

BUDGET OVERVIEW



Mabry's Mill

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Franklin County

Summary of the Adopted Budget

The annual Budget adopted for the fiscal year 2007-2008 is hereby presented on a cash basis of accounting under which revenues and related assets are recorded when received and expenditures are recorded as the related funds are expended.

The Budget Process

The County of Franklin's budget process is governed by Section 15.2-2503 of the Code of Virginia and states that the County budget shall be developed for "information and fiscal planning purposes only." The budget process begins in December with revenue projections being prepared by the Department of Finance. At the same time, budget forms and instructions are distributed to the County departments. Departments are asked to justify levels of allocations requested and to document any new programs or grants they anticipate receiving during the upcoming fiscal year. Reviews of departmental budget requests take place in January and February as well as preliminary meetings with the Board of Supervisors. The School Board budget is presented to the Board of Supervisors in early March and the entire County budget is submitted to the Board of Supervisors by the County Administrator in mid to late March. A public hearing is scheduled to be held on the FY 2007-2008 budget on April 17, 2007 and final adoption is scheduled for April 24, 2007.

Budget Amendment Process

Franklin County amends its budget as needed throughout the fiscal year. The budget can be amended in two ways: appropriation transfer and supplemental appropriation. The Board of Supervisors has authorized the County Administrator to approve appropriation transfers from one classification of expenditure to another within the same cost center. Transfers between cost centers and supplemental appropriations must be approved by the Board of Supervisors.

The School Board and the Social Services Board are separately granted authority to transfer any unencumbered balance or portion thereof from one classification of expenditure to another within their respective funds in any amount.

The Budget as a Managerial Tool

The purpose of this budget document is to make the budget an understandable managerial plan as well as an accounting tool. It has been prepared under the format required by the Commonwealth of Virginia for comparative reporting purposes and is for informative and fiscal planning purposes only. The Board of Supervisors must officially adopt a budget for each fiscal year (July 1 through June 30) after an advertised public hearing. The budget process affords the opportunity for County departments to do an internal analysis of their activities and goals. The governing body has the opportunity to review and analyze both department goals and citizen input. These plans are then meshed into a fiscal document which projects the necessary revenue to meet the proposed expenditures. The adopted budget is the means by which public policy is put into effect through the planned expenditure of public funds.





Franklin County

A Natural Setting for Opportunity

Budget Calendar FY 2007-2008

<u>Month</u>	<u>Task</u>
October 15, 2006	CIP forms and instructions distributed to departments
December 1, 2006	CIP forms due to Finance department
December 1, 2006 through December 31, 2006	Preparation of CIP document Department of Finance prepares revenue projections Budget forms and instructions distributed to Departments
January 1, 2007	Budget forms due to Finance department
January 15, 2007	Revenue projections finalized
January 15, 2007	County Administrator begins review of forms and departmental requests
February 28, 2007	Proposed budget decisions and preparation of County budget
March 6, 2007	School Board Public Hearing
March 13, 2007	School Board budget presented to Board of Supervisors
March 20, 2007	County budget presented to Board of Supervisors
April 2, 2007	County/School board discussions
April 17, 2007	Public Hearing on combined School and County budget
April 24, 2007	Fiscal Year 2006-2007 budget adoption
May – June, 2007	Preparation of related budget documents
July 1, 2007	Implementation of Fiscal Year 2007 -2008 budget



County of Franklin Long-Term Financial Policies

Financial Planning Policies

Balanced Budget: It is a requirement of the County Administrator to submit a balanced budget to the Board of Supervisors. A balanced budget is defined as the total sum of money Franklin County expects to collect being equal to the total amount it anticipates to spend on goods, services and other expenditures. Section 15.2-2503 of the Code of Virginia, as amended, states that the County budget shall be developed for “informative and fiscal planning purposes only”. It serves as a plan for County operations, maintenance, capital outlay, and debt service and may include reserves for contingencies and future capital improvements. The annual budget must contain a complete itemization of all estimated expenditures, revenues, and borrowings and must be approved by the governing body prior to July 1 of each year. Similarly, the School Board Budget must be adopted by May 1 of each year. The budget adopted by the Board of Supervisors on April 24, 2007 and presented in this budget document is a balanced budget.

Long-Range Planning: A five year Capital Improvement Program is adopted by the Board of Supervisors as part of the annual budget process. Details of this Plan are included in Section 6 of this document.

Although it is not a long-term financial policy, it is worth noting that the County of Franklin updates its' Comprehensive Plan every five years. The goals and objectives are set forth for seven functional areas: Environment, Transportation, Public Utilities, Community Facilities, Housing, Economic Development and Land Use. Many of the Comprehensive Plan's goals, objectives, and recommendations become actualized through the Capital Improvements Program process. The CIP is the mechanism for funding various public school facilities and improvements such as schools, parks and industrial sites. The CIP sets forth for each project the county's estimated resources available to finance the projected expenditure.

Cash management and investment policies are currently being developed for the County and should be adopted within the next year. Currently, the County Treasurer is tasked with investing and managing the County's funds on a day-to-day basis within state investment guidelines.

Asset Inventory: The County of Franklin does not have a formal policy to inventory and assess the condition of all major capital assets. This process is routinely performed during the planning process for the five year Capital Improvement Program. At that time, department heads and supervisors evaluate the condition and repair records of all equipment and vehicles in their department and also include new equipment for anticipated projects that will be accomplished in future years.

Revenue Policies

It is the goal of the County of Franklin to achieve the following objectives during the budget process:

- Continue to seek new sources of revenue in order to encourage a diversity of revenue sources to improve the ability to handle fluctuations in individual sources.
- Set fees and charges to cover the cost of the service provided.
- Discourage the use of one-time revenues for ongoing expenditures.
- Carefully consider the use of unpredictable revenues.
- Continually seek alternatives to ongoing dependence on real estate revenues.

Expenditure Policies

Debt Capacity, Issuance, and Management: The County adopted a debt policy on October 10, 1994. The policy is included on the next page of this document.

Reserve Accounts: A fund balance policy was also adopted by the Board of Supervisors on October 10, 1994:

1. The General Fund balances will remain equal to or greater than 10% of the adopted general fund and special revenue fund budget.
2. Designated Fund balance:
 - a. A designated fund balance will be maintained equal to the prior year encumbrances that were re-appropriated into the current fiscal year.
 - b. Specific obligations by the Board of Supervisors will be designated as such for use in future years.

Operating/Capital Expenditure Accountability: The Finance Department submits a comparison report of actual expenditures to budget on a monthly basis to the governing body of the County (Board of Supervisors). This report is reviewed for variances that are trending to exceed the budget and appropriate action is taken so as to not exceed the legal appropriation of the respective account.

Franklin County
Debt Management

The Franklin County Board of Supervisors adopted the following debt policy on October 10, 1994:

1. Financing should be considered for County assets that are designed to serve the citizens for a period of time in excess of five years with debt issued for a similar period and designed to spread the cost of the asset to all users, both current and future, unless a more feasible alternative exists (grants, gifts, etc.); and
2. Debt issued for the purpose of financing water and sewer projects or other enterprise fund projects will primarily be supported by revenues generated by those projects; and
3. County debt as a percentage of assessments will not exceed 3.5%; and
4. The County's debt service as a percentage of general government expenditures will not exceed 10%; and
5. The County's debt per capita will not exceed \$1,500 per capita; and
6. Capital leases of longer than three (3) years duration will be included as debt for the purpose of computing the ratios expressed herein.

Debt Service Requirements on Currently Outstanding General Obligation Bonds and School Literary Loans as of June 30, 2006 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Literary Fund Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$1,335,529	\$1,062,739	\$613,750	\$221,558
2008	1,375,623	876,890	613,750	203,145
2009	1,411,031	809,862	613,750	184,732
2010	1,453,144	739,937	613,750	166,320
2011	1,501,303	637,079	613,750	147,907
2012-2016	7,260,031	2,251,331	3,068,750	463,350
2017-2021	5,831,094	782,248	1,247,750	63,953
2022-2025	500,000	45,766	-	-
Total	20,667,755	7,205,852	7,385,250	1,450,965

As of June 30, 2006, the County has issued and outstanding \$20,667,775 in general obligation bonds, \$7,385,250 in State Literary Loans and \$454,046 in capital leases. Also included in the County's financial statements in the long-term debt footnote is the liability for a bond premium of \$180,274 compensated absences liability of \$1,232,088 and landfill closure/postclosure liability of \$1,896,459. Total long-term debt at June 30, 2006 is \$31,815,872.

Bond Rating:

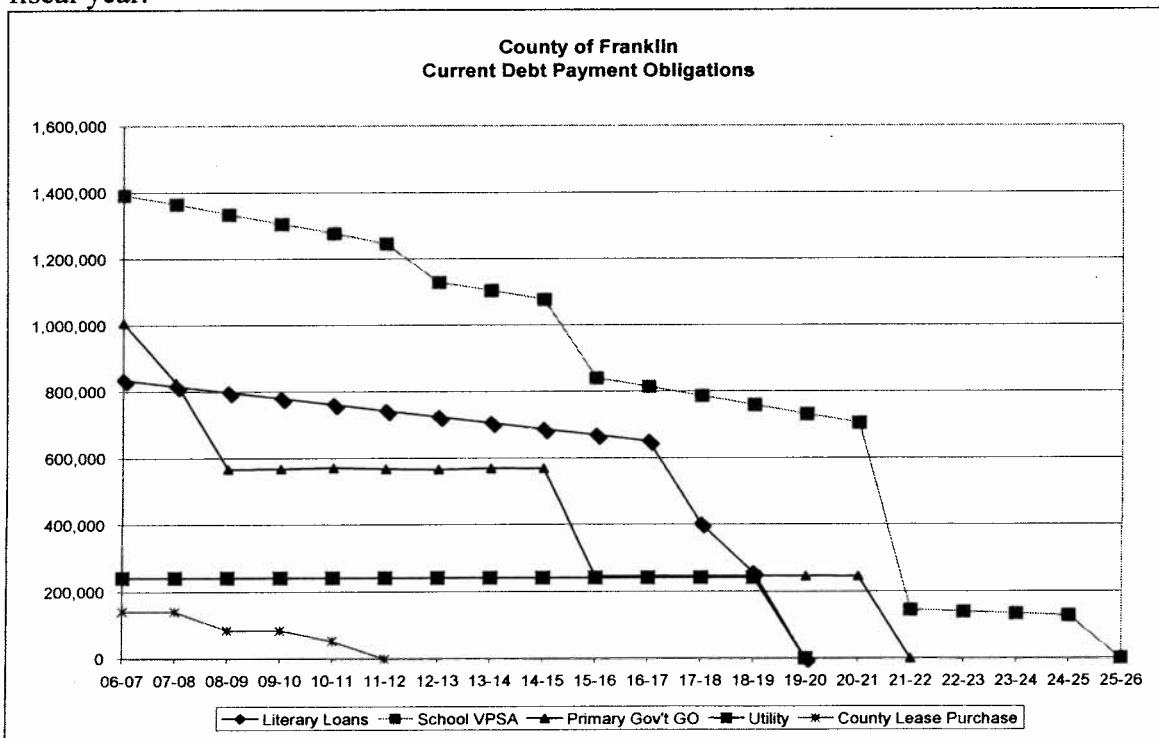
Franklin County was recently awarded excellent first time credit ratings by the national credit rating agencies of Moody's Investor's Service and Standard and Poor's.

The County received ratings of Double A Three from Moody's Investor's Service and A Plus from Standard & Poor's. Both credit rating agencies were favorably impressed with the County's managerial policies as well as its' adherence to conservative financial policies. Also cited by both rating agencies was Franklin County's strong General Fund balances and meaningful usage of Pay-As-You-Go Funding for capital needs.

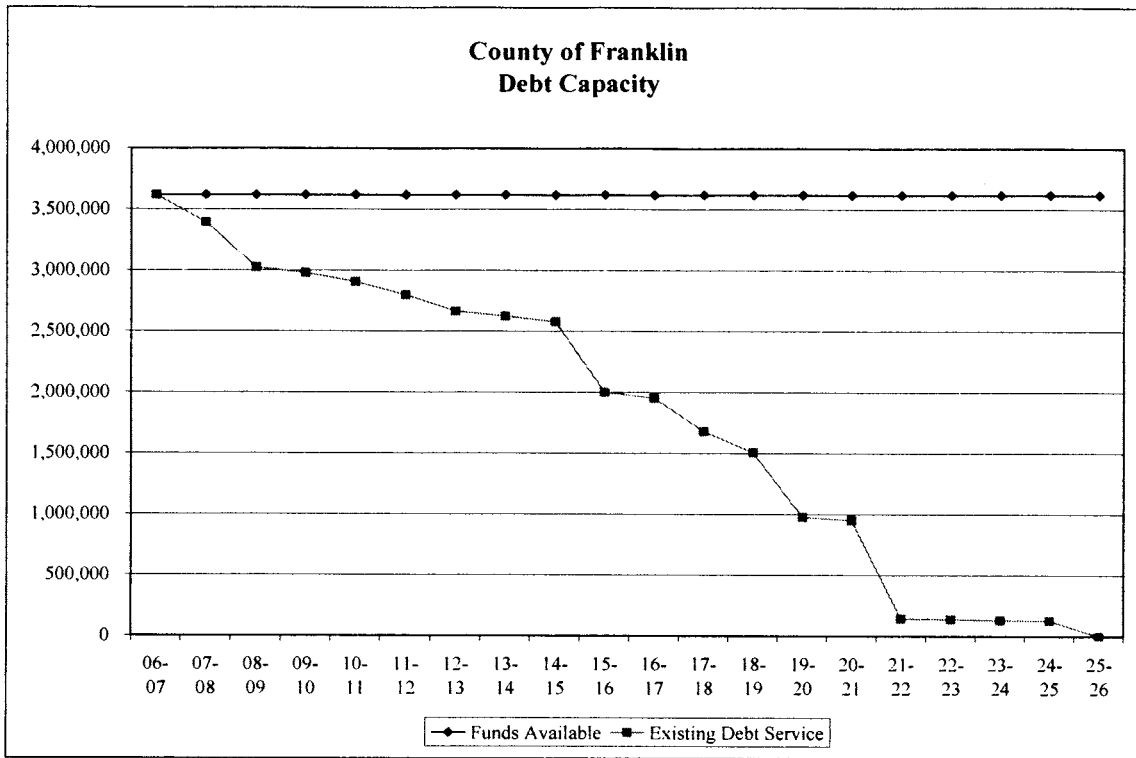
By formalizing the solid financial standing of the County in the eyes of the investment community, Franklin County has maximized their chances to borrow monies at the lowest interest rate possible. These ratings confirm to Wall Street that Franklin County's financial position is strong and as a result, repayment risk for an investor in debt obligations of the County is minimal."

Debt Capacity

The following chart shows the County's current debt payment obligations by type and fiscal year.



The next chart examines the County of Franklin's ability to borrow in future years based upon the amount of annual debt service retired that year. This capacity assumes that total debt service will not exceed FY2007 levels nor require increases in future tax rates.



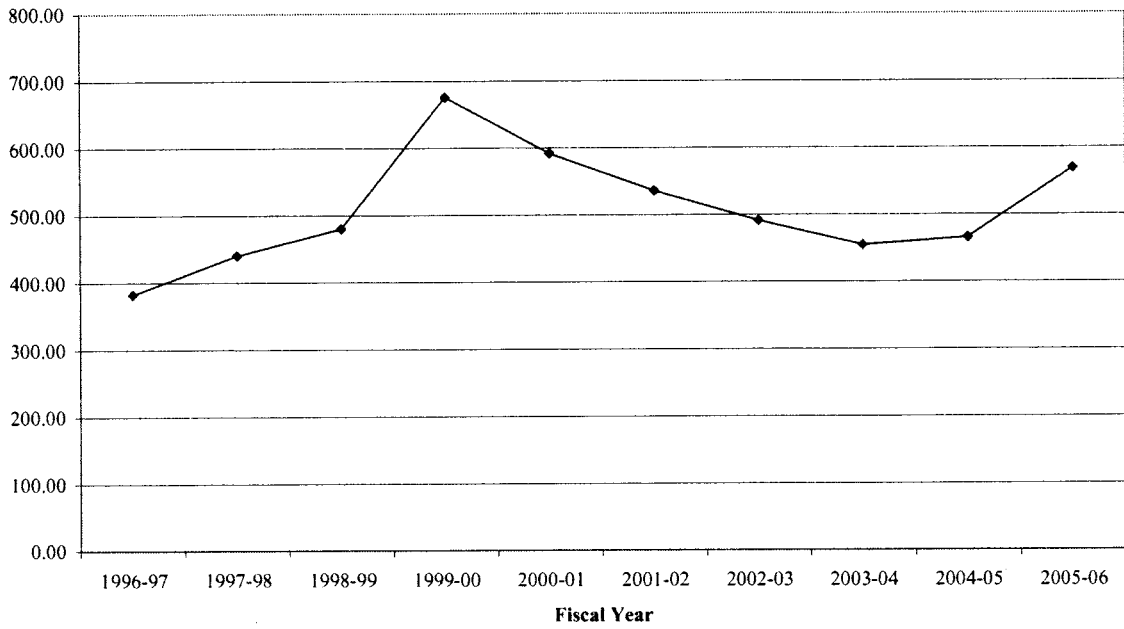
The current level of debt per capita at June 30, 2006 for the County of Franklin is \$569. The median for the Commonwealth of Virginia is approximately \$1,000. Franklin County's debt to assessed value at June 30, 2006 is 0.54% with the Virginia median being slightly less than 2.00%. Debt service as a percentage of expenditures was 2.81% for the fiscal year ended June 30, 2006. The County is in good financial position to borrow in the future should the need arise.

FRANKLIN COUNTY Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita Last Ten Fiscal Years

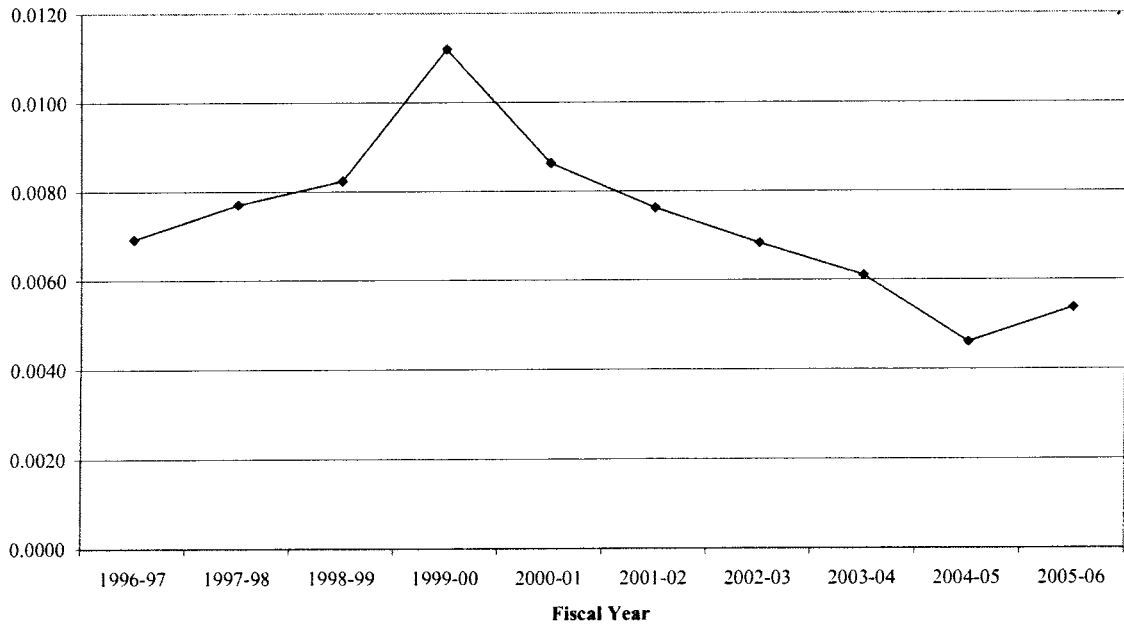
<u>Fiscal Year</u>	<u>Population(1)</u>	<u>Gross Assessed Value (3)</u>	<u>Gross and Net Bonded Debt(2)</u>	<u>Ratio of Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
1996-97	44,900	2,482,291,505	17,174,234	0.0069	382.50
1997-98	45,200	2,584,380,130	19,909,471	0.0077	440.48
1998-99	46,000	2,679,558,797	22,076,311	0.0082	479.92
1999-00	46,000	2,775,492,970	31,086,503	0.0112	675.79
2000-01	47,286	3,241,615,559	27,990,991	0.0086	591.95
2001-02	47,927	3,368,029,713	25,685,437	0.0076	535.93
2002-03	48,700	3,502,242,241	23,921,816	0.0068	491.21
2003-04	49,000	3,650,736,628	22,282,575	0.0061	454.75
2004-05	49,841	5,039,051,965	23,223,697	0.0046	465.96
2005-06	50,100	5,299,579,776	28,507,051	0.0054	569.00

Note: (1) Bureau of the Census
(2) Includes all long-term general obligation debt

**Franklin County
Net Bonded Debt Per Capita**



**Franklin County
Bonded Debt to Assessed Value**

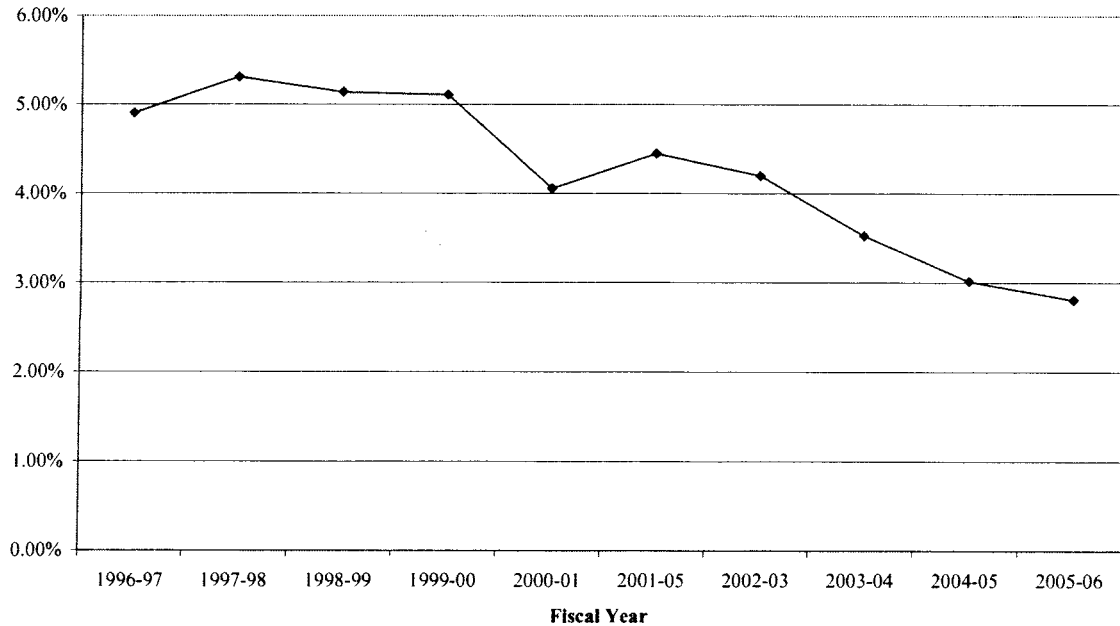


Franklin County
Ratio of Net Annual Debt Service Expenditures for
General Bonded Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Government Expenditures (3)</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
1996-97	\$1,829,248	\$1,471,411	\$3,300,659	\$67,311,116	4.90%
1997-98	1,985,552	1,251,575	3,237,127	60,953,460	5.31%
1998-99	2,259,873	973,926	3,233,799	62,899,149	5.14%
1999-00	2,372,360	1,198,965	3,571,325	69,868,253	5.11%
2000-01	2,073,506	1,216,678	3,290,184	81,104,855	4.06%
2001-05	2,305,554	1,240,177	3,545,731	79,711,574	4.45%
2002-03	2,233,556	1,126,740	3,360,296	80,002,670	4.20%
2003-04	1,985,865	1,026,506	3,012,371	85,418,525	3.53%
2004-05	1,806,075	961,179	2,767,254	91,728,187	3.02%
2005-06	1,848,143	1,035,008	2,883,151	102,700,420	2.81%

- (1) Exclude bond issuance and refunding of bonds.
- (2) Includes general, special revenue funds and component units.
- (3) Excludes refunding of bond.

Franklin County
Debt Service to General Government Expenditures



Basis of Budgeting, Basis of Accounting and Fund Structure

Basis of Budgeting

The budgets of governmental type funds (General, Special Revenue and Capital Projects Funds) are prepared on the cash basis of accounting: revenues and related assets are recorded when received and expenditures are recorded as the related fund expenditures are paid.

During FY 2005-2006 the County began operations of the first public water system in Franklin County. The revenues and expenses of the Enterprise fund – the Utility Fund will also be budgeted on the cash basis of accounting and will be used to account for all the operations, capital and debt service of this new water system as well as future expansions of the system.

The Comprehensive Annual Financial Report (CAFR) shows the status of the County's finances on the basis of "generally accepted accounting principles" (GAAP). A reconciliation must be performed to convert numbers from the modified accrual basis to the cash basis when comparing the CAFR to the numbers presented in the budget document.

Prior to May 1, the County Board of Supervisors adopts the budget by resolution and funds are appropriated generally at the department level or category level (Component Unit - School Fund) through passage of an appropriations ordinance.

Formal budgetary integration is employed as a management control device during the fiscal year for all funds. Budgets are legally adopted annually for the County's General Fund, Special Revenue Fund, School Operating Fund and Utility Fund.

A budget is adopted for each project in the County Capital Projects Fund. Projects are appropriated on a project by project basis throughout the fiscal year. The Appropriations Ordinance specifies that the budget and appropriation for each project continue until completion of the project. All other appropriations lapse at year-end. The level of control at which expenditures may not legally exceed appropriations is at the project level in the County Capital Projects Fund.

Fund Accounting

The accounts of the County and its component unit, the Franklin County School Board, are organized on the basis of funds and account groups. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate.

Basis of Accounting

The accounting principles of the County for financial reporting purposes are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Fund, Capital Projects Fund and Utility Fund.

Under the modified accrual basis of accounting, revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 60 days after year end are reflected as deferred revenues. Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Interest on long-term debt is recognized when due except for interest due on July 1, which is accrued.

Governmental Fund Types

All expendable financial resources and the related liabilities are accounted for through Governmental Funds. The Governmental Fund 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:

General Fund

The General Fund accounts for all revenues and expenditures applicable to the general operations of the County, which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources (other than those dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The County has two special revenue funds: Law Library and E911.

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.

School Fund (Component Unit)

Presented as a Component Unit is the Franklin County School Board which operates the elementary and secondary schools in the County. The School Board is fiscally dependent upon the County because the County approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers.

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public be financed or recovered primarily through user charges. The governing body may also have determined that a periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The County does not budget depreciation expenses in enterprise funds although they are recorded and reported in the annual financial report. The only enterprise fund is the utility fund used to account for the operations of the public water system.

Utility Fund

This fund accounts for the operation, maintenance and construction of the County's water system. Charges for services and grants represent the major sources of operating revenue. Contractual services and depreciation are the major expenditures of the fund.



Franklin County
A Natural Setting for Opportunity

Franklin County
Undesignated and Designated Fund Balances

General Fund

Undesignated General Fund Balance is the accumulated total of all prior years actual General Fund revenues in excess of actual expenditures. This is actually the surplus that has not been previously appropriated and is not reserved or designated.

Designated General Fund Balance is comprised of those funds that have been reserved from fund balance for a specific use. The following amounts were reserved from the General Fund undesignated fund balance at June 30, 2006:

Forfeited Assets	\$ 76,046
Landfill Closure/Equipment	2,811,936
E911	88,441
Library Endowment	4,000
Law Library	9,765
Other Capital Projects	11,095,887
	<u>\$ 14,086,075</u>

This amount (\$14,086,075) is included in the July 1, 2006 fund balance amount of \$28,767,133 Undesignated general fund balance on July 1, 2006 was \$14,681,058. Below are summary projections of fund balance for the general fund:

	<u>Estimate FY 06-07</u>	<u>Budget FY 07-08</u>
Fund Balance, Beginning of Year	\$28,767,133	\$30,076,232
Revenue Sources	65,270,603	67,471,017
Expenditures	(30,637,908)	(32,086,883)
Other (Uses):		
Transfers (Out)	<u>(33,323,596)</u>	<u>(35,384,134)</u>
Fund Balance, End of Year	<u>\$30,076,232</u>	<u>\$30,076,232</u>

**Franklin County
Undesignated and Designated Fund Balance (Continued)**

Fund Balance Policy (As adopted by the Board of Supervisors On October 10, 1994)

1. The General Fund balances will remain equal to or greater than 10% of the adopted general fund and special revenue fund budget.
2. Designated Fund Balance:
 - a. A designated fund balance will be maintained equal to the prior year encumbrances that were re-appropriated into the current fiscal year.
 - b. Specific obligations by the Board will be designated as such for use in future years.

Below is a fund balance overview of the beginning estimated balances, activity expected and projected ending balances of all funds.

	Fund Balance Projected FY2008 Balances				
	Estimated Fund Balance <u>Beginning of Year</u>	Revenue <u>Sources</u>	<u>Expenditures</u>	Transfers <u>Out</u>	Estimated Fund Balance <u>End of Year</u>
General Fund	30,076,232	67,508,017	(32,002,883)	(35,505,134) \$	30,076,232
E911 Fund	31,037	994,537	(944,537)	(50,000)	31,037
Law Library	9,619	12,000	(12,000)		9,619
Capital Projects	0	5,053,876	(5,053,876)	0	0
Debt Service	1,131,193	1,653,157	(1,653,157)	0	1,131,193
School Operating	1,156,516	76,004,353	(76,004,353)	0	1,156,516
Utilities	1,525,053	868,559	(868,559)	0	1,525,053
Totals	<u>33,929,650</u>	<u>152,094,499</u>	<u>(116,539,365)</u>	<u>(35,555,134) \$</u>	<u>33,929,650</u>

Note: It is the intent of Franklin County for all funds to end the year with the same fund balance as the beginning of the fiscal year. The General Fund balance may appear higher than required because of funds set aside for future capital projects.