

THE ROYAL KINGDOM OF GOTZBORG

BUDGET PLAN 2007



MARCH 2007

Under the Authority of:
His Grace Thomas, the Duke of Montefeltro
Minister of State (Home Office)

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Foreword

It is quickly approaching the second year since the Gotzborg economic system was manifested in August 2005. The hard work of numerous individuals, both in the Royal Government and private sector, throughout that time has catapulted Gotzborg into the position of the micronational leader in economics. Indeed, the Gotzborg economy is home to many of the gems of the micronational business community in both the manufacturing and service sectors. Further, the successful implementation of the Gotzborg Housing Program by the Office of Estates Registry over the last year has produced a home-grown and unique method to engage Gotzgers through long-term economic planning and responsibility.

While the system may be nothing more than a burgeoning simulation, it has become a cornerstone of the Gotzborg nation, resulting in a positive contribution towards the development of our community. As an Internet micronation, Gotzborg simulates many aspects of a macronation (i.e. 'real world' nation); and like a macronation, the economy has proven itself a critical factor in the development of other areas of the community. For example, the economy has spurred some of the greatest minds in the wider micronational community to use innovative ideas, as well as their computer skills, to produce unique contributions towards the national development such as passports, airships, engineering, and many others. In essence, the economy has captured the imagination of Gotzgers and foreigners alike in a positive manner by motivating those people to create more depth to our nation.

As was noted in this year's Throne Speech to the Chamber of Deputies, in 2006 Gotzborg focused too much on the economic system, thereby neglecting other areas of national development. There is one positive light in this unfortunate fact of history: that intense focus has created an economy that is stable, active, and productive. With this firm basis now in place, we can be confident knowing that our economic system has been developed to a point where it can be used as a springboard for development in any of those previously neglected areas.

As we move forward into 2007, the economy promises to continue its vital role in the development of the nation. This year's budget is a first for the Royal Government, and it has received careful planning and attention for many months. It will ensure that, as a nation, we can continue to move forward in a progressive manner and continue to be one of the most innovative micronations in the wider-community.

Liam Sinclair

His Grace Liam, the Duke of Montin
King's Counsellor

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Address from the Minister of State (Home Office)

Your Royal Majesty,

It is my pleasure to present to you the budget for the 2007 fiscal year. For the Royal Kingdom, the fiscal year begins on 1 April, and ends on March 31 of the proceeding calendar year. This budget will govern Royal Government financial planning until March 31, 2008.

The past year has seen the explosion of the Gotzborg economy with eight companies registered with the Ministry of Commerce and Industry. The decision to have a mixed economy is proving a great benefit to the nation, as we have both a reality-based sector and a simulated sector in our economy.

Many debates have been raging about the effectiveness of the PHP MicroXchange 2 (MX2) as an international banking system due to the flaws of the formula it uses for exchange rates. Yet, MX2 remains the only semi-automated system out there and is much less demanding to administer our finances through than the manual banking systems (such as spreadsheets). For this reason, Gotzborg will continue to use the MX2 system as its primary banking tool for this fiscal year and well into the future. Despite its shortcomings, and I suspect my fellow ministers would agree that there are several, MX2 remains the best way to ensure speedy transfer of Thalers in the Gotzborg economy.

The 2007 Budget Plan has been compiled by the Home Office to effectively and efficiently identify the necessary expenditures and revenues for the Royal Government in the coming fiscal year. Last year, the Royal Government posted a painfully-high deficit; a practice that cannot be allowed to continue. For this fiscal year, so as to not shock the economy, the Budget Plan will seek to reduce the national deficit to a more manageable level, with the intent that future budgets will balance the books.

In addition to this Budget Plan, the Home Office will be engaged in several reviews of the Gotzborg economy, which has not had a major overhaul since its inception in August 2005. In addition to contracting private consultants to provide recommendations throughout the coming fiscal year, the Home Office will be commencing a review of the Royal Government's pay scales, as well as making progress towards making the economy more efficient to administer.

I trust that this Budget Plan will prove acceptable to Your Royal Majesty.

Your Servant,

Thomas Maher

His Grace Thomas, the Duke of Montefeltro
Minister of State (Home Office)

CY2006: Financial Year-in-Review

Prior to this Budget Plan, the fiscal year was considered to coincide with the calendar year. As such, the last financial period for Gotzborg was from January to December 2006. In October 2006, it was estimated that the Royal Government would run a deficit of approximately GTh 310,000.00. It was found that at the conclusion of the calendar year, revenues were less than those estimated in October, while expenditures were greater. As a result, the Royal Government posted a year-end deficit of GTh 353,109.30. To put this into greater perspective, the expenditures of the Royal Government in calendar year 2006 (CY2006) were more than four times its total revenues.

Business registration fees and mortgage payments were the most significant source of revenue for the Royal Government, accounting for 26.7% and 38.9% of total revenues, respectively. A considerable portion (32.3%, GTh 36,300.00) of the Royal Government revenues for this period was composed of one-time events (business registration fees are considered a regular income source in CY2006 given the frequency with which such fees were collected).

Expenditures were also inflated by one-time expenses, with Royal Security Police Service procurements in CY2006 accounting for 36.7% of total expenditures. This should not cause one to believe that one-time expenditures are the reason why Gotzborg is experiencing a deficit. Royal Government salary payments for CY2006 account for 32.1% of total expenditures and in real-value significantly outpace regular income for the same period by a ratio of more than 2:1. Significant costs were also experienced due to the Gotzborg National Railway Lonenberg to Bellelay route development, as can be seen under the 'Payments to MEC (Montin Engineering Consultants)' category of expenditures.

A detailed summary of CY2006 revenues and expenditures are provided on the proceeding pages.

* All amounts in Gotzborg Thalers.

REVISED ESTIMATES FOR CY2006 (12 October 2006)

REVENUE SOURCES

Business Registration Fees:	26,000.00
Mortgage Payments ¹ :	36,510.67
Sales Tax:	11.00
Withdrawal from CBA:	21,875.00
Fines:	4,500.00
Other:	27,363.29
<i>TOTAL</i>	<i>116,259.96</i>

EXPENDITURES

Salary Payments to 31 Dec 06:	165,441.43
Deposit to CBA Investment:	50,000.00
RSPS Procurements:	170,665.00
Logos/ Ads	375.00
Colony Grants:	40,000.00
Other:	300.00
<i>TOTAL</i>	<i>426,781.43</i>

Balance: -310,521.47

ACTUAL CY2006 (26 January 2007)

REVENUE SOURCES

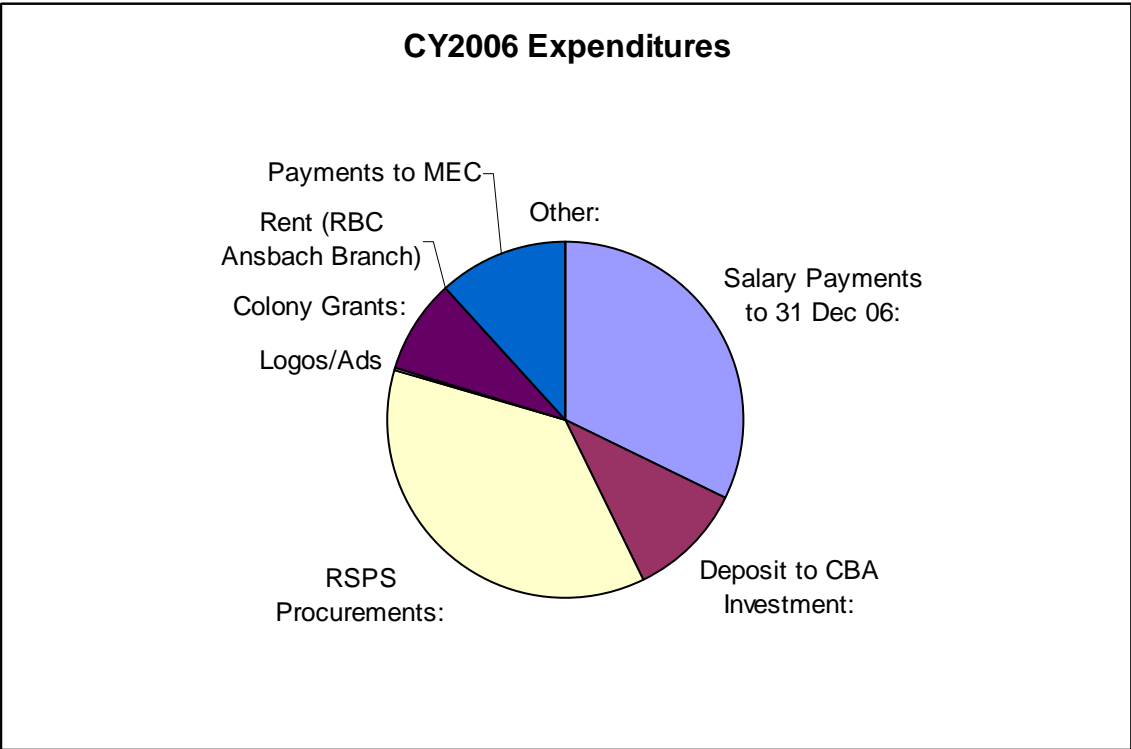
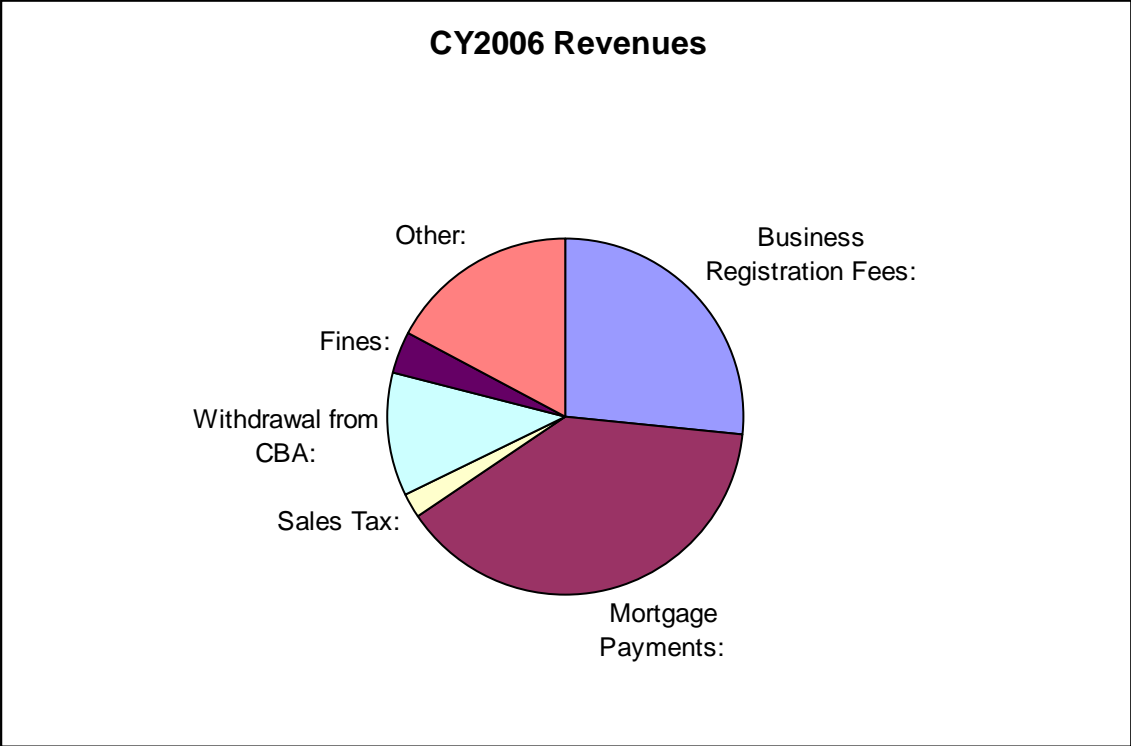
Business Registration Fees:	30,000.00
Mortgage Payments:	43,753.54
Sales Tax:	2,396.66
Withdrawal from CBA:	12,500.00
Fines:	4,500.00
Other:	19,300.00
<i>TOTAL</i>	<i>112,450.20</i>

EXPENDITURES

Salary Payments to 31 Dec 06:	149,628.00
Deposit to CBA Investment:	50,000.00
RSPS Procurements:	170,665.00
Logos/ Ads	375.00
Colony Grants:	40,000.00
Rent (RBC Ansbach Branch)	300.00
Payments to MEC	54,359.50 (x2 Projects)
Other:	200.00
<i>TOTAL</i>	<i>465,559.50</i>

Balance: -353,109.30

¹ Note: Utility Charges associated with Housing Contracts are included under Mortgage Payments.



FY2007 Revenue Plan and Estimates

A critical part in the development of this Budget Plan was to implement methods through which Royal Government revenues could be raised. More specifically, the goal is to implement new methods of gaining regular revenues in fiscal year 2007 (FY2007).

Current Regular Revenue Sources

Gotzborg Housing Project (Mortgage Payments)

The main source of government revenue stems from the successful Gotzborg Housing Project developed by Prince Steven at the beginning of CY2006. While getting off to a slow start, by the end of the calendar year there were a total of seven participants in the programme. Of those seven participants, six remain committed to mortgages for the duration of FY2007.

Sales Tax

The 4% Sales Tax implemented in the infancy of the Gotzborg economy yielded favourable results for CY2006. In CY2005, it produced a mere GTh 11.00 in revenue for the Royal Government. As can be seen in the preceding section, that amount increased significantly. Unfortunately the Royal Government currently has not developed a way to enforce the payment of this sales tax, instead relying on the honesty of the businesses in Gotzborg's economy to submit their due at the end of the year. The sales tax is expected to continue to be a minor source of regular revenues through FY2007.

Business Registration Fees

For the purposes of FY2007 estimates, this revenue category is no longer classified as 'regular'.

New Regular Revenue Sources Identified for FY2007

Forum Rental Fees

In February 2007, the Office of Estates Registry introduced a programme that will collect a monthly fee (GTh 100.00) from businesses that hold a forum on the national discussion board. A total of twelve forums are available for rental at any given time, with current tenants totalling near-capacity. For the purposes of revenue estimation, this Budget Plan will utilize a regular occupation rate of eight forums.

Income Taxation

The implementation of an income tax was initially raised in the Home Office in 2005; however, the Minister of State, Vice-Minister of Economic Affairs, and the Royal Bank of Commerce were all unable to come to agreement on an appropriate method for collection of such a tax. The issue of an income tax has been raised several times in the Royal Cabinet since that date and this fiscal year, given the need to develop new regular revenue sources, it has been decided that an income tax will be implemented.

The income tax will be charged to both persons and businesses within the Royal Kingdom of Gotzborg, and will be collected bi-annually, with total tax due beginning calculated as of

September 1 and April 1. The income tax rate will vary depending on the current-value of the business, or the monthly-equivalent-value of the person. An explanation of these two valuation schemes is provided as follows:

Business Current-Value: the total value of the business' holdings as of the date on which total taxes-due is calculated. Holdings will be considered a value of the businesses' total sales for the period at that date, or in lieu of such information being available, the total balance of the business' Royal Bank of Commerce account. Colonial Government accounts will be subjected to the same taxation rates as businesses.

Monthly-Equivalent-Value: for personal income taxation, income tax will be calculated on the balance of the person's Royal Bank of Commerce account, divided by twelve. For example, if a person is holding GTh 12,000.00 in his/her Royal Bank of Commerce Account, he/she will pay income taxes on GTh 1,000.00. If the person is drawing a Royal Government salary and the monthly-equivalent value of his/her account is below the value of that salary, income tax will be charged on a value equivalent to his/her Royal Government salary.

Actual income tax rates will be released prior to the first income tax day of the fiscal year (September 1). For the purposes of this planning document, a base income tax rate of 15%.

Irregular Revenue Sources

This planning document will not attempt to provide estimates for a large number of irregular revenue sources encountered by the Royal Government in CY2006 (most of which were grouped together in the 'other' revenue category). Instead, it will provide very rough estimates for the following major irregular revenue categories for FY2007:

Frozen Assets – Central Bank of Anthelia

In January 2007, the banking license for the Central Bank of Anthelia's Gotzborg Commercial Branch was revoked for violation of the Banking Regulatory Act. The assets of that former bank were seized by the Royal Bank of Commerce and the process to reimburse creditors is currently underway. The Royal Government is included in that list of creditors, and it will also take ownership over any unclaimed funds as of May 1, 2007.

Business Registration Fees

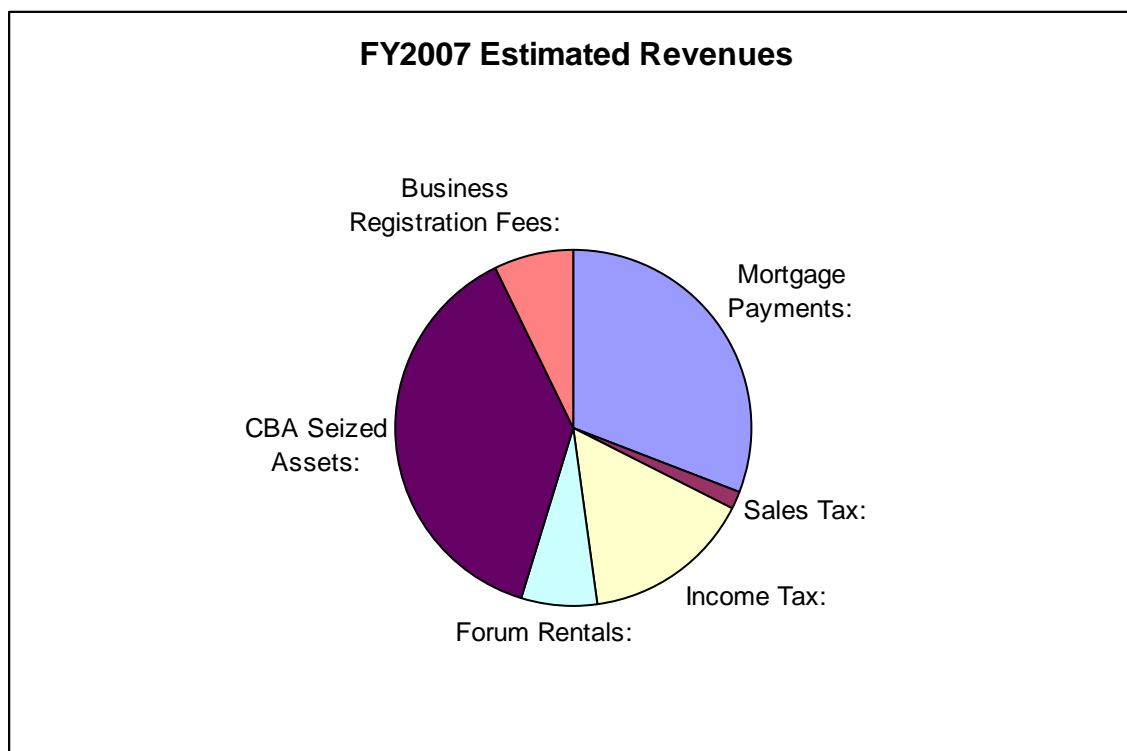
There are various fees associated with the registration of a business in Gotzborg, all of which are dependent on the nature of the business. The lowest registration fee is for a basic business company and has a value of GTh 1,000.00. The Home Office has estimated total business registrations over FY2007 at ten. This planning document will utilize the lowest registration fee in its estimate of revenues from this source.

* All amounts in Gotzborg Thalers.

REVENUE ESTIMATES FOR FY2007

Mortgage Payments:	42,448.56
Sales Tax:	2,000.00
Income Tax:	20,994.27
Forum Rentals:	9,600.00
CBA Seized Assets:	52,164.77
Business Registration Fees:	10,000.00
TOTAL:	127,607.60

A slight increase in revenue over CY2006 numbers is predicted by this Budget Plan. It is important to note that all revenue categories are estimated to minimum expectations, and that actual revenue may very well be higher than that estimated.



FY2007 Expenditure Plan and Estimates

A major part of Cy2006 expenditures for the Royal Government was one-time expenses. In keeping with the effort to reduce the national deficit in FY2007, one-time expense allocations will be kept to a bare minimum.

Regular Expenditures

Royal Government Salaries

Salaries are the major regular expenditure for the Royal Government and typically have a value substantially higher than all regular revenues combined. Salary payments will continue to outpace revenue in FY2007. As the basis for the estimate of salary expenditures for this planning document, CY2006 records have been consulted, and the value increased to reflect growth in employee positions in FY2007. Note that an overhaul for the Royal Government salary system and pay scales is planned for FY2007; however, this overhaul has not yet started and is not considered a factor in the estimates provided in this document.

Royal Bank of Commerce Rent

The Royal Bank of Commerce maintains a branch in the Royal Colony of Ansbach and is required to pay a monthly rental fee for its facility to the colonial government. The value of that rent is GTh 250.00 per month. The branch will be maintained through FY2007 as part of the Royal Government's effort to support colonial-level economic development.

One-Time Expenditures

Procurements

The Royal Security Police Service and the War Office have both requested funding in this fiscal year to provide for additional procurement of equipment. The total value of those requests was substantial, and given the priority of this Budget Plan to bring the national deficit under control, both entities will receive a much lower procurement allocation.

Advertising

The Home Office has requested funding for miscellaneous advertisements over the duration of the fiscal year.

Miscellaneous Tenders

Throughout the fiscal year, it is anticipated that the Royal Government will have to issue several tenders to allow for procurement of materials (in excess to the noted procurements above) and for various other government contracts relating to things such as consulting. Expenses relating to private consultant work for the Royal Government on the issue of economic reforms will be funded from this category.

Colony Grants

In Cy2006, each Royal Colony received a grant of GTh 20,000.00 from the Royal Government to assist in economic development. At this time, both colonies have more than that amount of currency on-hand for expenditures in FY2007. As such, no colony grants will be issued this fiscal year.

Contingency

Funds will be allocated to a contingency account to cover unforeseen expenditures encountered through the fiscal year.

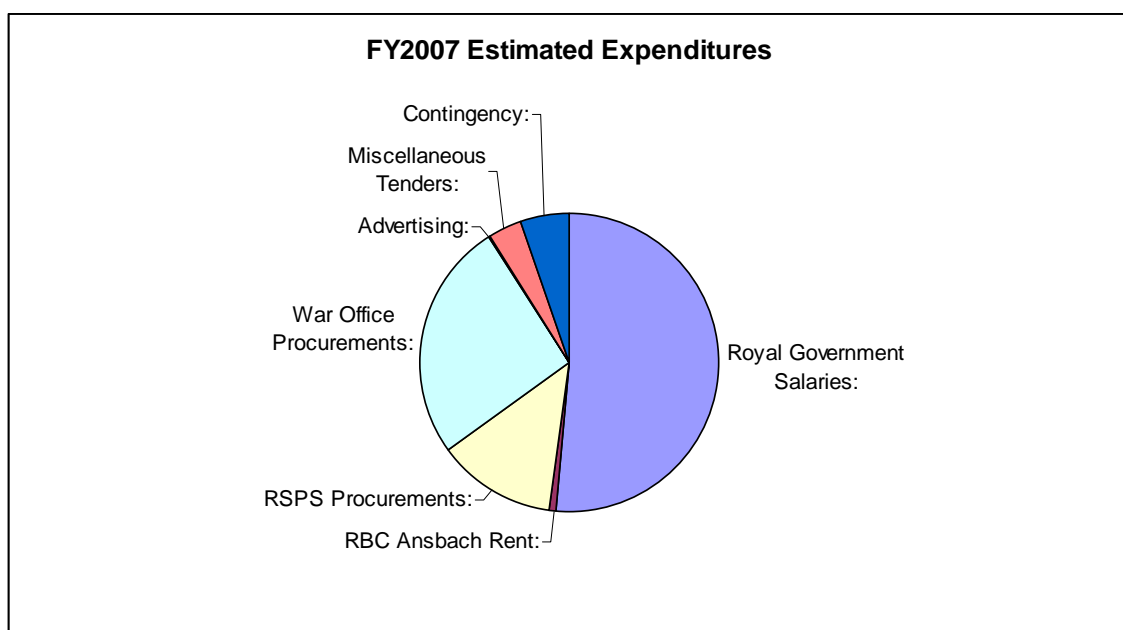
EXPENDITURE ESTIMATES FOR FY2007

* All amounts in Gotzborg Thalers.

Royal Government Salaries:	200,000.00
RBC Ansbach Rent:	3,000.00
RSPS Procurements:	50,000.00
War Office Procurements:	100,000.00
Advertising:	500.00
Miscellaneous Tenders:	15,000.00
Contingency:	20,000.00

TOTAL: **388,500.00**

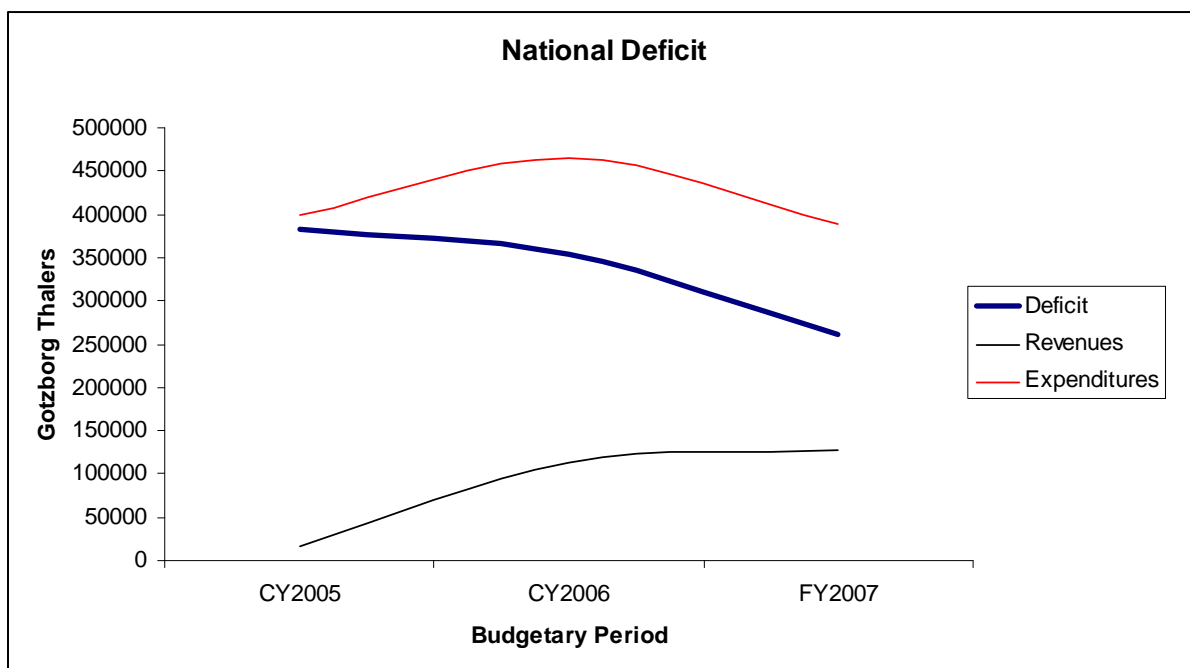
Estimated expenditures have been reduced by approximately GTh 77,500.00 from CY2006 reported levels. Strict control on Royal Government spending will be required throughout FY2007 to ensure that actual expenditures are as closely in-line with this Budget Plan as possible.



FY2007 Projected Deficit

The deficit for FY2007 is projected to be considerably lower than that recorded in CY2006. The Budget Plan, if adhered to, will reduce the national deficit significantly through FY2007, placing the Royal Kingdom in a healthy position to continue on the road to future balanced budgets.

The figure below shows the national deficit in CY2005, CY2006, and projected in FY2007. Note that in CY2005, the Gotzborg economy was active only from August 2005 onwards; as such, the deficit shown for that year below has been inflated to roughly reflect what it would have been over a full twelve month period.



The FY2007 national deficit is projected at a value of GTh 260,892.40, compared with GTh 353,109.30 in CY2006, and GTh 382,200.00 in CY2005 (noting that the CY2005 figure has been inflated from actual to reflect an annual budgetary period).

Inquiries

Inquiries concerning information in this document and/or requests for access to documents used in the budgetary planning process should be made to the following:

His Grace Thomas, the Duke of Montefeltro
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Information used in the development of this document was obtained from the following Royal Government bodies:

The Home Office
The Office of Estates Registry
The Royal Bank of Commerce