

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**PREPARED BY THE
DEPARTMENT OF FINANCE
KIM GILKEY-BREEDEN
DIRECTOR OF FINANCE**

FOREWORD

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington, DC. The Town was founded in 1754 and chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located 1 mile north and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 14,666.

The Town is governed under a Council-Manager form of government. The Town Council is comprised of six members, who are elected at large, to serve four-year terms. Elections for three seats on the Town Council are held every two years. The Mayor, who serves a two-year term, presides over the Town Council, but may vote only to break a tie.

The Town Manager is appointed by the Town Council as the chief executive officer of the Town and is responsible to the Town Council for proper administration of the Town government. The Town Manger also serves as Town Treasurer and is responsible for the financial operations of the Town. The Town Council appoints the Clerk of the Town Council and Town Attorney. The department directors are appointed by and are under the supervision of the Town Manager.

In Virginia, incorporated towns are part of the county in which they are located. Accordingly, the residents of an incorporated town are required to pay certain taxes, including ad valorem taxes, to both the town and the county. The town provides certain services received by residents of the town with other services being provided by the county.

**TOWN OF FRONT ROYAL, VIRGINIA
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INTRODUCTORY SECTION



TOWN OF FRONT ROYAL
OFFICE OF THE TOWN MANAGER
ADMINISTRATION BUILDING
P.O. BOX 1560
FRONT ROYAL, VIRGINIA 22630-1560

STEVEN M. BURKE, P.E.
Town Manager
(540) 635-8007
(540) 636-7475 (Fax)
sburke@frontroyalva.com

November 21, 2013

The Honorable Mayor,
Members of Town Council, and
Citizens of Front Royal

RE: FY 2012-2013 Comprehensive Annual Financial Report

We are pleased to present the Town of Front Royal's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013. This report provides informative and relevant financial data for the residents for Front Royal, our elected officials, and other interested readers. It includes statements and disclosures necessary to obtain a thorough understanding of the Town's financial activities.

This report consists of management's representations concerning the finances of the Town of Front Royal. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the management of the Town has established a comprehensive internal fiscal control framework. These controls are designed both to protect the government's assets from loss, theft, and misuse and to provide sufficient, reliable information for the preparation of the Town's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework on internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State law requires that an annual audit be performed by independent certified public accountants of the Town's financial affairs. The Town of Front Royal's financial statements have been audited by Mitchell & Co., P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2013 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

Based upon their audit, Mitchell & Co., P.C. concluded that there was a reasonable basis for rendering an unqualified opinion that the Town of Front Royal's financial statements for the fiscal year ending June 30, 2013, are fairly presented in conformance with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of

transmittal is designed to complement MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

Front Royal is located in Warren County in Northern Virginia approximately seventeen (17) miles south of Winchester and seventy (70) miles west of Washington D.C. The Town was founded in 1754 and incorporated by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstates 66 and 81 are located at the northern Town limits and west of the Town, respectively. Major rail lines are also located along the western and northern sides of the Town. The Town covers an area approximately nine (9) square miles, and has a population estimated at 14,666.

The Town is governed under a Council/Manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the Town. The Mayor, who serves a two-year term, presides over the Town Council, but votes only to break a tie. The Town Council is comprised of six (6) members, who are elected at large, to serve four-year terms. Elections for three (3) seats on Town Council are held every two (2) years. The Town Council has recently established that Town elections will be held in November with elected officials being seated on January 1st.

The Town Manager is appointed by the Town Council as the chief executive officer of the Town and is responsible to the Town Council and citizens for the proper administration of the Town government. The Town Manager also serves as the Town Treasurer and is responsible for the financial operations of the Town. The Clerk of Council and Town Attorney are also appointed by the Town Council. The Department Heads of Finance, Energy Services, Environmental Services, Human Resources, Risk Management, Information Technology, Tourism, Public Safety, and Planning & Zoning are appointed by and operate under the supervision of the Town Manager.

In Virginia, incorporated Towns are part of the County in which they are located. Accordingly, the residents of an incorporated Town are required to pay certain taxes, including ad valorem taxes, to both the Town and County. Certain services received by residents of a Town are provided by the Town with other services being provided by the County.

The Town government maintains budgetary control over its spending. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the Town Council. Activities of the general fund and all enterprise funds 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 the individual fund. The Town government also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbered amounts lapse at the year-end, unless otherwise re-appropriated as part of the following year's budget by Town Council. As demonstrated by the statements and schedules included in the financial section of the report, the Town government continues to meet its responsibility for sound financial management.

Economic Outlook

As the nation slowly recovers from the economic downturn, Front Royal has weathered this period of economic difficulty without reduction of service delivery. The Town continues to provide superior service levels to our citizens and customers, and endeavors to seek new opportunities to improve these services and reduce costs to our citizens.

General fund revenues continue to stabilize and show minor signs of improving. Innovation in the delivery of services, effective planning, and prudent fiscal allocation of public resources will continue to drive Town government to be well positioned for economic recovery. The Town will continue to monitor outside influences on our fiscal condition, most specifically the Federal government deficit issues. The Town's current economic health remains sound and the Town's business climate is encouraging.

The Town's Enterprise Funds remain stable in the face of new regulations. Our electric rates remain the lowest in the Commonwealth, while our service reliability is outstanding. The Town continues to develop water and sewer rates to cover anticipated debt service for plant improvements and infrastructure improvements, while remaining competitive with communities facing similar mandated improvements.

The Town has planned a number of large projects for the future. The Town continues the design for construction of improvements at our Water and Wastewater Treatment Plants. In addition, the design of the Leach Run Parkway has begun as a partnership between the Town, County, EDA, and VDOT. The Town and County appear at the end of the process to boundary adjust 604 acres of property into the Town limits. The plans construction of a new electric substation in Riverton to better serve our customers. VDOT has awarded the construction of the new South Fork Bridge with construction planned from 2014 until 2017. The Town has also completed the site selection for our new Police Headquarters near the Avtex site. The Town has started the Happy Creek Trail project and will continue the extension of the Royal Shenandoah Greenway along Criser Road when Right-of-Way is obtained.

Moving forward on these project will pose financial challenges in the near term, but will provide significant improvements to our community for the future.

Major Achievements

During the FY 12-13 Budget, the Town continued to focus on improving the quality of life for our citizens and planning for our community. The following major projects were begun or continued during the fiscal year:

- ◆ New Police Dispatch Software
- ◆ Deer Management Program
- ◆ New Administration Building
- ◆ Leach Run Parkway - VDOT Revenue Sharing project that partners with Warren County & EDA
- ◆ Happy Creek Trail - Obtained easements and initiated construction
- ◆ Celebration of Town's 225th Anniversary of Incorporation as a Town
- ◆ Developed Voluntary Settlement Agreement with Warren County for Front Royal Limited Partnership Boundary Adjustment Request
- ◆ Initiated Rt 522 Corridor Water Loop Study

- ◆ Working with EDA to modify develop covenants on Avtex Property
- ◆ Design of Wastewater Treatment Plant Upgrades
- ◆ Design of Water Treatment Plant & System Upgrades
- ◆ Installed battery backup system at all traffic signals
- ◆ Initiated installation of pedestrian signals at two intersections
- ◆ Changed Town elections to November
- ◆ Initiated installation of utility improvements associated with Dominion Power requirements
- ◆ Continued recognition as Tree City USA

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2012. This was the twenty-fifth (25th) consecutive year that the Town has received this prestigious award. The GFOA awards a Certificate to municipalities that exemplify excellence in financial reporting and conform to stringent reporting requirements established by the GFOA.

A Certificate of Achievement is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we will submit the CAFR to the GFOA to determine its eligibility for continued recognition.

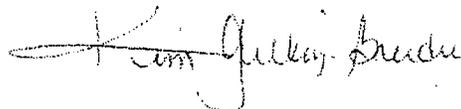
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Town of Front Royal Finance Department. The staff's hard work, dedication, and continuing efforts to improve the quality of this report directly benefit all who read and use it. Special recognition goes to Kim Gilkey-Breeden, Director of Finance, for her technical expertise and efforts in the preparation of this CAFR. We would also like to thank the Mayor and Town Council for their interest, guidance, and support to maintain the highest standards of professionalism in the management of the Town's finances. Finally, we would like to express our appreciation to Mitchell & Co., P.C., for their cooperation, guidance, and assistance to ensure that the Town's financial management and accounting is in compliance with GASB statements and other governmental accounting standards.

Respectfully submitted,



Steven M. Burke, PE
Town Manager



Kim Gilkey-Breeden
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

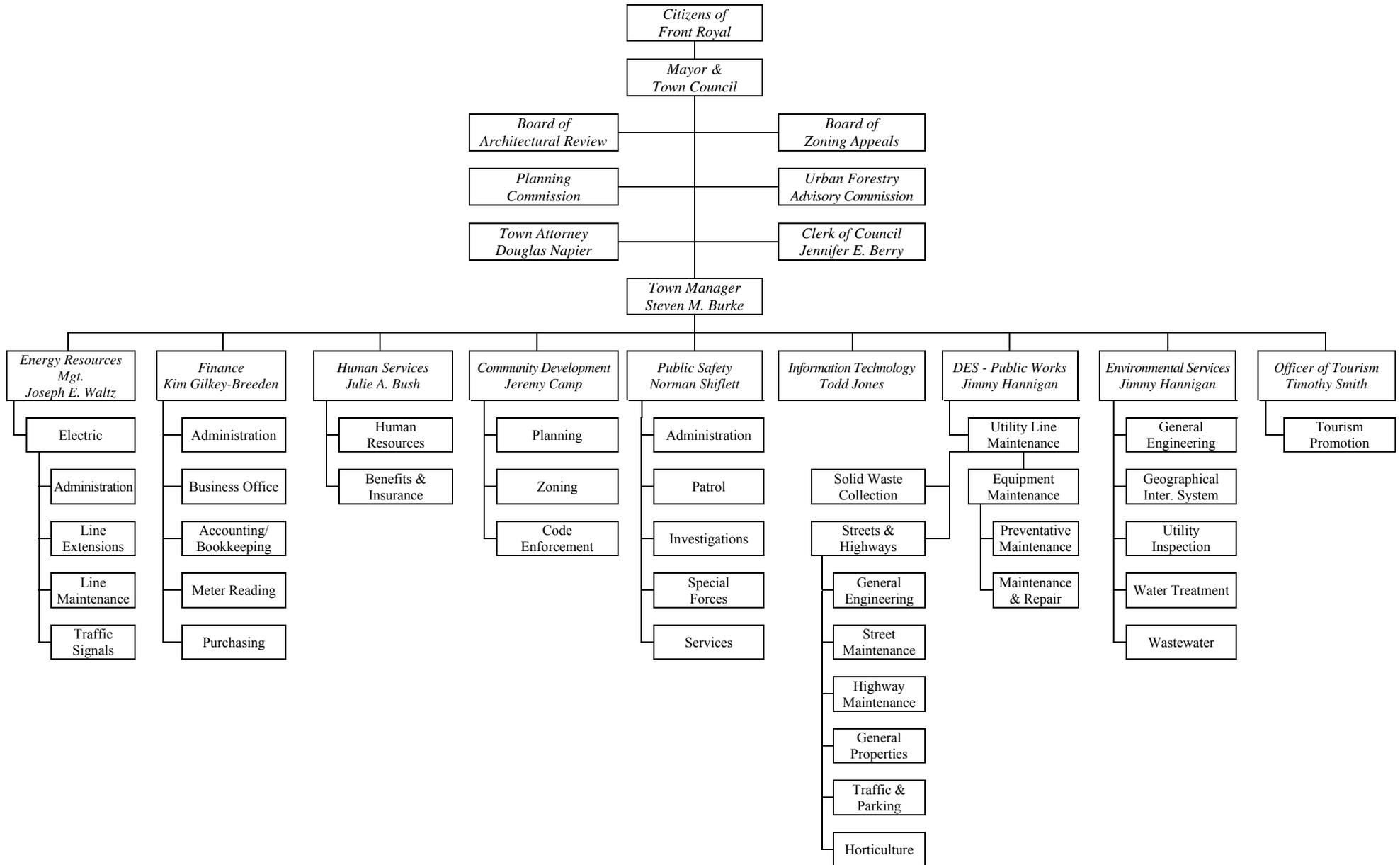
**Town of Front Royal
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2013**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2013**

TOWN COUNCIL

Timothy W. Darr - Mayor
N. Shae Parker - Vice Mayor
Bret W. Hrbek
Daryl Lee Funk
Thomas H. Sayre
Eugene R. Tewalt
Hollis L. Tharpe

TOWN OFFICIALS

Town Manager	Steven M. Burke, PE
Director of Planning & Zoning	Jeremy Camp
Town Attorney	Douglas Napier
Chief of Police	Norman Shiflett
Director of Environmental Services	Jimmy Hannigan
Purchasing Agent	Cynthia A. Hartman
Director of Human Resources	Julie A. Bush
Clerk of Council	Jennifer E. Berry
Director of Finance	Kim D. Gilkey-Breeden
Director of Tourism	Timothy Smith
Director of Information Technology	Todd C. Jones
Director of Energy Services	Joseph E. Waltz
Risk Management Manager	Sue McIntosh

FINANCIAL SECTION

MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY D. MITCHELL, CPA
SANDRA M. TONDREAU, CPA

MEGAN R. JOLLON, CPA
AMANDA L. MASON, CPA
W. MATTHEW BURNS, CPA

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of Town Council
Town of Front Royal, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 11 – 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Front Royal, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated November 1, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Front Royal, Virginia's internal control over financial reporting and compliance.

November 1, 2013
Leesburg, Virginia

Mitchell & Co., P.C.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Front Royal, Virginia, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Front Royal, Virginia for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 4 of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$117,071,181. Of this amount, \$26,869,172 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets increased by \$3,543,276.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$7,588,203, an increase of \$1,224,029 in comparison with the prior year. Approximately 71% of this amount, (\$5,416,377) is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,728,824, or 53.8 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$1,110,717 (9.4 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Front Royal, Virginia's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all Town assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Front Royal that are principally supported by taxes and intergovernmental revenues, (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, (business-type activities). The governmental activities of the Town of Front Royal include general government, public safety, engineering and public works, planning, zoning and community development, and parks and recreation. The business-type activities of the Town include water, sewer, electricity, and solid waste management operations.

The government-wide financial statements include Town of Front Royal itself. The proprietary fund, although is legally separate, functions for all practical purposes as a department of the Town of Front Royal, and therefore has been included as an integral part of the primary government.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements can be found on pages 19 – 20 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Front Royal, Virginia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Front Royal, Virginia maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major fund. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town of Front Royal adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 21 – 24 of this report.

Proprietary funds. The Town of Front Royal, Virginia uses enterprise funds to report the same functions presented as business-type activities in the government-wide financial statements. The Town's enterprise funds include the water fund, sewer fund, electric fund, and solid waste management fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, electric, and solid waste management funds, all of which are considered to be major funds of the Town.

The basic proprietary fund financial statements can be found on pages 25 – 29 of this report.

Notes to the financial statements. The notes and required supplementary information contained in the notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information contained in the notes can be found on pages 30 – 55 of this report.

Supplementary Information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on 56 – 66 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 67 – 69 of this report.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Front Royal, Virginia, assets exceeded liabilities by \$117,071,181 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a summary of the Town's net assets by type of activity as of June 30, 2013 and 2012.

TOWN OF FRONT ROYAL -- NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 9,490,091	\$ 7,963,344	\$ 24,569,759	\$ 21,355,300	\$ 34,059,850	\$ 29,318,644
Capital assets	53,782,076	56,862,671	44,852,961	43,520,751	98,635,037	100,383,422
Total Assets	63,272,167	64,826,015	69,422,720	64,876,051	132,694,887	129,702,066
Long-term liabilities	1,527,744	1,480,784	11,651,231	12,559,258	13,178,975	14,040,042
Other liabilities	533,493	327,961	1,911,238	1,806,158	2,444,731	2,134,119
Total Liabilities	2,061,237	1,808,745	13,562,469	14,365,416	15,623,706	16,174,161
Invested in capital assets, net of related debt	53,782,076	56,769,628	36,419,933	34,064,137	90,202,009	90,833,765
Restricted	1,975,178	1,313,146	-	-	1,975,178	1,313,146
Unrestricted	5,453,676	4,934,496	19,440,318	16,446,498	24,893,994	21,380,994
Total Net Position	\$ 61,210,930	\$ 63,017,270	\$ 55,860,251	\$ 50,510,635	\$ 117,071,181	\$ 113,527,905

An additional portion of the Town of Front Royal's net assets (1.69%) represents resources that are in a nonspendable form. The remaining balance of \$24,893,994 is unrestricted net assets and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Town of Front Royal is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Town's net assets increased by \$3,543,276 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. Governmental activities decreased the Town of Front Royal, Virginia's net assets by \$1,806,340. These changes are presented in column one of the following table and key elements of the decrease are noted below:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$ 370,780	\$ 418,855	\$28,368,247	\$ 23,865,169	\$ 28,739,027	\$ 24,284,024
Operating grants & contributions	1,998,364	1,967,288	-	-	1,998,364	1,967,288
Capital grants & contributions	10,249	113,971	-	-	10,249	113,971
General revenues						
Property taxes	1,549,507	1,544,123	-	-	1,549,507	1,544,123
Other taxes	5,502,708	4,591,611	-	-	5,502,708	4,591,611
Investment earnings	12,113	123,824	(32,882)	301,615	(20,769)	425,439
Total revenues	9,443,721	8,759,672	28,335,365	24,166,784	37,779,086	32,926,456
Expenses						
General government	3,404,737	3,003,366	-	-	3,404,737	3,003,366
Public safety	4,226,075	3,890,462	-	-	4,226,075	3,890,462
Engineering and public works	2,200,764	2,167,403	-	-	2,200,764	2,167,403
Planning and zoning	617,998	641,552	-	-	617,998	641,552
Parks and recreation	53,548	105,801	-	-	53,548	105,801
Interest on long-term debt	4,345	8,480	-	-	4,345	8,480
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	13,293,934	14,466,632	13,293,934	14,466,632
Water	-	-	2,953,064	2,799,552	2,953,064	2,799,552
Sewer	-	-	2,966,184	3,036,433	2,966,184	3,036,433
Solid waste management	-	-	924,107	968,124	924,107	968,124
Total expenses	14,098,521	13,408,118	20,137,289	21,270,741	34,235,810	34,678,859
Increase (decrease) in net assets before transfers	(4,654,800)	(4,648,446)	8,198,076	2,896,043	3,543,276	(1,752,403)
Transfers	2,848,460	2,503,950	(2,848,460)	(2,503,950)	-	-
Increase (decrease) in net position	(1,806,340)	(2,144,496)	5,349,616	392,093	3,543,276	(1,752,403)
Net position – 07/01/2012	63,017,270	65,161,766	50,510,635	50,118,542	113,527,905	115,280,308
Net position – 06/30/2013	\$ 61,210,930	\$ 63,017,270	\$ 55,860,251	\$ 50,510,635	\$ 117,071,181	\$ 113,527,905

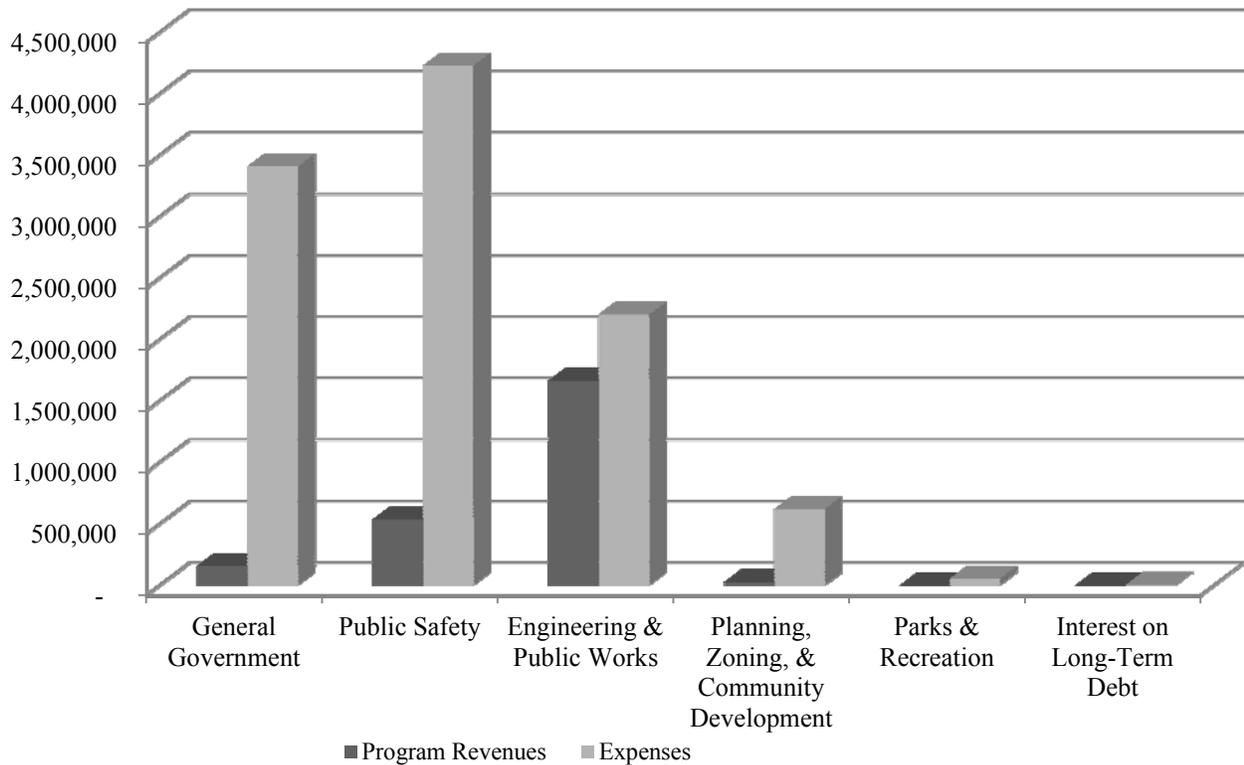
- Revenue from property taxes remained about even from 2012.
- Operating grants and contributions for governmental activities amounted to \$1,998,364, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety, public works and engineering.
- General government and public safety expenses increased by \$401,371 and \$335,613 respectively for a total expense increase of \$736,984.

TOWN OF FRONT ROYAL, VIRGINIA

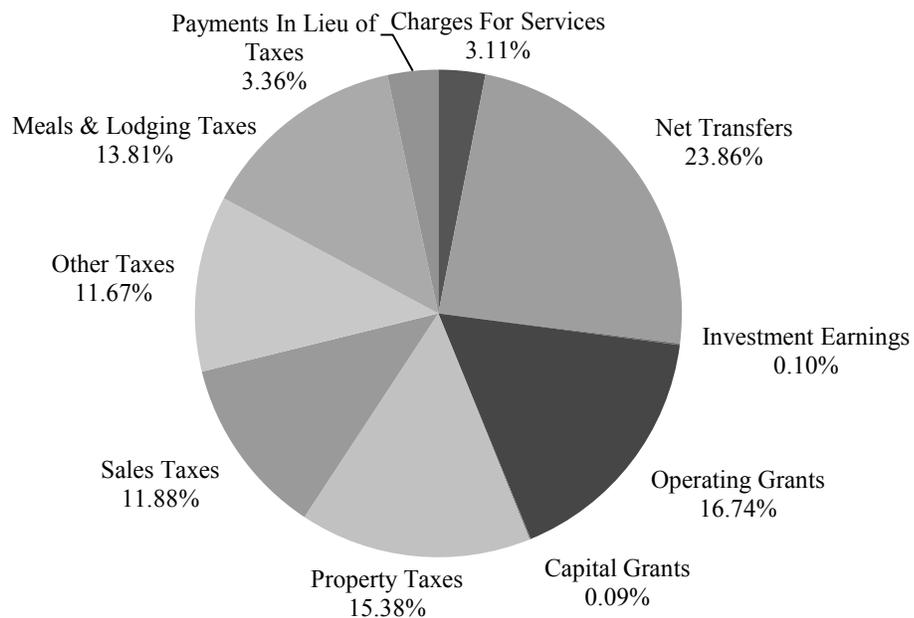
MANAGEMENT’S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town’s governmental activities and the related revenue structure for fiscal year 2013.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



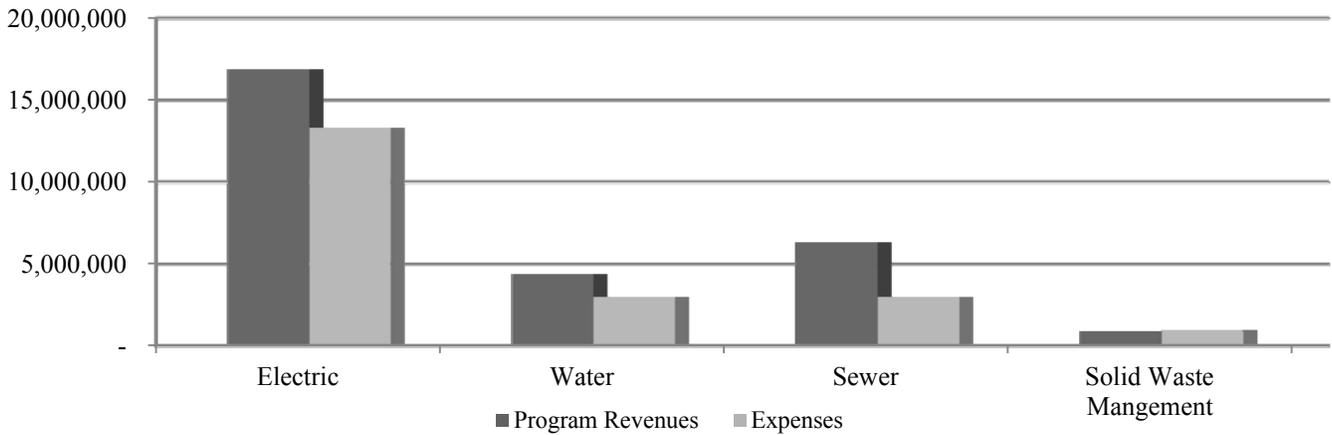
TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

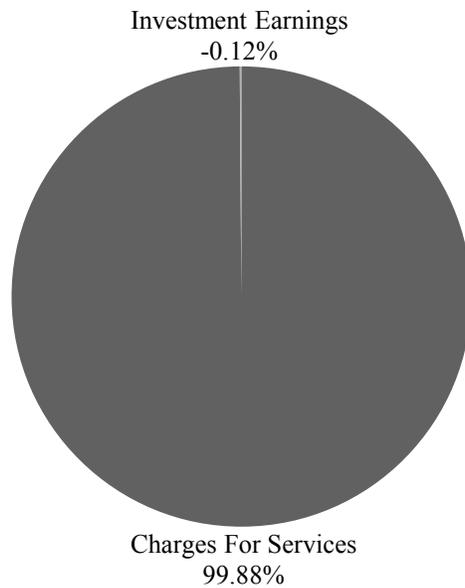
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia’s net assets by \$5,349,616. Key elements of this increase are as follows:

- Electric service expenses decreased by \$1,147,698, a decrease of 8.11 percent.
-

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

As noted earlier, the Town of Front Royal, Virginia uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town of Front Royal's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Front Royal itself, or group that has been delegated authority to assign resources for use for particular purposes by the Town of Front Royal's Council

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$7,588,203, an increase of \$1,224,029 in comparison with the prior year. Approximately 71.38% of this total amount, \$5,416,377 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$196,260), restricted by third parties (\$1,975,178), and assigned by the Town for specific purposes (\$388).

The general fund is the chief operating fund of the Town of Front Royal, Virginia. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,728,824, while total fund balance reached \$7,226,073. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 53.8 percent of total general fund expenditures, while total fund balance represents 71.4 percent of that same amount.

The fund balance of the Town's general fund increased by \$1,003,087 during the current fiscal year. Key factors in this increase are as follows:

- Revenues increased by \$668,997.
- The general fund received its annual transfers from the proprietary funds. These transfers of \$2,848,460 are used to pay the general fund for support of proprietary fund operations.

Proprietary funds. The Town of Front Royal, Virginia's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the water, sewer and solid waste management functions at the end of the year amounted to \$39,062,465 and those for the electric function amounted to \$16,797,786. The total increase in net assets for all enterprise funds was \$5,349,616. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$985,642 and are noted as follows: a \$9,240 increase in Legislative; a \$102,302 increase in Executive; a \$1,295 increase in Finance; a \$17,876 decrease in Planning, Zoning and Community Development; a \$155,666 increase in Police Department; a \$734,816 increase in Public Works and Engineering; and a \$199 increase in Non-departmental.

Actual general fund revenues exceeded budgeted revenues by \$697,797. The variance relates primarily to unanticipated increases in collections for automobile licensing, meals and sales tax, and payments in lieu of taxes. Actual general fund expenditures were less than budgeted expenditures by \$1,198,456. The majority of the variance relates to decreased costs for snow removal and street projects relative to previous years.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The Town of Front Royal, Virginia's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$98,635,037 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, roads, highways, and bridges. The total decrease in capital assets for the current fiscal year was approximately 1.74%. Major capital assets events during the current fiscal year included the following:

- The Town Hall building renovations cost amounted to \$371,874.
- Various projects related to streets, and sidewalks cost amounted to of \$465,826.
- Various improvements on water, sewer and electric lines amounted to \$2,340,060.

The table below summarizes the capital assets of the Town at June 30, 2013 and 2012.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,314,306	\$ 1,314,306	\$ 1,488,822	\$ 1,488,822	\$ 2,803,128	\$ 2,803,128
Buildings and Improvements	6,572,568	5,915,411	17,891,364	16,496,496	24,463,932	22,411,907
Utility distribution systems	-	-	24,581,880	25,147,952	24,581,880	25,147,952
Vehicles	284,451	309,208	614,460	138,073	898,911	447,281
Machinery and Equipment	578,173	700,114	276,435	249,408	854,608	949,522
Infrastructure	45,032,578	48,623,632	-	-	45,032,578	48,623,632
Total	\$ 53,782,076	\$ 56,862,671	\$ 44,852,961	\$ 43,520,751	\$ 98,635,037	\$ 100,383,422

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 44 – 45 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$10,750,000. All of this amount comprises debt backed by the full faith and credit of the government even though all bonded debt will be repaid from enterprise fund revenue.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ -	\$ 93,043	\$ 10,750,000	\$ 11,767,674	\$ 10,750,000	\$ 11,860,717

The Town of Front Royal's total debt decreased by \$1,110,717 (9.4 percent) during the current fiscal year. The majority of the debt is \$8,130,000 in general obligation bonds in the Water Fund. The reason for the decrease regularly scheduled principal reductions on the existing outstanding debt and no new debt issuance during the year.

The Town of Front Royal and its water and sewer functions maintain an "A" rating from Standard and Poor's and from Moody's for general obligation debt.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$114,460,908 which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town of Front Royal's long-term debt can be found in note IV. G. on pages 45 – 48 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town of Front Royal is currently 5.7 percent, which is 0.2 percent higher in comparison to prior year.
- This compares to the state's average unemployment rate of 5.8 percent and favorably to the national average rate of 7.3 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Front Royal, Virginia's budget for the 2013 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$5,728,824. Town of Front Royal has not appropriated any of this amount for spending in the 2014 fiscal year budget. It is available to offset the need for additional resources to be generated by the general fund.

Requests for Information

This report is designed to provide a general overview of the Town of Front Royal's finances for all those with an interest in the government's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Director of Finance, 102 East Main Street, P.O. Box 1560, Front Royal, Virginia 22630-1560.

TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,393,208	\$ 8,513,414	\$ 14,906,622
Investments	2,875,420	6,537,808	9,413,228
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,416,475	-	1,416,475
Accounts	-	2,697,595	2,697,595
Other	15,247	742,121	757,368
Internal balances	(1,783,166)	1,783,166	-
Due from other governments	376,647	-	376,647
Inventories and other assets	196,260	1,242,860	1,439,120
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	443,854	443,854
Bond funds	-	2,503,599	2,503,599
Deferred charges	-	105,342	105,342
Capital assets (net of accumulated depreciation)			
Land	1,314,306	1,488,822	2,803,128
Buildings and improvements	6,572,568	17,891,364	24,463,932
Utility distribution systems	-	24,581,880	24,581,880
Vehicles	284,451	614,460	898,911
Machinery and equipment	578,173	276,435	854,608
Infrastructure	45,032,578	-	45,032,578
Total Assets	63,272,167	69,422,720	132,694,887
Liabilities			
Accounts payable	533,493	1,413,300	1,946,793
Accrued interest payable	-	132,980	132,980
Liabilities payable with restricted assets	-	364,958	364,958
Noncurrent liabilities			
Due within one year	416,877	741,822	1,158,699
Due in more than one year	1,110,867	10,909,409	12,020,276
Total Liabilities	2,061,237	13,562,469	15,623,706
Net Position			
Invested in capital assets, net of related debt	53,782,076	36,419,933	90,202,009
Restricted for:			
Streets and highways	1,300,989	-	1,300,989
Capital outlays	111,527	-	111,527
Community development	562,662	-	562,662
Unrestricted	5,453,676	19,440,318	24,893,994
Total Net Position	\$ 61,210,930	\$ 55,860,251	\$ 117,071,181

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

**TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 3,404,737	\$ 146,989	\$ -	\$ 10,249	\$ (3,247,499)	\$ -	\$ (3,247,499)
Public safety	4,226,075	196,412	338,352	-	(3,691,311)	-	(3,691,311)
Engineering and public works	2,200,764	1,458	1,660,012	-	(539,294)	-	(539,294)
Planning, zoning, and community development	617,998	25,921	-	-	(592,077)	-	(592,077)
Parks and recreation	53,548	-	-	-	(53,548)	-	(53,548)
Interest on long-term debt	4,345	-	-	-	(4,345)	-	(4,345)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	14,098,521	370,780	1,998,364	10,249	(11,719,128)	-	(11,719,128)
Business-type activities							
Electric	13,293,934	16,832,900	-	-	-	3,538,966	3,538,966
Water	2,953,064	4,344,296	-	-	-	1,391,232	1,391,232
Sewer	2,966,184	6,303,357	-	-	-	3,337,173	3,337,173
Solid Waste Mangement	924,107	887,694	-	-	-	(36,413)	(36,413)
Total business-type activities	20,137,289	28,368,247	-	-	-	8,230,958	8,230,958
Total primary government	\$ 34,235,810	\$ 28,739,027	\$ 1,998,364	\$ 10,249	(11,719,128)	8,230,958	(3,488,170)
General Revenues							
Property taxes					1,549,507	-	1,549,507
Sales taxes					1,418,512	-	1,418,512
Business and occupational taxes					656,935	-	656,935
Franchise and bank stock taxes					280,149	-	280,149
Communication taxes					162,826	-	162,826
Consumer taxes					221,576	-	221,576
Meals and lodging taxes					1,648,350	-	1,648,350
Virginia personal property tax reduction					287,000	-	287,000
Payment in lieu of taxes					401,492	-	401,492
Vehicle licenses					354,605	-	354,605
Other general taxes					71,263	-	71,263
Unrestricted investment earnings					12,113	(32,882)	(20,769)
Transfers					2,848,460	(2,848,460)	-
Total general revenues and transfers					9,912,788	(2,881,342)	7,031,446
Change in net position					(1,806,340)	5,349,616	3,543,276
Net position - beginning					63,017,270	50,510,635	113,527,905
Net position - ending					\$ 61,210,930	\$ 55,860,251	\$ 117,071,181

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

TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 5,863,490	\$ 529,718	\$ 6,393,208
Investments	2,875,420	-	2,875,420
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,413,605	2,870	1,416,475
Other	15,247	-	15,247
Due from other governments	376,647	-	376,647
Interfund advances	49,914	4,888	54,802
Inventories and other assets	196,260	-	196,260
Total Assets	10,790,583	537,476	11,328,059
Liabilities and Fund Balances			
Liabilities			
Accounts payable	315,891	25,530	341,421
Accrued liabilities	192,072	-	192,072
Deferred revenue	1,365,525	2,870	1,368,395
Interfund advances	1,691,022	146,946	1,837,968
Total Liabilities	3,564,510	175,346	3,739,856
Fund balances			
Nonspendable:			
Inventory	129,968	-	129,968
Prepaid items	66,292	-	66,292
Restricted for:			
Streets and highways	1,300,989	-	1,300,989
Capital outlays	-	111,527	111,527
Community development	-	562,662	562,662
Assigned for:			
Capital projects	-	388	388
Unassigned	5,728,824	(312,447)	5,416,377
Total Fund Balances	7,226,073	362,130	7,588,203
Total Liabilities and Fund Balances	\$ 10,790,583	\$ 537,476	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	53,782,076
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,368,395
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,527,744)
Net position of governmental activities	<u>\$ 61,210,930</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes			
Property	\$ 1,093,805	\$ 358,516	\$ 1,452,321
Sales	1,418,512	-	1,418,512
Business and occupational	656,935	-	656,935
Franchise	87,213	-	87,213
Consumer	221,576	-	221,576
Vehicle licenses	354,605	-	354,605
Bank stock	192,936	-	192,936
Meals and lodging	1,648,350	-	1,648,350
Payment in lieu of taxes	401,492	-	401,492
Permits, fees, and licenses	25,921	-	25,921
Fines and forfeitures	179,666	-	179,666
Revenues from use of money & property	12,113	-	12,113
Charges for services	35,841	-	35,841
Miscellaneous	112,606	-	112,606
Recovered costs	-	16,746	16,746
Intergovernmental	2,529,702	-	2,529,702
Total revenues	<u>8,971,273</u>	<u>375,262</u>	<u>9,346,535</u>
Expenditures			
General government			
Legislative	169,241	-	169,241
Executive	1,731,960	-	1,731,960
Legal	362,854	-	362,854
Finance	811,980	-	811,980
Public safety - Police	3,847,109	34,243	3,881,352
Planning, zoning, and community development	373,894	182,200	556,094
Engineering and public works	2,681,719	-	2,681,719
Parks and recreation	47,500	-	47,500
Nondepartmental	630,878	-	630,878
Debt Service			
Principal	-	93,043	93,043
Interest	-	4,345	4,345
Total expenditures	<u>10,657,135</u>	<u>313,831</u>	<u>10,970,966</u>
Deficiency of revenues under expenditures	<u>(1,685,862)</u>	<u>61,431</u>	<u>(1,624,431)</u>
Other Financing Sources (Uses)			
Transfers in	2,848,460	159,511	3,007,971
Transfers (out)	(159,511)	-	(159,511)
Total other financing sources and uses	<u>2,688,949</u>	<u>159,511</u>	<u>2,848,460</u>
Net change in fund balances	<u>1,003,087</u>	<u>220,942</u>	<u>1,224,029</u>
Fund balances - beginning	<u>6,222,986</u>	<u>141,188</u>	<u>6,364,174</u>
Fund balances - ending	<u>\$ 7,226,073</u>	<u>\$ 362,130</u>	<u>\$ 7,588,203</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,224,029
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 expenses exceeded capital outlays in the current period.	(3,080,595)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	97,186
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amount are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	93,043
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(140,003)</u>
Change in net position of governmental activities	<u><u>\$ (1,806,340)</u></u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 1,390,612	\$ 1,390,612	\$ 1,093,805	\$ (296,807)
Other local taxes	3,932,000	3,932,000	4,981,619	1,049,619
Permits, fees, and licenses	90,000	90,000	25,921	(64,079)
Fines and forfeitures	240,000	240,000	179,666	(60,334)
Revenues from use of money & property	100,000	100,000	12,113	(87,887)
Charges for services	30,000	30,000	35,841	5,841
Miscellaneous	40,000	47,000	112,606	65,606
Intergovernmental	2,441,000	2,443,864	2,529,702	85,838
Total revenues	8,263,612	8,273,476	8,971,273	697,797
Expenditures				
General government				
Legislative	212,990	222,230	169,241	52,989
Executive	1,618,481	1,720,783	1,731,960	(11,177)
Legal	389,710	389,710	362,854	26,856
Finance	822,594	823,889	811,980	11,909
Total general government	3,043,775	3,156,612	3,076,035	80,577
Public safety - police	3,796,753	3,952,419	3,847,109	105,310
Planning and zoning	479,795	461,919	373,894	88,025
Public works and engineering	2,827,861	3,562,677	2,681,719	880,958
Parks and recreation	47,500	47,500	47,500	-
Non-departmental	674,265	674,464	630,878	43,586
Total expenditures	10,869,949	11,855,591	10,657,135	1,198,456
Deficiency of revenues under expenditures	(2,606,337)	(3,582,115)	(1,685,862)	1,896,253
Other Financing Sources				
Transfers in	2,818,460	2,818,460	2,848,460	30,000
Transfers out	(62,123)	(62,123)	(159,511)	(97,388)
	2,756,337	2,756,337	2,688,949	(67,388)
Net change in fund balances	150,000	(825,778)	1,003,087	1,828,865
Fund balances - beginning	6,222,986	6,222,986	6,222,986	-
Fund balances - ending	\$ 6,372,986	\$ 5,397,208	\$ 7,226,073	\$ 1,828,865

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 3,157,684	\$ 2,046,217	\$ 3,509,683	\$ 2,827,830
Investments	1,795,096	2,060,489	1,119,557	1,511,757
Due from other funds	1,420,663	1,570,663	391,617	379,494
Accounts receivable (net of allowance for uncollectibles)	1,653,208	1,782,084	414,534	376,506
Other receivables	295,519	19,388	309,512	1,995
Inventories	934,048	891,101	154,406	132,724
Total current assets	9,256,218	8,369,942	5,899,309	5,230,306
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	421,917	312,964	21,937	19,540
Bond funds	-	-	-	-
Deferred charges	-	-	45,538	54,062
	421,917	312,964	67,475	73,602
Capital assets				
Land, buildings and structures	5,311,793	4,387,588	13,944,795	13,867,095
Utility distribution systems	8,435,344	8,099,635	21,593,805	21,475,393
Vehicles	1,121,399	898,772	439,431	432,391
Equipment	984,801	949,776	642,149	535,033
Less accumulated depreciation	(7,146,410)	(6,799,909)	(13,200,236)	(12,431,650)
Total capital assets (net of accumulated depreciation)	8,706,927	7,535,862	23,419,944	23,878,262
Total noncurrent assets	9,128,844	7,848,826	23,487,419	23,951,864
Total Assets	18,385,062	16,218,768	29,386,728	29,182,170
Liabilities				
Current liabilities				
Accounts payable	1,058,484	1,039,248	267,017	144,917
Accrued interest payable	-	-	93,088	104,560
Compensated absences - current	45,801	16,726	62,774	60,392
General obligation bonds - current	-	-	432,741	684,398
Total current liabilities	1,104,285	1,055,974	855,620	994,267
Noncurrent liabilities				
Customer deposits payable	346,920	312,964	18,038	19,540
Compensated absences	45,801	16,726	62,773	60,392
OPEB liability	90,270	73,151	93,869	76,068
General obligation bonds payable	-	-	7,866,081	8,278,502
Total noncurrent liabilities	482,991	402,841	8,040,761	8,434,502
Total Liabilities	1,587,276	1,458,815	8,896,381	9,428,769
Net Position				
Invested in capital assets, net of related debt	8,706,927	7,535,862	15,121,122	14,915,362
Unrestricted	8,090,859	7,224,091	5,369,225	4,838,039
Total Net Position	\$ 16,797,786	\$ 14,759,953	\$ 20,490,347	\$ 19,753,401

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 2,186,526	\$ 849,493	\$ (340,479)	\$ (314,327)	\$ 8,513,414
Investments	3,623,155	3,632,011	-	-	6,537,808
Due from other funds	(10,932)	(96,197)	(18,182)	(18,182)	1,783,166
Accounts receivable (net of allowance for uncollectibles)	517,563	487,021	112,290	106,428	2,697,595
Other receivables	137,090	6,749	-	-	742,121
Inventories	154,406	132,725	-	-	1,242,860
Total current assets	<u>6,607,808</u>	<u>5,011,802</u>	<u>(246,371)</u>	<u>(226,081)</u>	<u>21,516,964</u>
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	443,854
Bond funds	2,503,599	2,514,277	-	-	2,503,599
Deferred charges	59,804	68,488	-	-	105,342
	<u>2,563,403</u>	<u>2,582,765</u>	<u>-</u>	<u>-</u>	<u>3,052,795</u>
Capital assets					
Land, buildings and structures	5,900,446	5,039,883	34,160	34,160	25,191,194
Utility distribution systems	22,631,628	22,608,157	-	-	52,660,777
Vehicles	797,418	462,136	1,022,826	994,711	3,381,074
Equipment	933,254	866,716	602,144	602,144	3,162,348
Less accumulated depreciation	<u>(17,603,561)</u>	<u>(16,939,313)</u>	<u>(1,592,225)</u>	<u>(1,561,967)</u>	<u>(39,542,432)</u>
Total capital assets (net of accumulated depreciation)	<u>12,659,185</u>	<u>12,037,579</u>	<u>66,905</u>	<u>69,048</u>	<u>44,852,961</u>
Total noncurrent assets	<u>15,222,588</u>	<u>14,620,344</u>	<u>66,905</u>	<u>69,048</u>	<u>47,905,756</u>
Total Assets	<u>21,830,396</u>	<u>19,632,146</u>	<u>(179,466)</u>	<u>(157,033)</u>	<u>69,422,720</u>
Liabilities					
Current liabilities					
Accounts payable	60,483	134,231	27,316	13,039	1,413,300
Accrued interest payable	39,892	37,659	-	-	132,980
Compensated absences - current	60,437	61,099	21,219	20,578	190,231
General obligation bonds - current	118,850	370,187	-	-	551,591
Total current liabilities	<u>279,662</u>	<u>603,176</u>	<u>48,535</u>	<u>33,617</u>	<u>2,288,102</u>
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	364,958
Compensated absences	60,437	61,099	21,219	20,578	190,230
OPEB liability	82,970	67,236	67,034	54,322	334,143
General obligation bonds payable	2,518,955	2,637,804	-	-	10,385,036
Total noncurrent liabilities	<u>2,662,362</u>	<u>2,766,139</u>	<u>88,253</u>	<u>74,900</u>	<u>11,274,367</u>
Total Liabilities	<u>2,942,024</u>	<u>3,369,315</u>	<u>136,788</u>	<u>108,517</u>	<u>13,562,469</u>
Net Position					
Invested in capital assets, net of related debt	12,524,979	11,543,865	66,905	69,048	36,419,933
Unrestricted	6,363,393	4,718,966	(383,159)	(334,598)	19,440,318
Total Net Position	<u>\$ 18,888,372</u>	<u>\$ 16,262,831</u>	<u>\$ (316,254)</u>	<u>\$ (265,550)</u>	<u>\$ 55,860,251</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Operating revenues				
Charges for sales and services				
Electric sales	\$ 16,319,406	\$ 15,438,570	\$ -	\$ -
Water and sewer sales	-	-	3,088,107	3,050,667
Installation and connection charges	203,600	99,261	868,988	115,171
Refuse service fees	-	-	-	-
Miscellaneous revenues	309,894	23,579	387,201	65,880
Total operating revenues	<u>16,832,900</u>	<u>15,561,410</u>	<u>4,344,296</u>	<u>3,231,718</u>
Operating expenses				
Personal service	1,077,051	903,694	1,054,451	978,172
Contractual service	63,544	55,065	197,216	108,036
Electric power	11,756,867	12,726,796	-	-
Depreciation	346,502	372,460	768,586	746,464
Other charges	428,627	652,118	677,309	686,983
Operating expenses capitalized	(378,657)	(268,501)	(135,708)	(145,039)
Total operating expenses	<u>13,293,934</u>	<u>14,441,632</u>	<u>2,561,854</u>	<u>2,374,616</u>
Operating income	<u>3,538,966</u>	<u>1,119,778</u>	<u>1,782,442</u>	<u>857,102</u>
Nonoperating revenues (expenses)				
Investment earnings	(30,133)	105,697	(31,286)	72,354
Interest expense	-	(25,000)	(391,210)	(424,936)
Bond issuance costs	-	-	-	-
Total nonoperating revenue (expenses)	<u>(30,133)</u>	<u>80,697</u>	<u>(422,496)</u>	<u>(352,582)</u>
Income before contributions and transfers	3,508,833	1,200,475	1,359,946	504,520
Transfers and contributions				
Transfers in (out)	<u>(1,471,000)</u>	<u>(1,471,000)</u>	<u>(623,000)</u>	<u>(489,950)</u>
Change in net position	2,037,833	(270,525)	736,946	14,570
Total net position - beginning of year	<u>14,759,953</u>	<u>15,030,478</u>	<u>19,753,401</u>	<u>19,738,831</u>
Total net position - end of year	<u>\$ 16,797,786</u>	<u>\$ 14,759,953</u>	<u>\$ 20,490,347</u>	<u>\$ 19,753,401</u>

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Managment Current Year	Solid Waste Managment Prior Year	Totals Current Year
Operating revenues					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 16,319,406
Water and sewer sales	4,076,892	3,986,641	-	-	7,164,999
Installation and connection charges	2,090,825	216,962	-	-	3,163,413
Refuse service fees	-	-	883,208	867,388	883,208
Miscellaneous revenues	135,640	1,050	4,486	-	837,221
Total operating revenues	<u>6,303,357</u>	<u>4,204,653</u>	<u>887,694</u>	<u>867,388</u>	<u>28,368,247</u>
Operating expenses					
Personal service	896,285	924,698	697,768	646,206	3,725,555
Contractual service	359,740	285,998	2,022	18,082	622,522
Electric power	-	-	-	-	11,756,867
Depreciation	664,247	614,229	30,258	55,869	1,809,593
Other charges	926,634	1,069,345	194,059	247,967	2,226,629
Operating expenses capitalized	(45,151)	(18,831)	-	-	(559,516)
Total operating expenses	<u>2,801,755</u>	<u>2,875,439</u>	<u>924,107</u>	<u>968,124</u>	<u>19,581,650</u>
Operating income	<u>3,501,602</u>	<u>1,329,214</u>	<u>(36,413)</u>	<u>(100,736)</u>	<u>8,786,597</u>
Nonoperating revenues (expenses)					
Investment earnings	23,568	112,857	4,969	10,707	(32,882)
Interest expense	(164,429)	(160,994)	-	-	(555,639)
Bond issuance costs	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>(140,861)</u>	<u>(48,137)</u>	<u>4,969</u>	<u>10,707</u>	<u>(588,521)</u>
Income before contributions and transfers	3,360,741	1,281,077	(31,444)	(90,029)	8,198,076
Transfers and contributions					
Transfers in (out)	(735,200)	(421,000)	(19,260)	(122,000)	(2,848,460)
Change in net position	2,625,541	860,077	(50,704)	(212,029)	5,349,616
Total net position - beginning of year	<u>16,262,831</u>	<u>15,402,754</u>	<u>(265,550)</u>	<u>(53,521)</u>	<u>50,510,635</u>
Total net position - end of year	<u>\$ 18,888,372</u>	<u>\$ 16,262,831</u>	<u>\$ (316,254)</u>	<u>\$ (265,550)</u>	<u>\$ 55,860,251</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Totals
	Electric	Water	Sewer	Solid Waste Management	
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 16,685,645	\$ 3,998,751	\$ 6,142,474	\$ 881,832	\$ 27,708,702
Payments to suppliers	(11,843,017)	(613,576)	(1,312,234)	(169,092)	(13,937,919)
Payments to employees	(1,018,901)	(1,049,688)	(897,609)	(696,486)	(3,662,684)
Net cash provided by (used in) operating activities	<u>3,823,727</u>	<u>2,335,487</u>	<u>3,932,631</u>	<u>16,254</u>	<u>10,108,099</u>
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(1,471,000)	(623,000)	(735,200)	(19,260)	(2,848,460)
Interfund (advances)/repayments	150,000	(12,123)	(85,265)	-	52,612
Net cash used in noncapital financing activities	<u>(1,321,000)</u>	<u>(635,123)</u>	<u>(820,465)</u>	<u>(19,260)</u>	<u>(2,795,848)</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition/construction of capital assets	(1,517,566)	(310,268)	(1,285,854)	(28,115)	(3,141,803)
Principal paid on capital debt	-	(664,078)	(370,186)	-	(1,034,264)
Interest paid	-	(402,682)	(162,196)	-	(564,878)
Net cash provided by (used in) capital and related financing activities	<u>(1,517,566)</u>	<u>(1,377,028)</u>	<u>(1,818,236)</u>	<u>(28,115)</u>	<u>(4,740,945)</u>
Cash Flows from Investing Activities					
Sales (purchases) of investments	265,393	392,200	8,856	-	666,449
Interest and dividends received	(30,133)	(31,286)	23,568	4,969	(32,882)
Net cash provided by (used in) investing activities	<u>235,260</u>	<u>360,914</u>	<u>32,424</u>	<u>4,969</u>	<u>633,567</u>
Net increase (decrease) in cash and cash eq.	1,220,421	684,250	1,326,354	(26,152)	3,204,873
Cash and cash equivalents July 1, 2012	2,359,181	2,847,370	3,363,770	(314,327)	8,255,994
Cash and cash equivalents June 30, 2013	<u>\$ 3,579,602</u>	<u>\$ 3,531,620</u>	<u>\$ 4,690,124</u>	<u>\$ (340,479)</u>	<u>\$ 11,460,867</u>
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 3,538,966	\$ 1,782,442	\$ 3,501,602	\$ (36,413)	\$ 8,786,597
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	346,502	768,586	664,247	30,258	1,809,593
(Increase) decrease in:					
Accounts receivable	128,876	(38,028)	(30,542)	(5,862)	54,444
Other receivables	(276,131)	(307,517)	(130,341)	-	(713,989)
Inventories	(42,947)	(21,682)	(21,681)	-	(86,310)
Deferred charges	-	8,524	8,684	-	17,208
Increase (decrease) in:					
Customer deposits	33,956	(1,502)	-	-	32,454
Accounts payable	19,236	122,100	(73,748)	14,277	81,865
OPEB liability	17,119	17,801	15,734	12,712	63,366
Compensated absences	58,150	4,763	(1,324)	1,282	62,871
Total adjustments	<u>284,761</u>	<u>553,045</u>	<u>431,029</u>	<u>52,667</u>	<u>1,321,502</u>
Net cash provided by (used in) operating activities	<u>\$ 3,823,727</u>	<u>\$ 2,335,487</u>	<u>\$ 3,932,631</u>	<u>\$ 16,254</u>	<u>\$ 10,108,099</u>

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Front Royal, Virginia (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town of Front Royal, Virginia is located in the County of Warren, Virginia and was incorporated in 1754 under the provisions of the Constitution and general statuses of the Commonwealth of Virginia.

The town is an incorporated municipal governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and any potential component units, entities for which the Town is considered to be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (a) the ability to impose its will on the component unit, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the above, all potential component units were evaluated for inclusion in the reporting entity and it was determined that there are no component units requiring inclusion in the Town's reporting.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year end are reflected as deferred revenues. Sales, which are collected by the state and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County. Utility taxes are collected by the utilities and remitted directly to the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the government reports the following non-major government funds:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The government reports the following major proprietary funds:

The *water and sewer funds* account for the activities of the Town's water and sewer operations.

The *electric fund* accounts for the activities of the Town's electric production and distribution operations.

The *solid waste management fund* accounts for the activities of the Town's refuse collection and processing operations.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. Indirect expenses of the governmental funds are allocated based on the direct expenses of the various functions of the government.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds, electric enterprise fund, and refuse enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Fund Balance

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The trade and property tax receivables are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is determined using historical collection data and account analysis.

Real estate and personal property taxes are assessed annually by Warren County, Virginia for all property of record as of January 1. The Town bills and collects its own property taxes based on the assessed values provided by the County. Real estate and personal property taxes are levied annually on January 1. In 2010, the Town changed from an annual billing on December 5 to a semi-annual billing which occurs on June 5 and December 5. Personal property taxes are billed with pro-ration throughout the year.

Collections of real and personal property taxes between July 1 and August 15 of the subsequent fiscal year, classified as delinquent at June 30, are recorded as revenue for the fiscal year then ended, in accordance with the standards established by the Auditor of Public Accounts of the Commonwealth of Virginia. Liens attach to the property when the tax remains unpaid after July 1 of the following year. The billings are considered past due after the respective tax billing date at which time the applicable property is subject to a 10% penalty and interest is assessed 30 days therefrom.

3. Inventories and Other Assets

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Fund Balance (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Customer Deposits - Cash funds of the enterprise funds are restricted for customer deposits held.

Bond Escrow Funds - Cash funds of the sewer fund for acquisition and construction of infrastructure and economic development projects.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Town has adopted GASB Statement No. 51, *Accounting for Financial Reporting for Intangible Assets*. This statement requires all identifiable intangible assets not excluded by its scope provisions be classified as capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The town has adopted the GFOA Capitalization Threshold recommendation of \$5,000.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Type of Asset	Years
Buildings	35 - 50
Improvements other than buildings	10 - 50
Equipment and vehicles	5 - 10
Infrastructure	30 - 50

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Fund Balance (Continued)

7. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave is limited since the government does not have a full obligation when an employee separates from service. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as another financing source.

Premiums received on debt issuances are reported as other financing sources, while discounts of debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

9. Other Postemployment Benefits

The Town adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2008. This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. The cumulative different between the amounts expensed and paid creates a liability (asset) similar to net pension obligations.

10. Fund Balance

The Governmental Accounting Standards Board (GASB) has issued and the Town has adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable Fund Balance – Balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted Fund Balance – Balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Fund Balance (Continued)

10. Fund Balance (Continued)

Committed Fund Balance – Balances include amounts that can be used only for the specific purposes determined by a formal action of the Town Council (the Town’s highest level of decision-making authority).

Assigned Fund Balance – Balances intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance – Residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town’s policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purpose).

11. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Certain amounts presented in prior year data have been reclassified to be consistent with the current year’s presentation.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,527,744 are as follows:

Description	Amount
Bonds payable	\$ -
Compensated absences	833,754
OPEB liability	693,990
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 1,527,744</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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. The details of the \$3,080,595 difference is as follows:

Description	Amount
Capital outlay	\$ 1,039,574
Depreciation expense	(4,120,169)
Net adjustment to decrease <i>net changes in fund balances -total governmental</i>	<u>\$ (3,080,595)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$93,043 difference are as follows:

Description	Amount
Principal debt retirements of bonded debt	\$ 93,043
Net adjustment to increase <i>net changes in fund balances - total governmental</i>	<u>\$ 93,043</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the downtown service district, capital project and debt service funds. All annual appropriations lapse at fiscal year-end.

On or before April 1 of each year, all agencies of the government submit requests for appropriations to the government's manager so that a budget may be prepared. Before June 1 the proposed budget is presented to the government's council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several general fund budgetary appropriations throughout the year, totaling \$985,642.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2013, the general government executive department expenditures exceeded appropriations by \$11,177.

C. Deficit Fund Balance

At June 30, 2013 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 1,512
Economic Development	310,935

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2013 the carrying amount of the Town's deposits with bank and savings institutions was \$8,752,476 and the bank balance was \$8,995,571.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Deposits (Continued)

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Custodial credit risk. This is the risk that in the event of a bank failure, the Town’s deposits may not be returned to the Town. The Town requires deposits to comply with the Virginia Security for Public Deposits Act. At year-end, none of the Town’s deposits are exposed to custodial credit risk.

Investments

Statutes authorize local governments and other public bodies 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), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Investment policy. The Town’s investment policy targets the following objectives, in order of priority, legality, safety, liquidity, and yield. The Director of Finance for the Town is responsible for administering its investments and ensuring compliance with the Town’s policies and statutory requirements.

In accordance with the laws of the Commonwealth and Town policy, investments authorized to be held by the Town are: 1. *Treasury Securities* - Bonds, notes, and bills issued by the United States Treasury maturing within five years of the date of purchase, or certificates representing ownership of treasury bond principal or coupons payable with five years; 2. *Agency Securities* - Fixed rate obligation issued and guaranteed as to principal and interest by the Federal Home Loan Bank, the Federal National Mortgage Associate, the Federal Farm Credit Bank, or the Federal Loan Mortgage Corporation, maturing within five years of the date of purchase; 3. *Prime Commercial Paper* - Commercial paper maturing within 270 days of the day of purchase rated P-1 or higher by Moody’s and A-1 or higher by Standard & Poor’s, provided that the issuing corporation has a net worth of at least \$50 million and its long-term debt is rated A or better by Moody’s and Standard & Poor’s; 4. *Certificates of Deposit* - Certificates of deposit maturing within one year and issued by domestic banks rated P-1 by Moody’s and A-1 by Standard & Poor’s; 5. *Bankers’ Acceptances* - Bankers’ acceptances maturing within 180 days rated P-1 or higher by Moody’s and A-1 or higher by Standard & Poor’s, provided the issuer is a major domestic bank or the domestic office of an international bank rated AA or higher by Moody’s and Standard & Poor’s; 6. *Commonwealth of Virginia and Virginia Local Government Obligations* - General obligations, insured obligations, or revenue bonds secured by debt service reserve funds not subject to annual appropriation rated AA or higher by Moody’s or Standard & Poor’s;

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

7. *Repurchase Agreements* - Repurchase agreements collateralized by securities provided for investment herein, provided that the counterparty is rated A or better by Moody's and Standard & Poor's and the collateral is held by an independent third party; 8. *Open-End Investment Funds* - Open-end investment funds registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein; 9. *Virginia Local Government Investment Pool (LGIP)* - The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares. i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's; 10. *Virginia State Non-Arbitrage Program (SNAP)* - Investment in the Virginia State Non-Arbitrage Program (SNAP) is used to assist in avoiding arbitrage penalties enacted with the Tax Reform Act of 1986. Section 2.2-4700 through 2.2-4705 of the *Code of Virginia*, the Government Non-Arbitrage Investment Act authorizes the Virginia Treasury Board to provide assistance to the Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and to their agencies, institutions and authorities of any combination of the foregoing ("Virginia governments") in the management of and accounting for their bond funds, including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof. The Virginia SNAP has been assigned an "AAAm" rating by Standard & Poor's; and 11. *Federally Insured Certificates of Deposit (CDARS)* - Federally insured certificates of deposit issued through the Certificates of Deposit Account Registry Service (CDARS) by financial institutions located in the United States, provided that: a. The funds are initially invested by the Town through a financial institution that is participating in CDARS and that is located and doing business in Virginia; b. The financial institution in Virginia receives reciprocal deposits from customers of other financial institutions in an amount equal to the funds initially invested by the Town; and c. Each such certificate of deposit is issued in an amount that is eligible for full FDIC insurance coverage for up to a maximum total of \$50 million in qualified investments held.

Credit risk. Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2013, all of the Town's investments were invested in "AA+" or better rated securities. All credit ratings presented in this paragraph are Standard & Poor's ratings.

Interest rate risk. Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates and to comply with the laws of the Commonwealth, the Town's policy limits the investment of funds to investments with a stated maturity of no more than five years from the date of purchase.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

As of June 30, 2013, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Treasury and agency securities	\$ 886,280	\$ 886,280	\$ -
Cash deposit mutual funds	756,502	756,502	-
Governmental securities mutual funds	2,422,503	2,422,503	-
Secure term annuity	3,004,381	3,004,381	-
Asset backed securities	796,898	796,898	-
Commercial notes	2,303,165	2,303,165	-
Local Government Investment Pool	2,933,082	2,933,082	-
Banking repurchase agreements	3,841,617	3,841,617	-
SunTrust US Government Fund	1,568,865	1,568,865	-
Total	\$ 18,513,294	\$ 18,513,294	\$ -

During 2011 all U.S. Securities and government backed investments were downgraded from an AAA to a AA+ rating by Standard & Poor's.

A reconciliation of cash on hand, bank deposits and investments is as follows:

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 1,533	\$ 1,533	\$ -
Bank Deposits	8,752,476	8,752,476	-
Investments	18,513,294	9,100,066	9,413,228
Total	\$ 27,267,303	\$ 17,854,075	\$ 9,413,228

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2013. The amounts are determined by reviewing the Town's utility billing rendered prior to year-end and estimated the unbilled service to year-end. At June 30, 2013, unbilled service recorded was \$1,315,218.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Receivables

Receivables as of year-end for the government’s individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Description	General	Electric	Water	Sewer	Solid Waste	Nonmajor	Total
Receivables:							
Delinquent taxes	\$1,413,605	\$ -	\$ -	\$ -	\$ -	\$ 2,870	\$1,416,475
Accounts	-	2,699,175	395,587	437,017	173,802	-	3,705,581
Interest	-	-	-	-	-	-	-
Intergovernmental	376,647	-	-	-	-	-	376,647
Unbilled	-	757,628	231,853	274,982	50,755	-	1,315,218
Other	15,247	28,628	309,512	182,100	-	-	535,487
Less: allowance	-	(1,816,704)	(212,906)	(239,446)	(112,267)	-	(2,381,323)
Net receivables	<u>\$1,805,499</u>	<u>\$ 1,668,727</u>	<u>\$ 724,046</u>	<u>\$ 654,653</u>	<u>\$ 112,290</u>	<u>\$ 2,870</u>	<u>\$4,968,085</u>

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of the unearned revenue reported in the governmental funds were as follows:

Fund/Type	Unavailable	Unearned
General Fund - Property Taxes	\$ 1,365,525	\$ -
Special Revenue Fund - Property Taxes	2,870	-
	<u>\$ 1,368,395</u>	<u>\$ -</u>

D. Due from Other Governments

At June 30, 2013 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
2013 Personal Property Tax Relief Act	\$ 286,137
Warren County, Virginia - Sales Tax	90,510
	<u>\$ 376,647</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,314,306	-	\$ -	\$ 1,314,306
Capital assets being depreciated				
Buildings and improvements	7,363,694	837,700	-	8,201,394
Vehicles	1,852,137	106,972	(250,806)	1,708,303
Equipment	3,034,369	94,902	-	3,129,271
Infrastructure	109,527,139	-	-	109,527,139
Total	121,777,339	1,039,574	(250,806)	122,566,107
Less accumulated depreciation for				
Buildings and improvements	(1,448,283)	(180,543)	-	(1,628,826)
Vehicles	(1,542,929)	(131,729)	250,806	(1,423,852)
Equipment	(2,334,255)	(216,843)	-	(2,551,098)
Infrastructure	(60,903,507)	(3,591,054)	-	(64,494,561)
Total	(66,228,974)	(4,120,169)	250,806	(70,098,337)
Net capital assets being depreciated	55,548,365	(3,080,595)	-	52,467,770
Governmental capital assets, net	\$ 56,862,671	\$ (3,080,595)	\$ -	\$ 53,782,076

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Activity	Depreciation
Governmental activities:	
General government	\$ 159,434
Public safety	199,400
Public works	138,996
Planning, zoning, and community development	28,823
Culture and recreation	2,462
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	\$ 4,120,169

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Capital assets being depreciated				
Buildings and improvements	21,839,904	1,862,468	-	23,702,372
Utility distribution systems	52,183,185	477,592	-	52,660,777
Vehicles	2,788,010	593,064	-	3,381,074
Equipment	2,953,669	208,679	-	3,162,348
Total	79,764,768	3,141,803	-	82,906,571
Less accumulated depreciation for				
Buildings and improvements	(5,343,408)	(467,600)	-	(5,811,008)
Utility distribution systems	(27,035,233)	(1,043,664)	-	(28,078,897)
Vehicles	(2,649,937)	(116,677)	-	(2,766,614)
Equipment	(2,704,261)	(181,652)	-	(2,885,913)
Total	(37,732,839)	(1,809,593)	-	(39,542,432)
Net capital assets being depreciated	42,031,929	1,332,210	-	43,364,139
Business-type capital assets, net	\$ 43,520,751	\$ 1,332,210	\$ -	\$ 44,852,961

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Activity	Depreciation
Business-type activities:	
Electric	\$ 346,502
Water	768,586
Sewer	664,247
Solid Waste Management	30,258
Total depreciation expense - business-type activities	\$ 1,809,593

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2013.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Interfund Advances/Transfers

Interfund advances are for reimbursement for debt payments made for other funds. Advance to the General Fund from the Electric Funds was for the purchase of a town administration building. The composition of interfund advances at June 30, 2013 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 1,387,734
General Fund	Sewer Fund	151,007
General Fund	Water Fund	248,924
General Fund	Town Facilities Fund	388
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	159,689
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 2,035,086</u>

Transfers to the General Fund from the Electric, Water, Sewer and Solid Waste Management Funds are for administrative services performed by the general government. Transfers to Economic Development Fund (EDF) from the General Fund are for EDF activity. The composition of inter-fund transfers during 2013 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,471,000
General Fund	Water Fund	623,000
General Fund	Sewer Fund	735,200
General Fund	Solid Waste Management Fund	19,260
		<u>2,848,460</u>
Economic Development	General Fund	159,511
		<u>\$ 3,007,971</u>

G. Long-Term Liabilities

General Obligation Bonds. The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and for refunding of general obligation bonds. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as serial bonds with amounts of principal maturing each year.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

General obligation bonds outstanding at June 30, 2013 are as follows:

Description	Amount
\$10,315,000, 2006 series General Obligation Bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%.	\$ 8,130,000
\$2,735,000, 2010 series Recovery Act Bonds, issued March 15, 2010, due in increasing annual maturities starting with \$115,000 in 2013 and increasing to \$600,000 in 2030, with interest at 2.00% to 6.57%.	2,620,000
Total General Obligation Debt	\$ 10,750,000

Annual debt service requirements to maturity for general obligation debt are as follows:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ -	\$ -	\$ 535,000	\$ 523,214
2015	-	-	565,000	500,308
2016	-	-	580,000	477,798
2017	-	-	605,000	454,308
2018	-	-	630,000	396,574
Thereafter	-	-	7,835,000	2,268,092
Total	\$ -	\$ -	\$ 10,750,000	\$ 4,620,294

The legal debt limit mandated by the Commonwealth of Virginia is \$114,459,425.

Long-term liability activity for the year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013	One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 93,043	\$ -	\$ (93,043)	\$ -	\$ -
Compensated absences	825,358	833,754	(825,358)	833,754	416,877
Other post-employment benefits	562,383	168,947	(37,340)	693,990	-
Governmental activity					
Long-term liabilities	\$ 1,480,784	\$ 1,002,701	\$ (955,741)	\$ 1,527,744	\$ 416,877

The liability for compensated absences, and net other postemployment benefit obligation is expected to be fully liquidated by the general fund.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

	June 30, 2012	Additions	Retirements	June 30, 2013	One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 11,767,674	\$ -	\$(1,017,674)	\$ 10,750,000	\$ 535,000
Unamortized premium	203,218	-	(16,591)	186,627	16,591
Compensated absences	317,590	72,986	(10,115)	380,461	190,231
Other post-employment benefits	270,777	63,366	-	334,143	-
Business-type activity					
Long-term liabilities	<u>\$ 12,559,259</u>	<u>\$ 136,352</u>	<u>\$(1,044,380)</u>	<u>\$ 11,651,231</u>	<u>\$ 741,822</u>

Compensated absences due within one year disclosed by individual fund is estimated as follows:

Individual Fund	Due Within	
	1 Year	Long-term
General	<u>\$ 416,877</u>	<u>\$ 416,877</u>
Electric	\$ 45,801	\$ 45,801
Water	62,774	62,773
Sewer	60,437	60,437
Solid Waste Management	21,219	21,219
	<u>\$ 190,231</u>	<u>\$ 190,230</u>

V. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined together with other municipalities in the Commonwealth of Virginia in several public entity risk pools (not self-insured) that operate as common risk management and insurance programs for member municipalities. The risk pools include:

VMGSIA: The Town has workers' compensation coverage with the Virginia Municipal Group Self Insurance Association (VMGSIA). During the fiscal year 2013 the Town paid premiums of approximately \$157,612 to VMGSIA.

VMLP: The Town has general and excess liability, automobile, property, boiler and machinery, law enforcement liability, public officials, legal liability, and commercial crime insurance with the Virginia Municipal Liability Pool (VMLP). During the fiscal year 2013, the Town paid contributions of approximately \$310,991 to the VMLP.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

B. Surety Bonds

The Town maintains a \$100,000 blanket surety bond on all employees through the Virginia Municipal Liability Pool Insurance Program.

C. Commitments and Contingent Liabilities

Litigation: The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town, through discussion with its legal counsel, these matters will not have a material adverse effect on the financial condition of the Town.

IDA Bond Debt Support Agreement: The Industrial Development Authority (IDA) of Warren County issued \$4,125,000 series 1996 bonds dated November 1, 1996. The IDA issued the bonds to develop a water/sewer project along U.S. Route 340/522. March 1, 2005 the IDA issued Refunding Bonds to provide resources to pay off the 1996 bond issue by placing funds in an irrevocable trust to meet all future debt service and payoff. As a result, the 1996 bond series is considered to be defeased. The advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$270,019 and resulted in an economic gain of \$97,615.

The Town of Front Royal, Virginia and the County of Warren, Virginia have agreed to provide the funds to repay the debt and interest expense obligation and have each executed a support agreement. The County has agreed to provide funding to support 80% of the debt and interest, subject to annual appropriation, and the Town of Front Royal, Virginia has agreed to fund 20% of the debt and interest. The Town’s support agreement is backed by the full faith and credit and taxing power of the Town.

Details of the IDA bond with the Town’s related support obligation are as follows:

Description	Balance
\$3,300,000 2005 Series Industrial Development Authority Revenue Refunding Bond issued March 1, 2005 in increasing annual maturities starting with \$225,000 in 2005 and increasing to \$330,000 in 2016 with interest at 3.59%	\$ 1,255,000
Town of Front Royal support agreement obligation – 20%	\$ 251,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
2014	\$ 300,000	\$ 39,669	\$ 60,000	\$ 7,934	\$ 67,934
2015	305,000	28,810	61,000	5,762	66,762
2016	320,000	17,591	64,000	3,518	67,518
2017	330,000	5,924	66,000	1,185	67,185
	<u>\$1,255,000</u>	<u>\$ 91,994</u>	<u>\$ 251,000</u>	<u>\$ 18,399</u>	<u>\$ 269,399</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

D. Encumbrance Purchase Orders In Process

At June 30, 2013, the Town is in various stages of procuring goods and services. These goods and services have not been provided or purchased at June 30, 2013, but are in the process of securing agreements and contracts. The significant encumbrance purchase order requests in process at June 30, 2013 are as follows:

<u>General Fund</u>	<u>Amount</u>
Streets, roads and bridges	\$ 661,700
Facility studies	116,000
Community development	46,200
Police department facility	20,000
Master plan - GPS	58,450
Beautification	36,550

E. Post-Employment Benefits Other Than Pensions

Plan Description: The Town of Front Royal Virginia adopted a retiree health insurance coverage policy. The policy states that the Town will provide healthcare insurance premium cost benefits for eligible retirees up to 25% of actual premium costs. The plan is provided through the Town's group health insurance plan which covers both retirees and active employees. The premium payment cost benefits are earned at 1% per year of employment, coverage is extended from retirement to age 65 and the benefit is earned only upon retirement from Town employment.

The benefit obligation retiree benefits are established through Town adopted employee policies.

Funding Policy: Payments are made monthly to cover the Town's portion of the retiree health insurance premiums. For fiscal year 2013, 26 retirees had a benefit under this policy with a total cost to the Town of \$37,340.

Annual OPEB Cost and Net OPEB Obligation: The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

E. Post-Employment Benefits Other Than Pensions (Continued)

The following table shows the components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town’s net OPEB obligation.

Component	FYE 6/30/13
Annual required contribution	\$ 228,800
Interest on Net OPEB obligations	30,337
Adjustment to annual required contribution	(27,219)
Annual OPEB cost (expense)	231,918
Contributions made	(36,945)
Increase in net OPEB obligation	194,973
Net OPEB obligation - Beginning of year	833,160
Net OPEB obligation - End of year	<u>\$ 1,028,133</u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012, 2011 and 2010 were as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 231,918	15.93%	\$ 1,028,133
2012	222,464	16.78%	1,028,133
2011	264,257	15.19%	648,037
2010	255,597	15.30%	423,910

Funding Status and Funding Progress: As of June 30, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$2,484,600. The covered payroll (annual payroll of active employees covered by the plan) was \$6,153,700, and the ratio of the UAAL to the covered payroll was 40.38%.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

E. Post-Employment Benefits Other Than Pensions (Continued)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

June 30, 2011 actuarial valuation methods and assumption are as follows:

Valuation Date:	June 30, 2011
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll
Amortization Period:	30 years
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Investment Rate of Return:	4.00%
Healthcare cost trend rate	Getzen Trend Model
Payroll Growth:	3.75% per year

Required Supplementary Information: Schedules of funding progress and employer contributions are presented below as required supplementary information. This information is intended to help users assess the funding status on an on-going concern basis and assess progress made in accumulating assets to pay benefits when due.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2009	\$ -	\$ 2,774,100	\$ 2,774,100	0%	\$ 6,623,100	41.89%
June 30, 2011	-	2,484,600	2,484,600	0%	6,153,700	40.38%

Schedule of Employer Contributions

FYE June 30,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2013	\$ 228,800	\$ 36,945	16.15%
2012	219,800	37,340	16.99%
2011	247,300	40,130	16.23%
2010	247,300	39,104	15.81%
2009	237,700	30,283	12.74%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. 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 (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or obtained by writing to the System’s Chief Financial Officer 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 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town’s contribution rate for the fiscal year ended 2013 was 15.29% of annual covered payroll.

Annual Pension Cost

For 2013, the Town’s annual pension cost of \$1,312,258 was equal to the Town’s required and actual contributions.

Five-year trend information for the Town:

FYE June 30,	Annual Premium Costs (APC)	% APC Funded	Net Pension Oligation
2013	\$ 1,312,258	100	None
2012	1,092,670	100	None
2011	1,094,187	100	None
2010	946,639	100	None
2009	1,002,397	100	None

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town’s unfunded actuarial accrued liability(UAAL) is being amortized as a level percentage of projected payroll on an open basis. The 2012 UAAL annual amortization rate is an employer contribution at a rate of 9.05% for 29 years.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 69.49% funded. The actuarial accrued liability for benefits was \$33,295,121, and the actuarial value of assets was \$23,136,770, resulting in an unfunded actuarial accrued liability (UAAL) of \$10,158,351. The covered payroll (annual payroll of active employees covered by the plan) was \$6,268,899, and ratio of the UAAL to the covered payroll was 162.04%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Required Supplementary Information

Schedule of Funding Progress for the Town

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2012	\$ 23,136,770	\$ 33,295,121	\$ 10,158,351	69.49%	\$ 6,268,877	162.04%
2011	23,301,524	32,646,376	9,344,852	71.38%	6,047,869	154.51%
2010	22,978,490	31,623,369	8,644,879	72.66%	6,306,555	137.08%
2009	23,201,463	29,244,201	6,042,738	79.34%	6,480,537	93.24%
2008	23,160,592	26,997,676	3,837,084	85.79%	6,218,074	61.71%

G. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Town implemented GASB Statement No. 32 requiring changes to the accounting and financial reporting for the deferred compensation plans created in accordance with Internal Revenue Code 457. The plans are administered by independent plan administrators through administrative service agreements. The Town’s administrative involvement is limited to transmitting amounts withheld from payroll to the plan administrator who performs investing functions. Amendments to the laws governing Section 457 plans substantially became effective January 1, 1997. The Town approved plan amendments such that plan assets are held in trust for the benefit of the plan participants and their beneficiaries. The financial activity of these plans is no longer reported in the Town’s Agency Fund.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Pending GASB Statements

At June 30, 2013, the Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the Town. The statements which impact the Town are as follows:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Statement No. 65 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012*, will improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, will improve financial reporting by state and local government pension plans. Statement No. 67 will be effective for fiscal years beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

The Town has reviewed these statements and is in the process of determining the full effect these GASB Statements will have on its financial statements.

I. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2013 through November 1, 2013, the date these financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the basic financial statements for the year ended June 30, 2013.

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 1,091,000	\$ 1,091,000	\$ 860,514	\$ (230,486)
Delinquent taxes, including penalties	18,000	18,000	5,099	(12,901)
Personal property taxes				
Current taxes, including penalties	245,000	245,000	195,264	(49,736)
Public service corporation taxes	11,612	11,612	20,997	9,385
Interest on delinquent taxes	25,000	25,000	11,931	(13,069)
Total General Property Taxes	<u>1,390,612</u>	<u>1,390,612</u>	<u>1,093,805</u>	<u>(296,807)</u>
Other Local Taxes				
Warren County sales tax	730,000	730,000	1,418,512	688,512
Business and occupational taxes and penalties	625,000	625,000	656,935	31,935
Franchise taxes	25,000	25,000	87,213	62,213
Consumer taxes - electric deregulation	232,000	232,000	221,576	(10,424)
Vehicle licenses	260,000	260,000	354,605	94,605
Bank stock taxes	225,000	225,000	192,936	(32,064)
Lodging taxes	290,000	290,000	291,537	1,537
Meal taxes	1,225,000	1,225,000	1,356,813	131,813
Payment in lieu of taxes	320,000	320,000	401,492	81,492
Total Other Local Taxes	<u>3,932,000</u>	<u>3,932,000</u>	<u>4,981,619</u>	<u>1,049,619</u>
Permits, Fees and Licenses				
Zoning income	30,000	30,000	21,806	(8,194)
Public ROW use fees	60,000	60,000	4,115	(55,885)
Total Permits, Fees and Licenses	<u>90,000</u>	<u>90,000</u>	<u>25,921</u>	<u>(64,079)</u>
Fines and Forfeitures				
Fines and forfeitures - county	225,000	225,000	173,881	(51,119)
Fines and forfeitures - town	15,000	15,000	5,785	(9,215)
Total Fines and Forfeitures	<u>240,000</u>	<u>240,000</u>	<u>179,666</u>	<u>(60,334)</u>
Revenues from Use of Money and Property				
Interest on bank deposits	88,000	88,000	1,116	(86,884)
Interest on accounts receivable	2,000	2,000	418	(1,582)
Rental - Comcast property	10,000	10,000	10,579	579
Total Revenues from Use of Money and Property	<u>100,000</u>	<u>100,000</u>	<u>12,113</u>	<u>(87,887)</u>
Charges for Services				
Curb and gutter charges	10,000	10,000	434	(9,566)
Street & walk assessment	4,000	4,000	1,024	(2,976)
Credit card fees	-	-	14,565	14,565
Sales at Visitors' Center	15,000	15,000	19,496	4,496
Sales of publications	1,000	1,000	322	(678)
Total Charges for Services	<u>30,000</u>	<u>30,000</u>	<u>35,841</u>	<u>5,841</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Miscellaneous Revenue				
Miscellaneous	\$ 40,000	\$ 47,000	\$ 112,606	\$ 65,606
Intergovernmental				
Rolling stock tax	15,000	15,000	17,367	2,367
Virginia personal property tax reduction	287,000	287,000	287,000	-
Communication tax	180,000	180,000	162,826	(17,174)
Rental tax vehicles	41,000	41,000	53,896	12,896
State aid for police and fire	358,000	358,000	338,352	(19,648)
Highway maintenance	1,500,000	1,500,000	1,660,012	160,012
Grants	60,000	62,864	10,249	(52,615)
Total Intergovernmental	<u>2,441,000</u>	<u>2,443,864</u>	<u>2,529,702</u>	<u>85,838</u>
Total General Fund Revenues	<u>8,263,612</u>	<u>8,273,476</u>	<u>8,971,273</u>	<u>697,797</u>
Other Financing Sources				
Transfers from other funds	<u>2,818,460</u>	<u>2,818,460</u>	<u>2,848,460</u>	<u>30,000</u>
Total Other Financing Sources	<u>2,818,460</u>	<u>2,818,460</u>	<u>2,848,460</u>	<u>30,000</u>
Total General Fund Revenues and Other Financing Sources	<u><u>\$11,082,072</u></u>	<u><u>\$11,091,936</u></u>	<u><u>\$11,819,733</u></u>	<u><u>\$ 727,797</u></u>

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 61,442	\$ 61,442	\$ 61,238	\$ 204
Contractual service	96,000	95,900	41,683	54,217
Materials and supplies	11,600	10,250	11,907	(1,657)
Travel and communications	6,000	8,650	8,615	35
Capital outlays	-	7,500	5,288	2,212
Total Town Council	<u>175,042</u>	<u>183,742</u>	<u>128,731</u>	<u>55,011</u>
Clerk of Council				
Personal service	34,233	34,773	35,468	(695)
Materials and supplies	400	400	963	(563)
Travel and communications	3,000	3,000	3,874	(874)
Dues and memberships	315	315	205	110
Total Clerk of Council	<u>37,948</u>	<u>38,488</u>	<u>40,510</u>	<u>(2,022)</u>
Total Legislative	<u>212,990</u>	<u>222,230</u>	<u>169,241</u>	<u>52,989</u>
Executive				
Town Manager				
Personal service	228,850	228,850	230,534	(1,684)
Contractual service	-	500	455	45
Materials and supplies	10,500	11,050	7,315	3,735
Travel and communications	4,500	4,700	5,154	(454)
Dues and memberships	2,000	2,000	2,390	(390)
Capital outlays	-	-	-	-
Total Town Manager	<u>245,850</u>	<u>247,100</u>	<u>245,848</u>	<u>1,252</u>
Management Services				
Personal service	222,988	222,988	220,306	2,682
Contractual service	150	150	71	79
Materials and supplies	34,500	32,750	29,221	3,529
Travel and communications	2,400	4,150	2,569	1,581
Dues and memberships	350	350	329	21
Total Management Services	<u>260,388</u>	<u>260,388</u>	<u>252,496</u>	<u>7,892</u>
Auto/Motorpool				
Personal service	316,998	316,998	327,574	(10,576)
Contractual service	800	1,550	1,925	(375)
Materials and supplies	31,800	30,400	61,497	(31,097)
Travel and communications	1,900	3,450	3,001	449
Utilities	1,500	600	517	83
Capital outlays	31,050	31,050	29,240	1,810
Total Auto/Motorpool	<u>384,048</u>	<u>384,048</u>	<u>423,754</u>	<u>(39,706)</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 95,899	\$ 95,899	\$ 96,335	\$ (436)
Contractual service	141,100	150,350	130,886	19,464
Materials and supplies	21,850	8,900	12,821	(3,921)
Travel and communications	48,000	46,900	49,107	(2,207)
Dues and memberships	100	100	-	100
Capital outlays	122,825	181,615	212,367	(30,752)
Total Office of Information Technology	<u>429,774</u>	<u>483,764</u>	<u>501,516</u>	<u>(17,752)</u>
Office of Tourism				
Personal service	130,958	130,958	135,521	(4,563)
Contractual service	14,500	24,500	11,008	13,492
Materials and supplies	134,608	168,670	142,873	25,797
Utilities	200	200	124	76
Travel and communications	5,500	8,500	7,520	980
Dues and memberships	1,355	1,355	1,300	55
Cultural Activities	10,000	10,000	10,000	-
Capital outlays	1,300	1,300	-	1,300
Total Office of Tourism	<u>298,421</u>	<u>345,483</u>	<u>308,346</u>	<u>37,137</u>
Board of Elections				
Contractual service	-	-	-	-
Total Executive	<u>1,618,481</u>	<u>1,720,783</u>	<u>1,731,960</u>	<u>(11,177)</u>
Legal				
Town Attorney				
Personal service	335,960	342,160	338,437	3,723
Contractual service	35,000	28,300	12,532	15,768
Materials and supplies	12,750	11,750	6,950	4,800
Travel and communications	5,000	6,500	4,265	2,235
Dues and memberships	1,000	1,000	670	330
Total Legal	<u>389,710</u>	<u>389,710</u>	<u>362,854</u>	<u>26,856</u>
Finance				
Finance Department				
Personal service	709,594	706,594	695,873	10,721
Contractual service	700	1,800	1,657	143
Materials and supplies	105,800	106,795	106,624	171
Travel and communications	6,100	8,300	7,471	829
Dues and memberships	400	400	355	45
Total Finance Department	<u>822,594</u>	<u>823,889</u>	<u>811,980</u>	<u>11,909</u>
Total General Government	<u>3,043,775</u>	<u>3,156,612</u>	<u>3,076,035</u>	<u>80,577</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	\$ 331,390	\$ 331,037	\$ 296,197	\$ 34,840
Contractual service	10,700	41,150	735	40,415
Materials and supplies	29,525	9,699	7,418	2,281
Travel and communications	3,650	5,253	5,016	237
Dues and memberships	500	500	305	195
Capital outlays	32,750	3,000	3,143	(143)
Total Planning and Zoning	<u>408,515</u>	<u>390,639</u>	<u>312,814</u>	<u>77,825</u>
Economic Development				
Contributions to other entities	34,955	34,955	35,116	(161)
Total Economic Development	<u>34,955</u>	<u>34,955</u>	<u>35,116</u>	<u>(161)</u>
Boards and Commissions				
Personal service	18,300	18,300	12,623	5,677
Contractual service	1,000	1,000	550	450
Materials and supplies	4,100	4,100	3,485	615
Travel and communications	2,500	2,500	931	1,569
Dues and memberships	100	100	-	100
Joint operations	10,325	10,325	8,375	1,950
Total Boards and Commissions	<u>36,325</u>	<u>36,325</u>	<u>25,964</u>	<u>10,361</u>
Total Planning, Zoning and Community Development	<u>479,795</u>	<u>461,919</u>	<u>373,894</u>	<u>88,025</u>
Police				
Police Department				
Personal service	3,383,378	3,474,218	3,446,228	27,990
Contractual service	6,175	7,275	5,516	1,759
Materials and supplies	257,550	261,541	238,518	23,023
Travel and communications	56,300	60,950	44,797	16,153
Dues and memberships	2,450	1,150	842	308
Joint operations	20,900	26,400	21,202	5,198
Capital outlays	70,000	120,885	90,006	30,879
Total Police Department	<u>3,796,753</u>	<u>3,952,419</u>	<u>3,847,109</u>	<u>105,310</u>
Engineering and Public Works				
Engineering				
Personal service	59,700	61,700	49,737	11,963
Contractual service	2,500	1,500	35	1,465
Materials and supplies	25,550	26,550	13,881	12,669
Travel and communications	8,000	8,000	3,242	4,758
Dues and memberships	2,000	-	1,393	(1,393)
Capital outlays	-	-	-	-
Total Engineering	<u>97,750</u>	<u>97,750</u>	<u>68,288</u>	<u>29,462</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Streets and Sidewalks				
Personal service	\$ 765,047	\$ 765,047	\$ 728,771	\$ 36,276
Contractual service	1,000	1,500	1,300	200
Materials and supplies	1,074,350	492,685	385,298	107,387
Travel and communications	10,750	9,750	7,428	2,322
Utilities	28,000	28,000	27,563	437
Dues and memberships	200	200	-	200
Capital outlays	190,500	1,122,490	550,841	571,649
Total Streets and Sidewalks	<u>2,069,847</u>	<u>2,419,672</u>	<u>1,701,201</u>	<u>718,471</u>
General Properties				
Personal service	133,619	133,619	100,821	32,798
Contractual service	17,000	12,000	5,948	6,052
Materials and supplies	64,600	53,950	56,379	(2,429)
Travel and communications	1,800	2,050	1,183	867
Utilities	59,000	74,000	77,970	(3,970)
Capital outlays	4,475	378,979	380,460	(1,481)
Total General Properties	<u>280,494</u>	<u>654,598</u>	<u>622,761</u>	<u>31,837</u>
Horticulture				
Personal service	282,170	282,170	228,009	54,161
Contractual service	20,000	19,950	16,171	3,779
Materials and supplies	29,300	81,037	37,942	43,095
Travel and communications	1,300	2,300	2,166	134
Utilities	-	200	181	19
Capital outlays	47,000	5,000	5,000	-
Total Horticulture	<u>379,770</u>	<u>390,657</u>	<u>289,469</u>	<u>101,188</u>
Total Engineering and Public Works	<u>2,827,861</u>	<u>3,562,677</u>	<u>2,681,719</u>	<u>880,958</u>
Parks and Recreation				
Library	47,500	47,500	47,500	-
Total Parks and Recreation	<u>47,500</u>	<u>47,500</u>	<u>47,500</u>	<u>-</u>
Nondepartmental				
Fringe Benefits	244,650	244,649	234,296	10,353
Insurance	337,000	337,000	307,986	29,014
Reserves	92,615	92,815	88,596	4,219
Total Nondepartmental	<u>674,265</u>	<u>674,464</u>	<u>630,878</u>	<u>43,586</u>
Subtotal	<u>10,869,949</u>	<u>11,855,591</u>	<u>10,657,135</u>	<u>1,198,456</u>
Transfers to Other Funds				
Economic Development Fund	62,123	62,123	159,511	(97,388)
Total Transfers	<u>62,123</u>	<u>62,123</u>	<u>159,511</u>	<u>(97,388)</u>
Total General Fund Expenditures	<u>\$ 10,932,072</u>	<u>\$ 11,917,714</u>	<u>\$ 10,816,646</u>	<u>\$ 1,101,068</u>

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
Assets							
Cash and cash equivalents	\$ -	\$ 186,972	\$ -	\$ 659,693	\$ 846,665	\$ -	\$ 846,665
Accounts receivable - real estate taxes	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	-	4,500	-	4,500	388	4,888
Total Assets	\$ 2,870	\$ 186,972	\$ 4,500	\$ 659,693	\$ 854,035	\$ 388	\$ 854,423
Liabilities							
Bank advances	\$ 1,512	\$ -	\$ 315,435	\$ -	\$ 316,947	\$ -	\$ 316,947
Accounts payable	-	25,530	-	-	25,530	-	25,530
Deferred revenue	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
Total Liabilities	4,382	75,445	315,435	97,031	492,293	-	492,293
Fund Balances							
Restricted for:							
Capital outlays	-	111,527	-	-	111,527	-	111,527
Community development	-	-	-	562,662	562,662	-	562,662
Assigned for capital projects	-	-	-	-	-	388	388
Unassigned	(1,512)	-	(310,935)	-	(312,447)	-	(312,447)
Total Fund Balances	(1,512)	111,527	(310,935)	562,662	361,742	388	362,130
Total Liabilities and Fund Balances	\$ 2,870	\$ 186,972	\$ 4,500	\$ 659,693	\$ 854,035	\$ 388	\$ 854,423

**TOWN OF FRONT ROYAL, VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue					Capital Project	Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
Revenues							
Real estate taxes	\$ -	\$ -	\$ 133,516	\$ 225,000	\$ 358,516	\$ -	\$ 358,516
Asset forfeitures	-	16,746	-	-	16,746	-	16,746
Total revenues	-	16,746	133,516	225,000	375,262	-	375,262
Expenditures							
Current							
Support payment of EDA debt issue	-	-	67,034	-	67,034	-	67,034
Contractual service	-	-	-	79,527	79,527	-	79,527
Contributions to other entities	-	-	35,639	-	35,639	-	35,639
Capital outlays	-	34,243	-	-	34,243	-	34,243
Debt Service	-	-	97,388	-	97,388	-	97,388
Total expenditures	-	34,243	200,061	79,527	313,831	-	313,831
Deficiency of revenues under expenditures	-	(17,497)	(66,545)	145,473	61,431	-	61,431
Other Financing Uses							
Transfers in	-	-	159,511	-	159,511	-	159,511
Transfers out	-	-	-	-	-	-	-
Total other financing uses	-	-	159,511	-	159,511	-	159,511
Net change in fund balances	-	(17,497)	92,966	145,473	220,942	-	220,942
Fund balances - beginning	(1,512)	129,024	(403,901)	417,189	140,800	388	141,188
Fund balances - ending	\$ (1,512)	\$ 111,527	\$ (310,935)	\$ 562,662	\$ 361,742	\$ 388	\$ 362,130

**TOWN OF FRONT ROYAL, VIRGINIA
ASSET FORFEITURES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 37,530	\$ 16,746	\$ (20,784)
Expenditures			
Capital outlays	42,887	34,243	8,644
Deficiency of revenues under expenditures	(5,357)	(17,497)	(12,140)
Fund balances - beginning	129,024	129,024	-
Fund balances - ending	<u>\$ 123,667</u>	<u>\$ 111,527</u>	<u>\$ (12,140)</u>

**TOWN OF FRONT ROYAL, VIRGINIA
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 133,516	\$ 133,516	\$ -
Expenditures			
Payments in support of EDA debt issue	62,969	67,034	(4,065)
Contributions to other entities	35,639	35,639	-
Debt Service	97,031	97,388	(357)
Total Expenditures	<u>195,639</u>	<u>200,061</u>	<u>(4,422)</u>
Deficiency of revenues under expenditures	(62,123)	(66,545)	(4,422)
Other Financing Uses			
Transfers in - Debt Service	<u>62,123</u>	159,511	97,388
Net change in fund balances	-	92,966	92,966
Fund balances - beginning	<u>(403,901)</u>	<u>(403,901)</u>	-
Fund balances - ending	<u>\$ (403,901)</u>	<u>\$ (310,935)</u>	<u>\$ 92,966</u>

**TOWN OF FRONT ROYAL, VIRGINIA
COMMUNITY/NEIGHBORHOOD REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 225,000	\$ 225,000	\$ -
Expenditures			
Contractual services	369,097	79,527	289,570
Total Expenditures	369,097	79,527	289,570
Deficiency of revenues under expenditures	(144,097)	145,473	289,570
Fund balances - beginning	417,189	417,189	-
Fund balances - ending	<u>\$ 273,092</u>	<u>\$ 562,662</u>	<u>\$ 289,570</u>

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2013

Assets held by the Director of Finance

Cash on hand		\$	1,533
Cash in banks			
Checking - SunTrust			5,446,630
Checking - SunTrust			14,648
Checking - Union First Market Bank			97,645
Money Market - Wells Fargo			2,503,599
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		122,503	
Union First Market Bank		109,502	
Wells Fargo		84,503	
Virginia Savings Bank		23,446	
Total Certificates of Deposit			689,954
Virginia Local Government Investment Pool			2,933,082
Repurchase Agreement - Union First Market Bank			3,841,617
SunTrust Government & Agency Fund			1,568,865
Union Investment Services			10,169,730
Total Assets			\$ 27,267,303

**TOWN OF FRONT ROYAL, VIRGINIA
 SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
 FOR THE YEAR ENDED JUNE 30, 2013**

	Governmental Funds			2013 Totals (Memorandum Only)	2012 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2012	\$ 7,561,438	\$ 293,611	\$ 15,460,251	\$ 23,315,300	\$ 23,790,764
Receipts (net)					
Interfund advances/receipts	(52,612)	-	-	(52,612)	1,500,000
General property taxes	1,110,375	358,516	-	1,468,891	1,463,814
Other local taxes	4,590,546	-	-	4,590,546	3,707,452
Permits, fees and licenses	25,921	-	-	25,921	74,588
Fines and forfeitures	179,666	-	-	179,666	213,721
Revenues from use of money and property	12,113	-	(32,882)	(20,769)	425,439
Charges for services	35,841	-	27,708,702	27,744,543	23,925,663
Bond issuance	-	-	-	-	-
Miscellaneous	112,606	-	-	112,606	73,568
Recovered costs	-	16,746	-	16,746	31,167
Payment in lieu of taxes	401,492	-	-	401,492	372,920
Intergovernmental	2,528,083	-	-	2,528,083	2,587,543
Total Receipts	8,944,031	375,262	27,675,820	36,995,113	34,375,875
Total Available	16,505,469	668,873	43,136,071	60,310,413	58,166,639
Disbursements (net)					
Warrants (checks) issued	10,455,508	201,278	20,742,406	31,399,192	31,648,006
Retirement of indebtedness	-	93,043	1,034,264	1,127,307	1,063,457
Interfund advance payments	-	-	(52,612)	(52,612)	1,500,000
Interest on debt costs	-	4,345	564,878	569,223	639,876
Total Disbursements	10,455,508	298,666	22,288,936	33,043,110	34,851,339
Transfers in	2,848,460	159,511	-	3,007,971	2,503,950
Transfers (out)	(159,511)	-	(2,848,460)	(3,007,971)	(2,503,950)
Total Transfers In (Out)	2,688,949	159,511	(2,848,460)	-	-
Balance June 30, 2013	\$ 8,738,910	\$ 529,718	\$ 17,998,675	\$ 27,267,303	\$ 23,315,300

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2013**

Taxable assessed value of real property	<u>\$ 1,144,609,080</u>
Debt limit (10 percent of assessed value)	114,460,908
Amount of debt applicable to debt limit	
Gross bonded debt	<u>(10,750,000)</u>
Legal debt margin	<u>\$ 103,710,908</u>

Note: Section 15.1-176 of 1950 Code of Virginia, as amended, limits to 10% of the assessed valuation of the real estate subject to taxation as the amount of debt which can be issued by the Town. Debt includes any bonds or other interest bearing obligations including existing indebtedness. Excluded from debt margin calculation are bonds payable from Enterprise Funds issued under Article VII Section 10(a)(2) of the Constitution of Virginia (formerly Clause (B) of Section 127 of the Constitution Virginia).

STATISTICAL SECTION

This part of the Town of Front Royal's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the Financial Statements, Notes to Financial Statements, and Required Supplementary Information says about the Town's overall financial health.

CONTENTS	PAGE
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	70
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	76
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	80
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</i>	85
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</i>	87

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

**TOWN OF FRONT ROYAL, VIRGINIA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
Invested in capital assets										
net of related debt	\$ 80,842,973	\$ 78,199,373	\$ 74,624,593	\$ 71,455,350	\$ 67,935,246	\$ 64,423,422	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076
Restricted	-	-	-	-	-	-	-	1,136,560	1,313,146	1,975,178
Unrestricted	5,304,430	5,450,254	6,691,369	7,580,388	7,344,504	6,033,299	5,953,428	5,125,795	4,934,496	5,453,676
Total Governmental Activities Net Position	\$ 86,147,403	\$ 83,649,627	\$ 81,315,962	\$ 79,035,738	\$ 75,279,750	\$ 70,456,721	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930
Business-type Activities										
Invested in capital assets										
net of related debt	\$ 39,613,187	\$ 39,531,599	\$ 19,751,368	\$ 24,625,302	\$ 31,350,568	\$ 34,365,817	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933
Restricted	2,649,403	3,873,842	26,004,470	23,052,300	19,679,106	18,511,327	17,843,447	16,659,513	16,446,498	19,440,318
Total Business-type Activities Net Position	\$ 42,262,590	\$ 43,405,441	\$ 45,755,838	\$ 47,677,602	\$ 51,029,674	\$ 52,877,144	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251
Primary Government										
Invested in capital assets										
net of related debt	\$ 120,456,160	\$ 117,730,972	\$ 94,375,961	\$ 96,080,652	\$ 99,285,814	\$ 98,789,239	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009
Restricted	-	-	-	-	-	-	-	1,136,560	1,313,146	1,975,178
Unrestricted	7,953,833	9,324,096	32,695,839	30,632,688	27,023,610	24,544,626	26,503,340	21,785,308	21,380,994	24,893,994
Total Primary Government Net Position	\$ 128,409,993	\$ 127,055,068	\$ 127,071,800	\$ 126,713,340	\$ 126,309,424	\$ 123,333,865	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181

**TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

Expenses	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities:										
General government and administration	\$ 2,213,302	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597	\$ 2,832,009	\$ 3,172,642	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737
Public safety	2,857,066	3,150,426	3,276,981	3,513,253	3,658,646	3,686,304	3,873,965	3,821,530	3,890,462	4,226,075
Public works	2,103,729	2,086,799	2,574,487	2,206,629	3,149,846	3,901,830	2,467,186	2,440,880	2,167,403	2,200,764
Planning, zoning, and community development	501,250	652,296	484,132	567,708	693,455	1,024,574	636,471	596,574	641,552	617,998
Culture and recreation	43,625	45,142	52,985	62,456	66,250	74,044	91,004	105,720	105,801	53,548
Interest on long term debt	3,788	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480	4,345
Infrastructure depreciation	3,588,522	3,588,522	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054
Total Governmental Activities Expenses	11,311,282	12,086,475	12,334,530	12,614,246	14,014,517	15,470,260	14,016,657	13,729,387	13,408,118	14,098,521
Business-Type Activities:										
Electric	9,173,662	9,082,609	9,523,363	16,250,138	12,600,249	13,535,201	14,119,794	16,888,252	14,466,632	13,293,934
Water	1,851,233	2,328,499	1,964,023	2,343,905	2,471,839	2,231,532	3,023,196	2,742,241	2,799,552	2,953,064
Sewer	2,061,542	2,636,183	2,285,966	2,752,915	2,691,398	2,659,873	3,550,177	2,680,077	3,036,433	2,966,184
Refuse	649,323	739,132	828,583	876,481	856,529	963,068	1,301,649	931,697	968,124	924,107
Total Business-Type Activities Expenses	13,735,760	14,786,423	14,601,935	22,223,439	18,620,015	19,389,674	21,994,816	23,242,267	21,270,741	20,137,289
Total Primary Government Expenses	25,047,042	26,872,898	26,936,465	34,837,685	32,634,532	34,859,934	36,011,473	36,971,654	34,678,859	34,235,810
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	88,891	71,572	131,037	141,719	111,776	95,947	227,814	155,527	96,447	146,989
Public safety	308,337	235,282	406,081	361,844	283,200	295,958	272,406	276,409	244,888	196,412
Public works	46,761	45,371	18,759	27,757	10,919	18,172	6,366	3,848	2,932	1,458
Planning, zoning, and community development	80,864	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588	25,921
Operating grants and contributions	1,618,991	1,704,613	1,447,990	1,858,205	1,872,998	1,912,511	1,870,222	1,960,551	1,967,288	1,998,364
Capital grants and contributions	64,156	80,484	43,416	170,526	115,062	121,767	93,087	133,154	113,971	10,249
Total Governmental Program Revenues	2,208,000	2,231,279	2,125,141	2,661,814	2,497,232	2,537,015	2,563,314	2,547,671	2,500,114	2,379,393
Business-Type Activities:										
Charges for services:										
Electric	10,959,143	11,346,761	11,507,238	15,454,130	15,460,426	15,125,811	15,462,065	16,544,552	15,561,410	16,832,900
Water	2,450,850	2,856,329	3,198,691	3,695,001	3,115,794	3,145,958	2,758,853	3,161,942	3,231,718	4,344,296
Sewer	2,330,077	2,674,149	3,011,979	3,645,537	2,846,667	2,774,605	2,723,871	3,452,860	4,204,653	6,303,357
Refuse	770,344	779,275	806,968	801,974	934,936	918,611	951,731	927,160	867,388	887,694
Capital grants and contributions	316,543	226,919	71,706	1,094,499	646,430	798,530	-	-	-	-
Total Business-Type Program Revenues	16,826,957	17,883,433	18,596,582	24,691,141	23,004,253	22,763,515	21,896,520	24,086,514	23,865,169	28,368,247
Total Primary Government Program Revenues	19,034,957	20,114,712	20,721,723	27,352,955	25,501,485	25,300,530	24,459,834	26,634,185	26,365,283	30,747,640

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net (Expense) Revenue										
Governmental Activities	\$ (9,103,282)	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)	\$ (11,517,285)	\$ (12,933,245)	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)
Business-Type Activities	3,091,197	3,097,010	3,994,647	2,467,702	4,384,238	3,373,841	(98,296)	844,247	2,594,428	8,230,958
Total Primary Gov't Net Expense	(6,012,085)	(6,758,186)	(6,214,742)	(7,484,730)	(7,133,047)	(9,559,404)	(11,551,639)	(10,337,469)	(8,313,576)	(3,488,170)
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes	1,258,013	1,213,101	1,280,730	1,335,686	1,330,595	1,303,327	2,563,604	1,685,744	1,544,123	1,549,507
Sales taxes	507,804	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512
Business and occupational taxes	611,617	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660	656,935
Franchise and bank stock taxes (*)	309,497	211,544	213,601	206,989	150,318	1,500	24,167	119,434	254,686	280,149
Communication taxes	-	-	-	-	-	177,556	178,294	177,411	157,940	162,826
Consumer taxes	178,879	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374	221,576
Alcoholic beverage taxes	33,569	16,317	16,316	16,316	16,316	-	-	-	-	-
Meals and lodging taxes	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350
Virginia pers. prop. tax reduction	285,334	262,457	280,041	287,878	287,863	287,863	575,726	287,863	287,000	287,000
Payment in lieu of taxes	-	-	-	-	229,098	1,046,893	307,158	337,469	372,920	401,492
Vehicle licenses (*)	-	-	-	-	-	-	-	-	350,500	354,605
Other general taxes (*)	507,664	559,315	583,928	541,073	438,560	426,139	472,388	615,452	53,344	71,263
Unrestricted investment earnings	73,089	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824	12,113
Gain on sale of capital assets and other recoveries	46,162	58,417	53,342	146,990	-	-	-	-	-	-
Transfers	2,021,050	2,127,400	2,141,432	1,643,617	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460
Total Governmental Activities	7,211,344	7,357,420	7,875,724	7,672,208	7,761,297	8,110,216	9,037,956	8,302,148	8,763,508	9,912,788
Business-Type Activities:										
Unrestricted investment earnings	114,857	173,241	497,182	1,097,679	749,734	255,529	254,472	217,969	301,615	(32,882)
Transfers	(2,021,050)	(2,127,400)	(2,141,432)	(1,643,617)	(1,781,900)	(1,781,900)	(1,988,722)	(1,988,272)	(2,503,950)	(2,848,460)
Total Business-Type Activities	(1,906,193)	(1,954,159)	(1,644,250)	(545,938)	(1,032,166)	(1,526,371)	(1,734,250)	(1,770,303)	(2,202,335)	(2,881,342)
Total Primary Government	5,305,151	5,403,261	6,231,474	7,126,270	6,729,131	6,583,845	7,303,706	6,531,845	6,561,173	7,031,446
Change in Net Position										
Governmental Activities	(1,891,938)	(2,497,776)	(2,333,665)	(2,280,224)	(3,755,988)	(4,823,029)	(2,415,387)	(2,879,568)	(2,144,496)	(1,806,340)
Business-Type Activities	1,185,004	1,142,851	2,350,397	1,921,764	3,352,072	1,847,470	(1,832,546)	(926,056)	392,093	5,349,616
Total Primary Government	\$ (706,934)	\$ (1,354,925)	\$ 16,732	\$ (358,460)	\$ (403,916)	\$ (2,975,559)	\$ (4,247,933)	\$ (3,805,624)	\$ (1,752,403)	\$ 3,543,276

* Bank stock tax and vehicle licenses were reclassified effective 2012

**TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

Fiscal Year	Property	Sales	Business and Occupational	Bank stock., Comm. and Franchise (*)	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle License (*)	Other General (*)	Total
2004	\$ 1,258,013	\$ 507,804	\$ 611,617	\$ 309,497	\$ 178,879	\$ 33,569	\$ 1,378,666	\$ 285,334	\$ -		\$ 507,664	\$ 5,071,043
2005	1,213,101	570,926	624,511	211,544	178,423	16,317	1,433,420	262,457	-		559,315	5,070,014
2006	1,280,730	586,133	740,268	213,601	191,554	16,316	1,578,910	280,041	-		583,928	5,471,481
2007	1,335,686	613,495	721,486	206,989	240,682	16,316	1,633,723	287,878	-		541,073	5,597,328
2008	1,330,595	683,974	708,018	150,318	228,828	16,316	1,622,217	287,863	229,098		438,560	5,695,787
2009	1,303,327	690,993	620,567	179,056	181,779	-	1,472,392	287,863	1,046,893		426,139	6,209,009
2010	2,563,604	684,300	613,273	202,461	190,188	-	1,330,656	575,726	307,158		472,388	6,939,754
2011	1,685,744	707,328	633,938	296,845	242,677	-	1,450,203	287,863	337,469		615,452	6,257,519
2012	1,544,123	726,745	612,660	177,325	228,374	-	1,547,442	287,000	372,920	350,500	639,145	6,486,234
2013	1,549,507	1,418,512	656,935	442,975	221,576	-	1,648,350	287,000	401,492	354,605	71,263	7,052,215

* Bank stock tax and vehicle licenses were reclassified from other general taxes effective 2012

**TOWN OF FRONT ROYAL, VIRGINIA
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Nonspendable	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520	\$ 196,260
Restricted	-	-	-	-	-	-	-	766,933	766,933	1,300,989
Unassigned	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533	5,728,824
Total General Fund	\$ 4,473,580	\$ 4,544,285	\$ 5,492,562	\$ 6,508,606	\$ 6,248,145	\$ 5,547,584	\$ 5,864,529	\$ 6,247,455	\$ 6,222,986	\$ 7,226,073
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369,627	\$ 546,213	\$ 674,189
Assigned - capital funds	974,884	7,634	388	388	388	388	388	388	388	388
Unassigned, reported in:										
Special revenue funds	(22,275)	1,050,959	1,460,920	1,447,323	1,483,394	919,779	142,836	(331,973)	(405,413)	(312,447)
Total all other governmental funds	\$ 952,609	\$ 1,058,593	\$ 1,461,308	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 143,224	\$ 38,042	\$ 141,188	\$ 362,130

TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES:										
Taxes:										
Property	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321
Sales	507,804	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512
Business and occupational	611,617	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660	656,935
Franchise	309,497	211,544	213,601	206,989	150,318	1,500	24,167	119,434	19,385	87,213
Consumer	178,879	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374	221,576
Vehicle licenses	230,743	236,441	246,458	239,854	226,689	223,417	174,686	296,784	350,500	354,605
Bank stock	143,065	166,904	197,212	159,285	160,640	152,245	239,686	259,987	235,301	192,936
Meals and lodging	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350
Permits, fees, and licenses	80,864	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588	25,921
Fines and forfeitures	203,904	219,713	307,275	356,631	246,650	252,484	238,363	249,598	213,721	179,666
Revenues from use of money										
and property	73,089	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824	12,113
Charges for services	111,143	101,343	84,363	100,909	73,114	45,165	20,237	16,257	25,811	35,841
Miscellaneous	16,055	74,017	118,667	68,567	49,581	68,954	213,943	143,118	73,568	112,606
Recovered costs	104,433	15,569	98,806	5,213	36,550	43,474	34,043	26,811	31,167	16,746
Payment in lieu of taxes	66,970	84,251	80,200	90,215	229,098	1,046,893	307,158	337,469	372,920	401,492
Intergovernmental	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543	2,529,702
Total Revenues	7,376,987	7,509,382	7,927,931	8,564,116	8,437,289	8,860,913	8,945,405	8,639,498	8,691,959	9,346,535
EXPENDITURES:										
General government										
Legislative	188,630	205,523	135,379	156,788	175,717	173,189	166,884	175,142	155,176	169,241
Executive	931,212	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025	1,731,960
Legal	215,643	246,472	215,991	248,934	257,621	416,400	517,295	347,940	342,144	362,854
Finance	779,038	670,026	673,576	748,380	801,115	828,300	790,675	803,686	732,352	811,980
Public Safety										
Police	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674	3,881,352
Fire protection	78,900	100,005	88,073	105,403	18,139	-	-	-	-	-
Planning, zoning, and										
community development	471,241	894,911	434,876	514,404	640,684	953,740	1,193,007	536,085	590,660	556,094
Engineering and public works	2,688,013	2,285,996	2,312,554	2,493,932	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997	2,681,719
Parks and recreation	41,000	41,000	47,596	56,594	61,208	68,924	82,000	95,000	95,000	47,500
Nondepartmental	385,770	621,043	584,781	532,993	513,067	520,070	518,999	479,931	564,173	630,878
Debt Service										
Principal	18,196	144,742	75,410	70,483	73,774	77,219	80,826	84,600	88,551	93,043
Interest	3,788	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480	4,345
Capital outlay	24,201	77,927	7,246	-	4,415	-	-	-	-	-
Total Expenditures	8,632,972	9,460,093	8,718,371	9,352,276	10,443,579	11,906,989	11,394,125	10,350,026	11,117,232	10,970,966
DEFICIENCY OF REVENUES										
UNDER EXPENDITURES	(1,255,985)	(1,950,711)	(790,440)	(788,160)	(2,006,290)	(3,046,076)	(2,448,720)	(1,710,528)	(2,425,273)	(1,624,431)
OTHER FINANCING										
SOURCES (USES):										
Transfers in	2,058,450	2,348,709	2,245,022	1,740,649	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950	3,007,971
Transfers (out)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)	(97,031)	(97,031)	(97,031)	-	(159,511)
Special revenue	8,454	-	-	-	-	-	-	-	-	-
Interfund borrowing proceeds	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	46,162	-	-	-	-	-	-	-	-	-
Other sources	-	-	-	146,990	-	-	-	-	-	-
Total Other Financing	2,075,666	2,127,400	2,141,432	1,790,607	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460
Sources (Uses)	2,075,666	2,127,400	2,141,432	1,790,607	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460
NET CHANGE IN										
FUND BALANCES	\$ 819,681	\$ 176,689	\$ 1,350,992	\$ 1,002,447	\$ (224,390)	\$ (1,264,176)	\$ (459,998)	\$ 277,744	\$ 78,677	\$ 1,224,029
Debt service as a percentage										
of noncapital expenditures	0.29%	2.55%	1.22%	1.11%	0.95%	0.83%	0.99%	1.01%	1.05%	0.98%

Additional years will be added as information is available.

**TOWN OF FRONT ROYAL, VIRGINIA
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

Fiscal Year	Real Property				Personal Property				
	Commercial Residential Property	Public Service	Total Assessed Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate
2004	\$ 697,130,500	\$ 16,664,771	\$ 713,795,271	0.13	\$ 106,727,512	\$ -	\$ 988,960	\$ 107,716,472	0.60
2005	713,445,100	16,664,771	730,109,871	0.13	109,271,685	-	1,024,770	110,296,455	0.60
2006	719,331,408	15,918,461	735,249,869	0.13	103,400,500	-	1,082,710	104,483,210	0.60
2007	768,759,200	15,358,932	784,118,132	0.13	103,206,048	-	965,665	104,171,713	0.60
2008	1,409,727,643	14,984,060	1,424,711,703	0.07	106,118,951	19,346,220	2,170,520	127,635,691	0.60
2009	1,429,456,286	14,984,060	1,444,440,346	0.07	103,750,195	16,769,150	2,082,305	122,601,650	0.60
2010	1,418,723,500	15,826,250	1,434,549,750	0.07	77,266,939	17,878,066	1,850,545	96,995,550	0.60
2011	1,104,745,864	15,826,250	1,120,572,114	0.11	79,013,475	17,575,885	1,575,270	98,164,630	0.64
2012	1,118,318,200	16,425,250	1,134,743,450	0.11	82,719,086	16,645,415	1,534,520	100,899,021	0.64
2013	1,127,434,400	17,274,880	1,144,709,280	0.11	85,157,320	18,291,765	1,545,035	104,994,120	0.64

TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS

Fiscal Year	Town Direct Rates					Overlapping Rates					Total Direct and Overlapping Rates
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery Tools	Mobile Homes	Total Overlapping Rate	
2004	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2005	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2006	0.13	0.60	0.60	0.13	1.46	0.82	3.15	2.25	0.82	7.04	8.50
2007	0.13	0.60	0.60	0.13	1.46	0.82	3.15	1.30	0.82	6.09	7.55
2008	0.07	0.60	0.60	0.07	1.34	0.68	3.25	2.00	0.68	6.61	7.95
2009	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
2010	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
2011	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98
2012	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98
2013	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2004**

Taxpayer	2013		Taxpayer	2004	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family LC	\$ 20,391,600	1.78%	Boisseau Family, L.C.	\$ 14,637,200	2.60%
Gateway Plaza Shopping Center	8,389,500	0.73%	Gateway Plaza Shopping Center	6,271,300	1.12%
Shenandoah Square LP	8,124,600	0.71%	HLI Endowment	5,858,800	1.04%
Ramsey Inc.	8,079,500	0.71%	Shenandoah Square, L.P.	5,722,900	1.02%
HLI Endowment, Inc.	6,754,400	0.59%	Ramsey, Inc.	4,237,600	0.75%
Royal Arms Associates	5,442,500	0.48%	Southerlands	4,010,100	0.71%
Corr Family Real Estate LLC	4,299,900	0.38%	Cogil Corporation	3,882,600	0.69%
Royal Hills Limited Partnership	4,256,100	0.37%	Corr Family	3,522,900	0.63%
Fairfield Lynn Limited	3,701,600	0.32%	Royal Arms Association	3,340,100	0.59%
CCC Enterprises Inc of VA	3,586,700	0.31%	Royal Hills Limited	3,299,000	0.59%
Total	\$ 73,026,400	6.38%		\$ 54,782,500	9.75%

Source: Warren County Property Assessor's Office

**TOWN OF FRONT ROYAL, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Subsequent Tax Collections	Total Tax Collections	Total Collection as Percent of Current Levy
2004	\$ 1,537,321	\$ 1,514,244	98.50%	\$ 8,508	\$ 1,522,752	99.05%
2005	1,511,008	1,493,940	98.87%	113	1,494,053	98.88%
2006	1,606,608	1,589,992	98.97%	-	1,589,992	98.97%
2007	1,644,061	1,537,604	93.52%	80,783	1,618,387	98.44%
2008	1,631,281	1,531,421	93.88%	62,706	1,594,127	97.72%
2009	1,655,680	1,539,151	92.96%	74,034	1,613,185	97.43%
2010	3,131,608	2,332,404	74.48%	706,929	3,039,333	97.05%
2011	1,802,507	968,065	53.71%	706,405	1,674,470	92.90%
2012	1,833,691	683,918	37.30%	989,719	1,673,637	91.27%
2013	1,840,648	928,189	50.43%	-	928,189	50.43%

Note: Penalties and interest are not included in any of the values.

Total tax levy and current tax collection includes revenue from the Commonwealth of Virginia for personal property taxes.

2010 includes two years of real estate tax levies and collections due to the adoption of a new tax levy process. The 2009 tax levy occurred on December 5, 2009 and the 2010 tax levy occurred on June 5, 2010. The tax levy will continue to be June 5 in subsequent years, with payments due June 5 and December 5.

TOWN OF FRONT ROYAL, VIRGINIA
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental	Business Type	Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
	Activities General	Activities General					
	Obligation Bonds	Obligation Bonds					
2004	\$ 788,648	\$ 5,417,988	\$ 6,206,636	\$ 472,533	1.31%	13,584	457
2005	643,906	4,656,618	5,300,524	472,707	1.12%	14,184	374
2006	568,496	14,196,756	14,765,252	DNA	DNA	13,720	1,076
2007	498,013	13,643,291	14,141,304	DNA	DNA	14,377	984
2008	424,239	12,756,102	13,180,341	461,432	2.86%	14,475	911
2009	347,020	11,850,070	12,197,090	483,029	2.53%	14,616	835
2010	266,194	13,665,076	13,931,270	466,320	2.99%	14,573	956
2011	181,594	12,725,987	12,907,581	547,521	2.36%	14,440	894
2012	93,043	11,767,674	11,860,717	553,967	2.14%	14,610	812
2013	-	10,750,000	10,750,000	663,896	1.62%	14,666	733

**TOWN OF FRONT ROYAL, VIRGINIA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

Fiscal Year	General Obligation Bonds	Debt Payable from Enterprise Revenues	Net Bonded Debt	Assessed Value in \$000's	Percentage of Actual Taxable Value of Property	Population	Per Capita
2004	\$ 6,206,636	\$ 5,417,988	\$ 788,648	\$ 821,512	0.10%	13,584	58.06
2005	5,300,524	4,656,618	643,906	840,406	0.08%	13,589	47.38
2006	14,765,252	14,196,756	568,496	839,733	0.07%	13,720	41.44
2007	14,141,304	13,643,291	498,013	888,290	0.06%	14,377	34.64
2008	13,180,341	12,756,102	424,239	1,552,347	0.03%	14,475	29.31
2009	12,197,090	11,850,070	347,020	1,567,042	0.02%	14,616	23.74
2010	13,931,270	13,665,076	266,194	1,531,545	0.02%	14,573	18.27
2011	12,907,581	12,725,987	181,594	1,218,737	0.01%	14,440	12.58
2012	11,860,717	11,767,674	93,043	1,235,642	0.01%	14,610	6.37
2013	10,750,000	10,750,000	-	-	0.00%	14,666	-

**TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2013**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	\$ 3,024,600		
Warren County School Board	<u>3,555,000</u>		
Subtotal, overlapping debt	<u>6,579,600</u>	49%	3,224,004
Town of Front Royal (direct debt)	<u>-</u>	100%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 3,224,004</u></u>

Note: Overlapping governments are those that coincide, at least in part, which the geographic boundaries of the town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Town of Front Royal. This process recognizes that, when considering the town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is resident, and therefore responsible for repaying the debt, of each overlapping government.

**TOWN OF FRONT ROYAL, VIRGINIA
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$ 56,191,727	\$ 76,458,758	\$ 78,458,758	\$ 143,323,827	\$ 145,212,163	\$ 145,266,886	\$ 145,073,555	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908
Net debt applicable to limit	6,206,636	5,300,524	14,765,254	14,141,304	13,180,341	12,197,090	13,931,270	12,907,581	11,860,717	10,750,000
Legal debt margin	\$ 49,985,091	\$ 71,158,234	\$ 63,693,504	\$ 129,182,523	\$ 132,031,822	\$ 133,069,796	\$ 131,142,285	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908
Net debt applicable to the limit as a percent of debt limit	11%	7%	19%	10%	9%	8%	10%	11%	10%	9%

**TOWN OF FRONT ROYAL, VIRGINIA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2004	\$16,625,271	\$12,054,058	\$ 4,571,213	\$ 752,404	\$ 228,919	\$ 981,323	4.66
2005	17,829,755	13,119,294	4,710,461	761,370	202,048	963,418	4.89
2006	19,022,058	12,918,187	6,103,871	774,862	151,698	926,560	6.59
2007	24,694,321	19,960,695	4,733,626	553,465	553,525	1,106,990	4.28
2008	23,107,557	16,528,362	6,579,195	887,189	578,849	1,466,038	4.49
2009	22,220,514	17,417,903	4,802,611	906,030	531,927	1,437,957	3.34
2010	22,150,992	18,008,335	4,142,657	919,994	506,962	1,426,956	2.90
2011	24,304,483	20,868,331	3,436,152	955,679	593,798	1,549,477	2.22
2012	24,166,784	18,870,789	5,295,995	974,906	631,396	1,606,302	3.30
2013	28,335,365	17,772,057	10,563,308	1,034,264	564,878	1,599,142	6.61

¹Gross revenue includes operating revenues and investment earnings

²Total operating expenses exclusive of depreciation

**TOWN OF FRONT ROYAL, VIRGINIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN YEARS**

Year	Estimated Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
2004	13,584	\$ 380,352	\$ 28,000	*	*	5,176	3.4%
2005	13,589	433,177	31,877	*	*	5,376	3.1%
2006	13,720	437,352	31,877	*	*	5,173	2.5%
2007	14,377	458,296	31,877	*	*	5,257	3.0%
2008	14,475	461,420	31,877	*	*	5,252	3.4%
2009	14,616	483,029	33,048	*	*	5,240	7.0%
2010	14,573	466,320	31,999	*	*	5,720	6.7%
2011	14,440	547,521	37,917	38	*	5,317	6.7%
2012	14,610	553,967	37,917	*	*	5,325	5.5%
2013	14,666	663,896	45,268	*	*	5,394	5.7%

*Median age and education level only available in census years

Source: Town of Front Royal, Warren County School Board, and Warren County Economic Development Authority

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND 2007**

2013			*2007		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	1,000	13%	Warren County School Board	1,105	DNA
Valley Health System	830	11%	Valley Health System	500	DNA
Family Dollar Services	530	7%	Town of Front Royal, Virginia	155	DNA
Baugh Northeast, Inc.	500	6%	Warren County	150	DNA
E.I. Dupont De Nernours & Company	435	6%	Martin's Food Market	140	DNA
Ferguson Enterprises, Inc.	400	5%	Randolph-Macon Academy	120	DNA
Interbake Foods, LLC	350	5%	United Parcel Services, Inc.	100	DNA
Warren County	280	4%	VIA Satellite	95	DNA
FDR Services	200	3%	Northwest Community Mental Health	90	DNA
RSW Regional Jail	140	2%	Kmart Corporation	80	DNA

Source: Estimates from Warren County Economic Development Authority

* - Complete prior years data is available from 2007 forward.

**TOWN OF FRONT ROYAL, VIRGINIA
 FULL-TIME EQUIVALENT TOWN GOVERNMENT
 EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	29	27	29	29	41	40	38	38	33	37
Fire Protection	1	1	1	1	0	0	0	0	0	0
Police Protection	45	45	45	45	47	47	47	47	47	48
Highway - Streets	20	20	19	22	17	17	17	17	16	17
Sanitation	13	14	13	14	15	13	13	13	14	15
Water	13	13	13	12	13	14	15	15	18	15
Sewer	17	16	18	17	15	15	14	14	17	16
Electrical	15	14	12	14	11	12	13	13	15	15
Culture and Recreation	1	1	1	1	0	0	0	0	0	0
	154	151	151	155	159	158	157	157	160	163

**TOWN OF FRONT ROYAL, VIRGINIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Safety										
Police										
Physical arrests			1,398	1,443	1,436	1,108	1,943	1,361	1,777	1,183
Parking violations			1,074	1,063	678	752	841	462	222	364
Traffic violations			3,739	3,844	3,560	4,379	3,770	3,423	2,666	1,808
Wastewater										
New service connections				320	48	33	14	17	17	14
Average daily treatment in gallons	3,490,755	3,523,000	3,523,000	3,069,310	2,988,613	3,399,715	3,764,984	3,598,000	3,426,000	3,531,000
Water System										
New connections				320	52	32	13	16	20	16
Average daily consumption	1,678,000	1,708,000	1,708,000	1,708,000	1,976,953	2,143,041	2,182,274	2,065,043	1,453,000	1,875,000
Electric Distribution										
New Connections				320	25	16	4	12	18	20
Average daily KWH consumption		472,041	492,688	493,095	576,589	545,482	552,178	538,679	487,033	528,398
Sanitation										
Refuse collected (tons/day)	40	40	40	40	22	15	14	20	20	22
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	2.00	2.00	1.20	2.45	1.98	1.46
Highway and Streets										
Repair services			55	60	65	55	28	210	366	398
Street resurfacing (miles)			15.00	27.00	35.00	5.00	11.75	1.44	12.80	1.20

**TOWN OF FRONT ROYAL, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Safety										
Police										
Stations	1	2	2	2	2	2	2	2	2	2
Patrol Units	6	9	12	12	12	12	12	12	12	12
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	143	143	143	143	133	133	133	133	133	133
Streetlights	1,430	1,430	1,430	1,430	1,430	1,450	1,450	1,450	1,450	1,450
Traffic signals	14	14	15	15	15	14	14	14	14	14
Culture and Recreation										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks	13	13	13	13	13	13	13	13	13	12
Park acreage	165	165	165	165	165	165	165	165	165	125
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	9	9	9	2
Sewer System										
Sanitary sewers (miles)	117	117	196	196	198	198	198	198	198	198
Storm sewers (miles)	27	27	90	90	92	92	92	92	92	92
Treatment plants	1	1	1	1	1	1	1	1	1	1
Max daily capacity			4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	555	555	560	560	582	618	618	668	672	672
Max daily capacity			3,000,000	3,000,000	3,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Electric System										
Service lines (miles)	140	140	140	140	140	140	140	141	141	143
Distribution stations	3	3	3	3	3	4	4	4	4	4
Sanitation										
Collection Trucks	5	5	5	5	5	5	5	5	7	5

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

To The Honorable Mayor and Members of Town Council
Town of Front Royal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Front Royal, Virginia's basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Front Royal, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Front Royal, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 1, 2013
Leesburg, Virginia

Mitchell & Co., P.C.