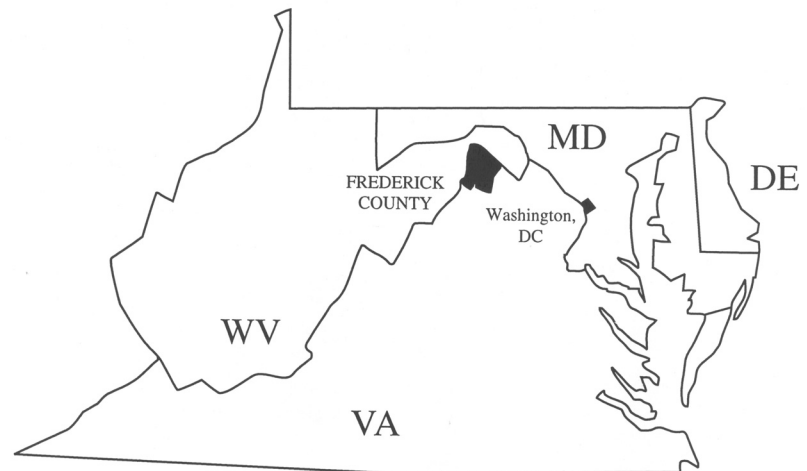
HISTORIC PRESERVATION

The following sites are listed on both the Virginia Landmarks Register and the National Register of Historic Places:

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

Six battlefields of great national importance are located in Frederick County & Winchester:

- First & Second Battles of Winchester
- First & Second Battles of Kernstown
- Stephenson's Depot
- Third Battle of Winchester
- Cedar Creek
- Rutherford's Farm



Local Economy

As the nation continues to recover from its most recent recession, there have been recent indicators that the economy in Frederick County is showing signs of recovery. Sales tax continues to increase at an average rate of eight percent. Other positive indicators include a fairly steady showing in construction-related permits and a slight increase in meals and lodging taxes collection.

The County's population has increased from nearly 65,000 ten years ago to an estimated 80,000 today. By 2020, it is projected that the population of Frederick County will be approximately 97,192, by 2030—119,419 and by 2040—145,935.

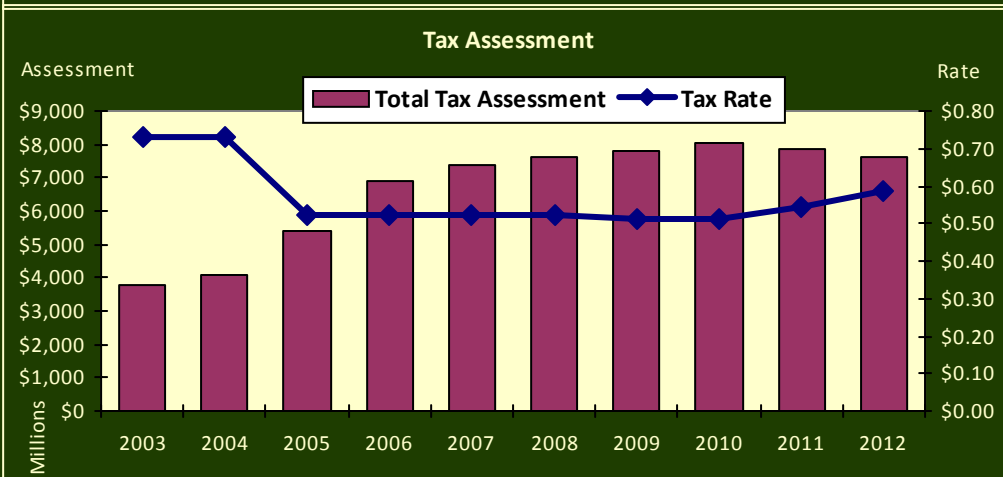
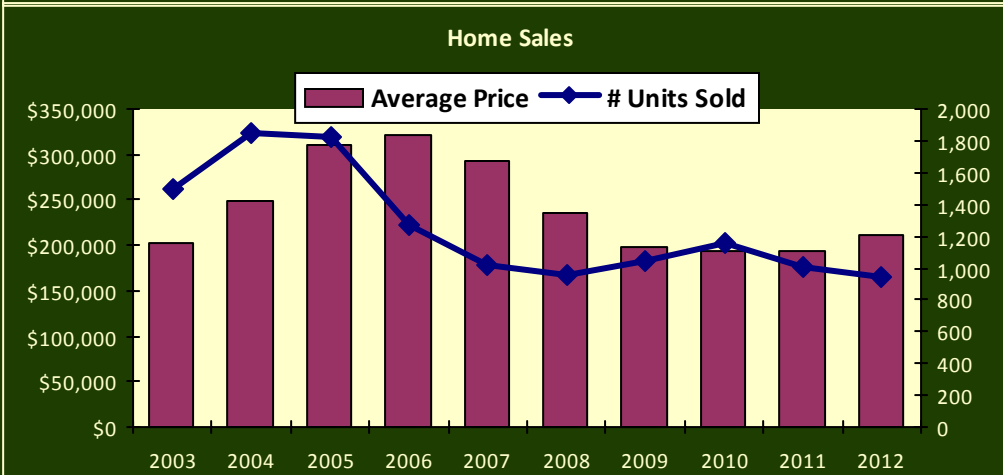
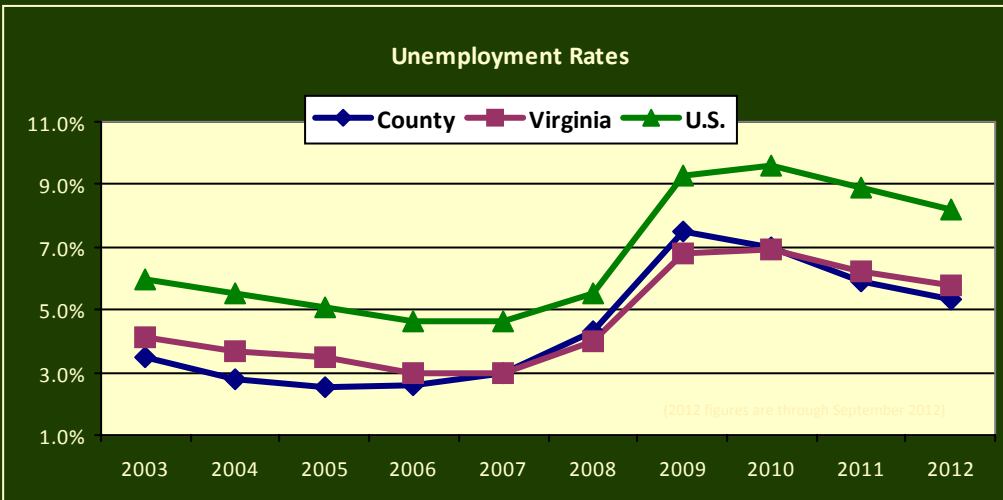
(Continued on page 5)



Photo courtesy of Wendy May

Principal Employers — Top 10 in Frederick County

1. Frederick County School Board
2. County of Frederick
3. U.S. Department of Homeland Defense
4. Navy Federal Credit Union
5. Lord Fairfax Community College
6. Kraft Foods
7. H.P. Hood, Inc.
8. The Home Depot
9. Trex Company, Inc.
10. Martin's Food Market



2012 TAX RATES Per \$100 of assessed value

Property Type	Tax Rate
Real Estate	\$0.585
Personal Property	\$4.86
Machinery & Tools	\$2.00
Airplanes	\$0.001
Mobile Homes	\$0.585

NOTE: All calendar year 2012 figures are estimates.



Photo courtesy of Wendy May

Local Economy

(Continued from page 4)

Employment is a broad economic measurement that gives a picture of major developments. Unemployment rates were at historical highs in 2009. Rates for Frederick County have decreased 29% since the high; however, the unemployment rate for Frederick County appears to have leveled off. The 2011 rate was 5.9% compared to the 2012 (through October) rate of 5.3%.

Frederick County's labor supply is drawn from a 30-mile radius and includes the City of Winchester and the counties of Shenandoah, Page, Clarke and Warren in Virginia, the counties of Berkeley, Hampshire, Hardy, Jefferson and Morgan in West Virginia, and Washington County, Maryland. According to the Virginia Employment Commission, the largest employment sector in 2011 was health care, followed by retail trade, services, government/education, and manufacturing, in that order.

It is a fact that businesses have closed; however, recent announcement of enhanced presence in Frederick County have been made by Carmeuse Lime & Stone, Navy Federal Credit Union, McKesson Corporation, and M&H Plastics. Carmeuse Lime & Stone announced a \$45 million expansion of its manufacturing operation; Navy Federal a multi-million dollar investment to expand its member service operation; McKesson plans to construct a new distribution center; and

M&H Plastics will invest \$6.2 million and expand its facility by 50,000 square feet.

The cost of living in Frederick County is about 104.3% of the national average. Home sales since 2005, the top of the real estate boom have fallen by 48.5%. According to MRIS, the average selling price of a home in Frederick County in 2012 (through November) was \$210,701 up 8.3% from 2011 average.

The total 2012 real estate tax assessment has decreased slightly compared to 2011. There was a county wide reassessment in 2010 which increased the tax rate to \$0.545 per \$100 in order to collect approximately the same amount in tax revenue as was collected the prior year. The tax rate for 2012 was increased to \$0.585 to offset state mandates.

QUALITY OF LIFE

Higher Education

Lord Fairfax Community College offers two-year programs for an associate degree in Art and Sciences and Applied Science, Career Studies and Certificate Programs.

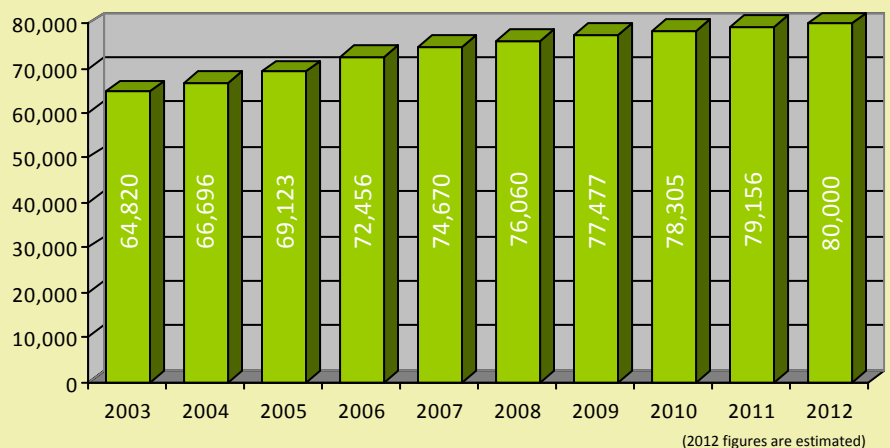
Shenandoah University offers four-year undergraduate and graduate programs. The schools include Harry F. Byrd, Jr. School of Business, Health Professions, Arts and Sciences, Pharmacy and Conservatory. The John Marsh Institute of Public Policy is also located at the university.

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

Medical Care

Winchester Medical Center, a 445-bed, non-profit hospital in Winchester, Virginia, is a regional referral center offering a broad spectrum of services that includes diagnostic, medical, surgical, and rehabilitative care. A level II trauma center, Winchester Medical Center is a resource for 400,000 residents in Virginia as well as neighboring West Virginia and Maryland.

Population



Frederick County—By the Numbers

PARKS & RECREATION

400
Acres Maintained
6
Community Centers
2
Swimming Pools
8,801
Youth Sports Members
57
Special Events Held

POPULATION

79,156

FIRE & RESCUE

9,127
Incident Responses

ANIMAL SHELTER

1,379
Animal Adopted

COUNTY EMPLOYEES

(full time non-school)

691

BUILDING INSPECTIONS

3,625
Permits Issued

12,643
Inspections Completed

SHERIFF

67,820
Calls Answered

18,472
Civil Papers Served

6,632
Warrants Served

3,753
Criminal Arrests

5,480
Citations Issued

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

County of Frederick
Virginia

for the Fiscal Year Ended

June 30, 2011



Christopher P. Moirill
President

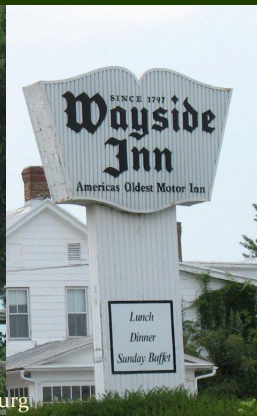
Jeffrey L. Esser
Executive Director

GFOA OUTSTANDING ACHIEVEMENT AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Financial Reporting to the County of Frederick, Virginia for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2011. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a PAFR whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The County of Frederick, VA has received a Popular Award for the last four consecutive years. We believe our current report continues to conform to the requirements, and we are submitting it to GFOA.



Photos courtesy of Lorraine Mossburg

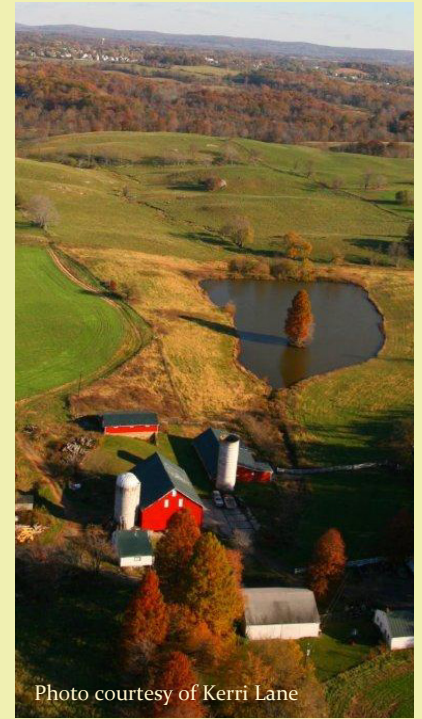


Photo courtesy of Kerri Lane



Photo courtesy of Becky McGraw

Frederick County's FY 2012 Budget

The budget is one of the most important policy decisions elected officials have to consider each fiscal year. The FY 2012 budget, July 1, 2011 through June 30, 2012, represents the Board's revenue and expenditure policy direction after budget work sessions with the School Board and Finance Committee. During the budget work sessions, many issues were discussed. Local revenue shortfalls, decreasing revenue from the Commonwealth, and public schools and public safety concerns, are just a few of the areas that needed to be addressed. A budget was produced that recognized limited revenue sources, conservative expenditures and the needs of Frederick County citizens.

The FY 2012 budget process began with the knowledge that present level funding for the second consecutive year would be the most likely outcome. Revenues were being monitored on a monthly basis with a few signs of positive local growth in certain areas. A budget work session was held in January 2011 to give the Board of Supervisors guidance on the upcoming budget.

With a reassessment completed, it was decided that a revenue neutral real estate tax rate was the best scenario to combat the FY 2012 budget. This meant that the real estate tax revenue collected by the County for FY 2012 would remain the same at \$40,430,000 but would change the actual tax rate from 0.51 cents per \$100 of assessed value to 0.545 cents per \$100 of assessed

value. With the average value of a residential property decreasing by roughly 12%, the taxpayer would not see much if any change to the taxes paid on their property. Having no overall increase to the tax burden to the taxpayer was a goal for the Board of Supervisors.

The total county budget for FY 2012 is \$235 million, and increase of 1.35% from the FY 2011 adopted budget. This includes a General Fund budget in the amount of \$125,849,938 that funds core county services including school operating and school debt.

Key Unfunded Requests & Delayed Goals and Initiatives

- Delay in refilling positions in the departments of Sheriff, Fire and Rescue, Public Safety Communications, Parks and Recreation, Commissioner of the Revenue, Social Services, and Jail.
- Delays in upgrades and adjustments to the county's information technology systems and networks.
- Elimination or reduction of Sheriff's Office personnel assisting with special events such as Shenandoah Apple Blossom Festival, Fourth of July festivals, Neighborhood Watch meetings and Board of Supervisors meetings.
- Replacement of radio communications equipment for Fire and Rescue.
- Continued reduced hours of operation at compactor sites throughout the county.
- Reduced quality of athletic fields at Clearbrook and Sherando Parks and public school facilities.
- Replacement vehicles for Fire and Rescue, Parks and Recreation, and Social Services.

Statement of Activities

For the fiscal year ended June 30, 2012



Photo courtesy of Gloria Puffinburger

	2012	2011	2010
Revenues:			
Program Revenues			
Charges for Services	\$ 4,110,366	\$ 4,025,756	\$ 4,104,393
Operating Grants & Contributions	10,159,864	10,945,448	11,817,662
General Revenues			
Real Estate & Personal Property	76,645,974	73,729,205	70,903,832
Other Taxes	26,966,330	25,294,693	24,839,738
Non-restricted Grants	14,631,755	14,689,496	13,318,446
Use of Money and Property	265,970	190,074	416,503
Miscellaneous	637,532	561,013	533,261
Total Revenues	\$ 133,511,129	\$ 129,435,685	\$ 125,933,835
Expenses:			
General Government	\$ 7,801,808	\$ 7,327,459	\$ 6,321,805
Judicial Administration	3,332,983	3,193,494	3,386,474
Public Safety	25,110,289	24,433,750	24,589,993
Public Works	3,270,107	3,727,381	3,497,874
Health / Welfare	8,401,557	8,384,653	8,174,845
Education	75,830,530	71,756,548	65,309,552
Parks, Recreation & Culture	5,200,119	5,099,689	5,256,852
Community Development	5,665,018	2,920,744	2,191,518
Interest on Long-term Debt	6,266,051	4,755,467	6,555,195
Total Expenses	\$ 140,878,462	\$ 131,599,185	\$ 125,284,108
Expenses (greater than) less than revenues received	\$ (7,367,333)	\$ (2,163,500)	\$ 649,727

Explaining the Statement of Activities

The Statement of Activities provides a detailed account of revenues (sources of income) and expenses (the use of money) for County operations.

The chart to the right reports only on primary governmental activities and is presented on a non-GAAP basis. Primary governmental activities include general and judicial administration, public safety, public works, health and welfare, education, parks, recreation and cultural, community development, and interest. More detailed GAAP basis financial statements can be found in the County's CAFR.

Revenues represent dollars received and expenses can be thought of as the costs of providing services to the citizenry. The three year history of revenues and expenses show that both have increased. Revenues increased by \$7.5 million from 2010 to 2012. The majority of the increased revenue was in the real estate & personal property taxes category due to an increase in business equipment and new vehicle purchases, as well as unbudgeted windfall from the 2012 calendar year real estate tax rate increase.

Expenses have increased \$15.6 million over the same period. The majority of the increase in expenses was in the categories of education (\$10.5 million) and community development (\$3.5 million). The increase in revenues and expenses could be an indicator of an economy that is rebounding.

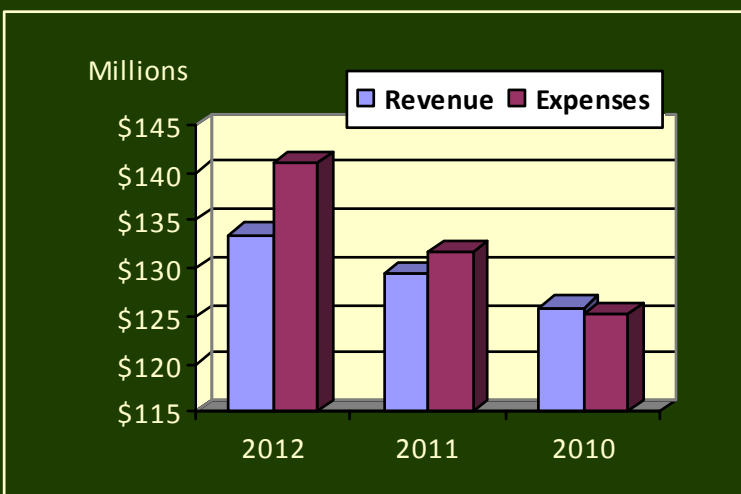




Photo courtesy of Kerri Lane

Fund Balance: What is it and why is it important?

Fund Balance is the excess dollars of what the County owns (assets) over what the County owes (liabilities) in a single fund.

There are several reasons that it is important to maintain a healthy fund balance. It is a critical factor in financial planning and budgeting. It provides funds for unforeseen expenses or emergencies. Fund balance reduces the need for short-term borrowing for operations by assuring sufficient cash flows. REMEMBER — half of the largest revenue source is collected at the end of the budget year. Personal property and real estate taxes are collected on June 5th which is only 25 days before the end of the County's fiscal year. Finally, fund balance demonstrates financial stability, which enhances bond rating, thereby lowering debt issuance costs.

The County's chief operating fund is the General Fund, which is the primary operating fund that accounts for all revenues and expenditures applicable to the general operations of the county. Revenues are derived primarily from property and other taxes.

Throughout the fiscal year, the unassigned fund balance for the county's general fund is closely monitored to assure that adequate levels are maintained to mitigate risks and provide back up for revenue shortfalls. Unassigned fund balance represents monies available for any purpose, not classified as nonspendable, restricted, committed or assigned. The Government Finance Officers Association (GFOA) recommends, at a mini-

mum, that general-purpose governments maintain a unrestricted fund balance of no less than two months of regular general fund operating revenues. For the County's General Fund, this calculates to a minimum recommended level of \$21 million or 16.6% of the total general fund budget for FY 2012.

At June 30, 2012, the unassigned fund balance was \$34,175,579 (CAFR, Exhibit 3), an increase of \$5.8 million over the prior year. This amount was depleted by \$4.3 million on July 1, 2012 to balance the upcoming FY 2013 budget, leaving adequate funds of \$29.9 million in unassigned fund balance. At year end those funds have been routinely returned to fund balance. Returning those funds is a conscience effort on the part of management.

FUND BALANCE TYPES

There are five possible fund balance classifications for the General Fund.

Nonspendable—\$736,632

Amounts that cannot be spent because they are not in spendable form (an example of this would be prepaids) or are required to remain intact legally or contractually.

Restricted—\$2,963,356

Amounts constrained for a specific purpose by external parties (creditors or higher levels of government) constitutional provisions, or enabling legislation.

Committed—\$1,698,907

Amounts constrained to specific purposes by a government, using its highest level of decision-making authority (board action). Such amounts cannot be used for any other purposes unless the government takes the same action to remove or change the constraints placed on the resources.

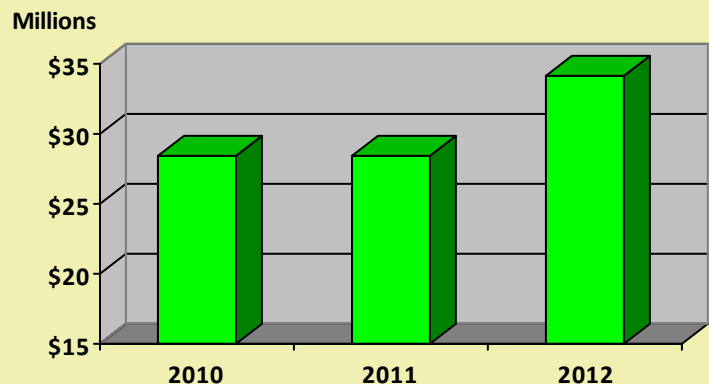
Assigned—\$2,135

Amounts a government intends to use for a specific purpose.

Unassigned—\$34,175,579

Amounts available for any purpose.

Unassigned Fund Balance—General Fund



The county implemented GASB 54 in 2011 which required fund balances to be reported under new classifications.

EYE ON IT

The pie chart shows the total General Fund expenses by category. The General Fund returned over \$5 million at the end of FY 2012 back to unassigned fund balance. The largest savings occurred in the categories of public safety and education. These are also the two largest spending categories. In public safety, the Sheriff had savings largely due to staff turnover. The county tends to be a training ground for public safety employees that leave employment with the county for substantially higher salaries in counties to our east. Savings in education was a result of several factors that include staff turnover and vacancies, energy savings realized through lower usage and less than expected unit rates and school and departmental budget savings. Savings in education was re-appropriated in FY 2013 for capital expenses.



A Closer Look at Expenses

The County's contribution to education represents 53.8% of all County expenses. Coming in a distant second is the cost of Public Safety at 17.8%. All other single expense categories expend less than 10% of total expenses individually. See the Statement of Activities on page 8 for exact dollar amounts.

General Government: costs of conducting legislative, financial and election activities of

the County, including departments such as Finance, IT, HR County Attorney and County Administration.

Judicial Administration: costs to support the courts which includes the Clerk of Circuit Court, Commonwealth's Attorney, General District Court and the Detox Center.

Public Safety: costs associated with law enforcement, traffic control, fire & rescue services, E-911 and building inspections.

Public Works: costs of refuse collection and disposal, maintenance of County buildings and the operation of the animal shelter.

Interest on Long-term Debt: cost of borrowing.

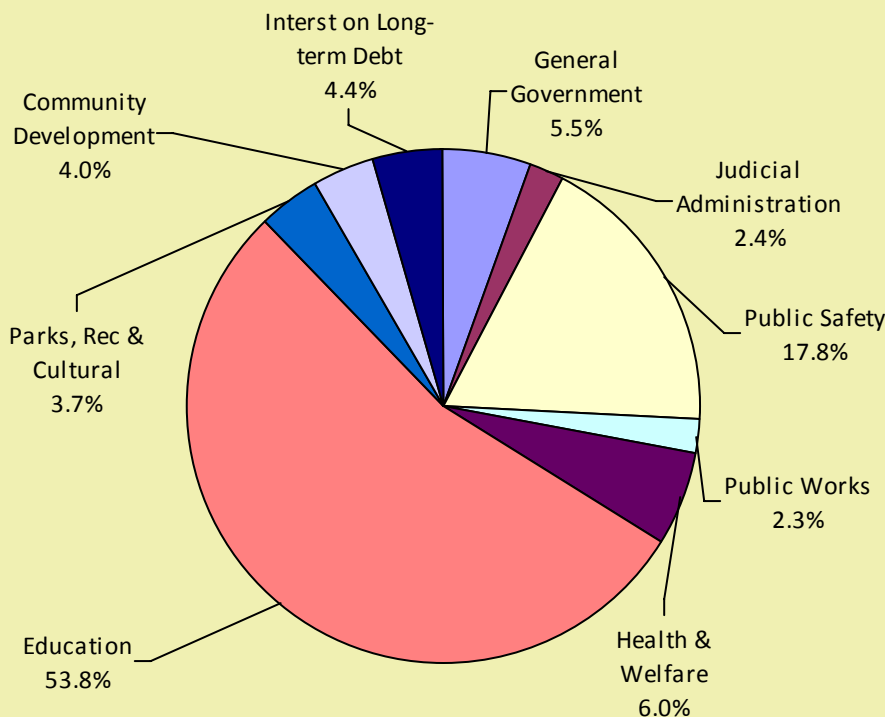
Community Development: costs of planning of economic, social and environmental issues. This category includes Planning & Development, Soil & Water Conservation and the Economic Development Commission.

Health & Welfare: costs for the local health department, social services and public assistance, as well as property tax relief for the elderly and handicapped.

Parks, Recreation and Cultural: the maintenance and operational costs of County parks, recreational facilities and libraries.

Education: costs represent the County's contribution for the operation of the public school system, including debt.

Expenses—General Fund—FY 2012





EYE ON IT

The pie chart shows the total General Fund revenues by category but does not present information on areas like growth and where revenue continues to lag. The county realized a year end revenue surplus attributed to taxes, which can be separated into two classifications; property taxes and other local taxes. Real estate & personal property taxes experienced an unbudgeted revenue surplus of over \$5.4 million at the end of FY 2012 with personal property representing the greatest share. Sales tax also returned an unbudgeted revenue surplus of \$1.7 million. Economic recovery is a direct result of market volatile taxes such as sales tax. The increase is a gauge of the slow, but consistent recovery to our local economy. While these indicators are positive, revenue from building related activities continues to be below budget.

A Closer Look at Revenues

As chart below shows, taxes are the largest source of revenue for the County. Total revenues of \$130,417,791 were collected in 2012 with taxes accounting for approximately \$103.6 million (77.7%) of that amount. In comparison, in 2011, total revenues collected were \$129,435,685 and in 2010, \$125,933,935.

Charges for Services: fees collected from the public for services rendered, such as court costs, building inspections, etc.

Operating Grants & Contributions: monies received from various federal, state and/or private grant opportunities.

Real Estate & Personal Property: taxes collected for properties housed in the County.

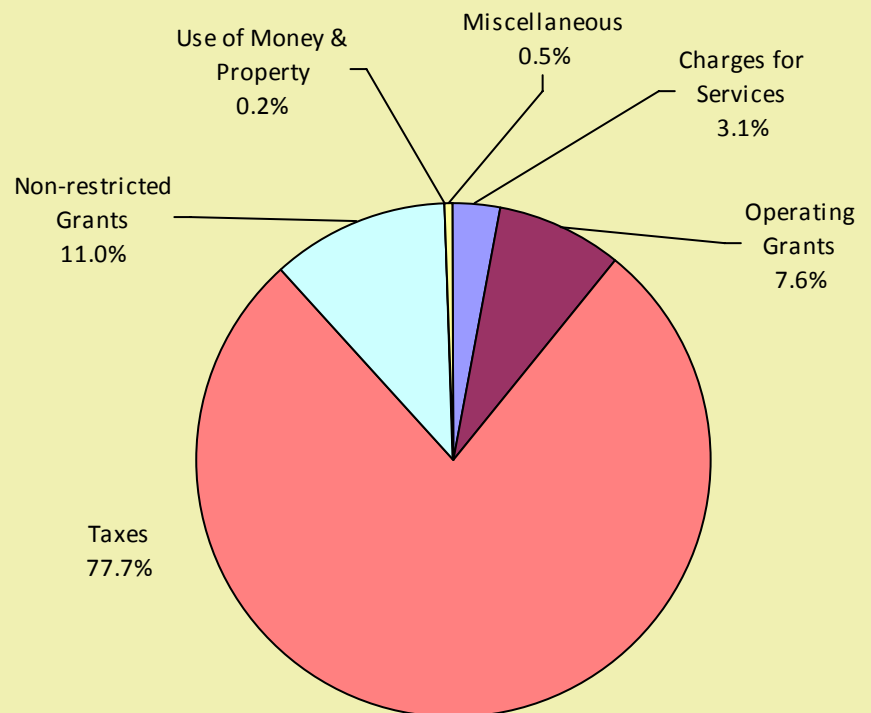
Other Taxes: include, but not limited to, lodging, meals, utility and sales taxes.

Non-restricted Grants: a block grant from the State for personal property tax relief. These funds can be used at the discretion of the County.

Use of Money and Property: monies earned from the investment of County funds.

Miscellaneous: includes refunds, donations and recovered costs.

Revenues— General Fund—FY 2012



NOTE: Taxes includes over \$12 million reimbursed from the State for Personal Property Tax Relief.



Photo courtesy of Lorraine Mossburg

On the Horizon

Making Frederick County more business friendly.

The Chairman of the Board of Supervisors wants to make Frederick County more business friendly. On December 11, 2012, a kick off meeting took place to appoint 40 citizen members to four different subcommittees to assess the business climate in Frederick County. The four subcommittees are:

- Land Use and Development
- Taxes, Assessments, Fees and Services
- Local Procurement of Services
- Business (Large and Small) Attraction and Retention

These subcommittees will look at the processes and procedures of doing business with the county and in the county and if these processes can be improved to better meet the needs of businesses. The subcommittees will meet to study respective area and report out to full committee. Recommendations are expected to be presented to the Board of Supervisors in approximately 6 months or less.

FIND US. FOLLOW US.
STAY CONNECTED.

Government-to-citizen communication is evolving rapidly with web technologies and Frederick County is embracing these new ways to reach those we serve.

<http://www.co.frederick.va.us/social.aspx>



COUNTY OF FREDERICK, VA Finance Department

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