

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**Prepared by the
Department of Finance
Kim Gilkey-Breeden,
Director of Finance**

FOREWARD

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 14,184.

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. The department directors for the finance, electric, engineering, public works and utilities, planning/zoning, and police departments 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.

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INTRODUCTORY SECTION

PART I



Town Manager
David W. Reynal

Clerk of Council
Jennifer E. Berry

TOWN OF FRONT ROYAL

P.O. BOX 1560
FRONT ROYAL, VIRGINIA 22630
(540) 635-8007
FAX (540) 636-7475

Mayor
James M. Eastham

Vice Mayor
J. Daniel Pond III

Council Members
Joseph T. McDaniel
Fred P. Foster
Stanley W. Brooks, Jr.
Timothy W. Darr
M. Eileen Grady

November 28, 2005

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally auditing standards by a firm of licensed certified public accountants. Pursuant to the requirement, we hereby issue the Comprehensive Annual Financial Report of the Town of Front Royal, Virginia for the fiscal year ending June 30, 2005.

This report consists of management's representations concerning the finances of the Town of Front Royal, Virginia. 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 of Front Royal, Virginia has established a comprehensive internal control framework. These controls are designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Front Royal, Virginia's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Front Royal, Virginia's comprehensive framework of 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.

The Town of Front Royal, Virginia'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 of Front Royal, Virginia for the fiscal year ending June 30, 2005, 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. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an

unqualified opinion that the Town of Front Royal, Virginia's financial statements for the fiscal year ending June 30, 2005, are fairly presented in conformity 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 of Front Royal, Virginia's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government. Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington D.C. 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 at the northern town limits and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 13,584.⁹

The Town is governed under a Council-Mayor form of government. 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 the Town Council are held every two (2) years. The Mayor, who serves a two-year term, presides over the Town Council, but votes 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 Manager also serves as Town Treasurer and is responsible for the financial operations of the Town. The Clerk of Council and Town Attorney are appointed by the Town Council. The department directors of finance, electric, engineering, public works, public utilities, human resources, office of tourism, public safety and planning/zoning, and police departments are appointed by and 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. Certain services received by residents of a town are provided by the town with other services being provided by the county.

The government maintains a 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 appropriate amount) is established by function and activity within the individual fund. The government also maintains an encumbrance accounting system as one technique for

accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances generally are re-appropriated as part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of the report, the government continues to meet its responsibility for sound financial management.

Factors Affecting Financial Condition. The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the Town of Front Royal, Virginia operates.

Local Economy. Since 1994, one thousand new jobs have been created and \$200 million have been invested by a number of companies including Toray Plastics (American), Inc., Family Dollar Stores Distribution Center, Walden Foods, Tartan Textiles, Precision Systems, Ferguson Enterprises, CorrecTech (BioMed Devices), Valley Redi-Mix, Blue Ridge Prestain, GeoDigital Mapping, Air Pac, Satisfice and The Lynx Group. Sysco's Baugh Northeast Cooperative will open its distribution center will complete its Warren County power plant in late 2005, respectively, creating an additional 410 new jobs and \$330 million in investments.

Dupont has been a mainstay for the economy since 1981, as it has steadily grown its local operation, and now employees 400 at its Front Royal plant. Downtown Front Royal has seen a resurgence of commercial activity, including shopping, dining, arts and entertainment establishments that attract residents as well as tourists. The Town helped to establish a special service district to assist downtown commercial properties with promotional projects and capital improvements. The downtown district expires on June 30, 2005. The Town also helped to establish a Technology Zone that encompasses 125 acres of the downtown area and provides incentives and grants to technology companies that are located in the zone.

The Economic Development Authority, FMC Corporation, Virginia's DEQ and the Environmental Protection Agency are working in partnership to rehabilitate the 500-acre Avtex Fibers Superfund site located in the Town of Front Royal for redevelopment and reuse. The Avtex Administration building has been rehabilitated and houses over 8,000 square feet of available office space for lease. The EDA reports that they lease two (2) of the four (4) available office suites, with the EDA administrative office occupying the fifth.

The Town has made investments in its gateway and primary corridors to improve their appearance. The Town also continued to expand its Civil War Battle of Front Royal Tour Program that is attracting tourists from around the world. Front Royal is host to the gateway to the Skyline Drive and Shenandoah National Park, which positions it well for tourism revenue. The Town has recently been certified as a 2007 community for the State's 400th birthday celebration "Come Home to Virginia".

Long-term financial planning. During fiscal year 2005, the Town continued its efforts to advance in the use of technology. In 2004 a fiber optic backbone network was constructed to serve many of the Town's facilities. This has allowed the Town to begin implementation of a Town-wide telephone system. Upon completion of the fiber lighting a LAN/Wan will be created, allowing departments to communicate electronically.

Cash management policies and practices. The Town maintains a zero balance, checks-cleared checking account whereby all access funds are invested until a check is presented for payment. At that time, the necessary funds are transferred to the account by the bank. Any funds not needed for anticipated expenses are invest in certificates of deposit with local banks and with the Local Government Investment Pool (LGIP) maintained by the Commonwealth of Virginia on behalf of municipalities.

Risk Management. Risk management functions continue to be organized as a responsibility of the Director of Human Resources. No major, new initiatives were undertaken in the area of risk management. Efforts taken in prior years to reduces looses were continued in 2005. The overall goals of risk management are to reduce the Town's losses to the lowest possible level and to protect the Town's assets from loss, theft, and misuse.

Pension and other post-employment benefits. The Town contributes to the Virginia Retirement System (VRS) on behalf of its employees. All full-time permanent employees must participate in the system. Benefits vest after five (5) years of service so that employees are eligible for unreduced retirement at age 65 with five (5) years of service or at age 55 with 30 years of service. Benefits are actuarially reduced for employees who retire prior to becoming eligible for retirement benefits.

In addition to providing pension benefits, the Town provides certain health care insurance benefits for its retired employees. Substantially all employees may become eligible at varying levels depending on the years of service and employment with the Town.

Awards and Acknowledgements. The Government Finance Officer's Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial to the Town of Front Royal for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2004. This is the eighteenth (18) consecutive years that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principals and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Town of Front Royal, Virginia Finance Department. We would like to express our appreciation to all members of the Department and especially, Sue McIntosh, who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and The Town Council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Front Royal, Virginia's finances.

Respectfully submitted,



David W. Reynal
Town Manager



Kim Gilkey-Breden
Director of Finance

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, 2004

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



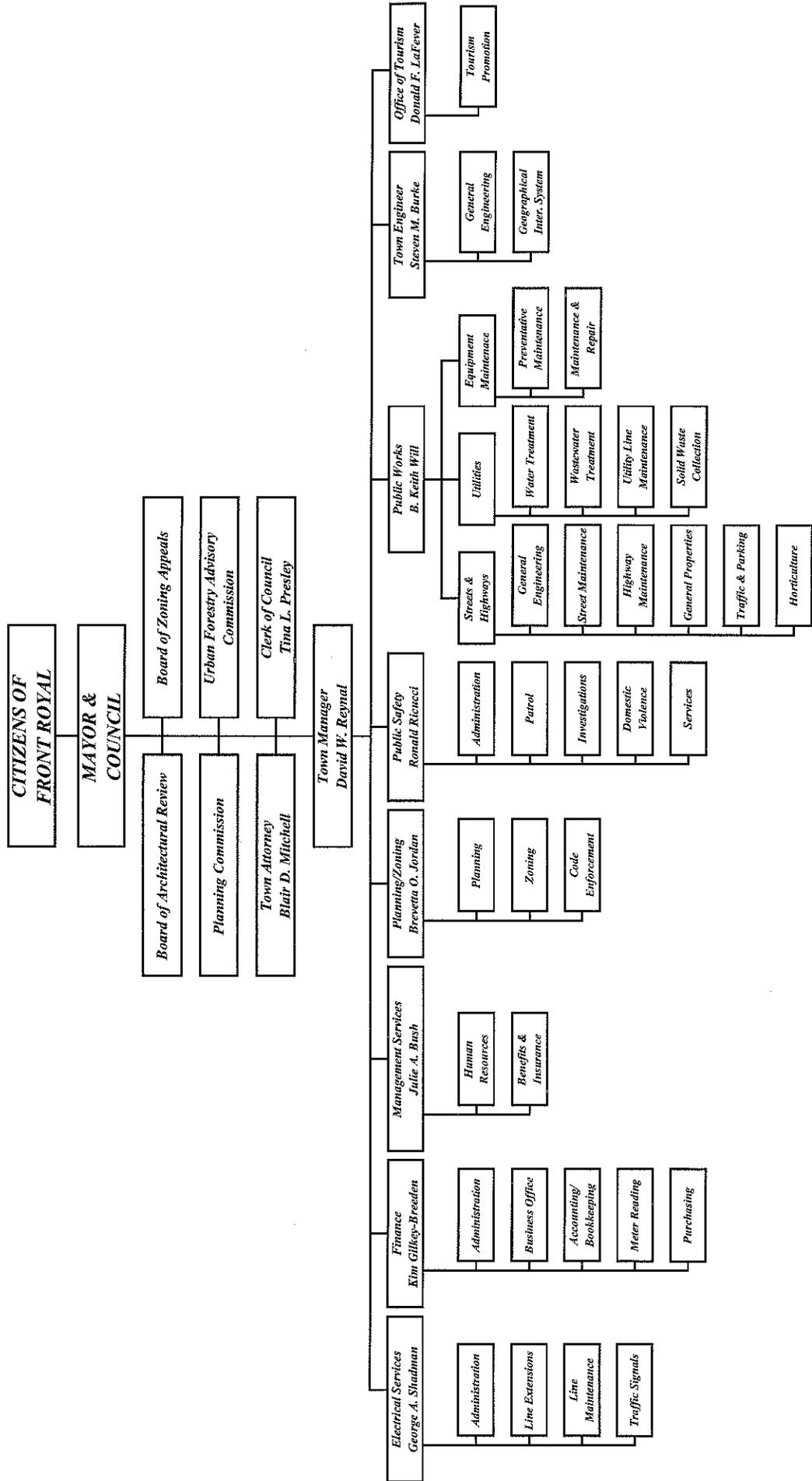
Nancy L. Zelle

President

Jeffrey R. Emer

Executive Director

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2005
(With Full-Time Employees)**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2005**

Town Council

James M. Eastham - Mayor
J. Daniel Pond III - Vice Mayor

Fred P. Foster
Joseph T. McDaniel
Stanley W. Brooks, Jr.
Timothy W. Darr
M. Eileen Grady

Administrative and Budget Officers

David W. Reynal - Town Manager
Blair D. Mitchell - Town Attorney
Ronald Ricucci - Chief of Police
Brevetta O. Jordan - Director of Planning
George A. Shadman - Director of Electrical Services
B. Keith Will - Acting Director of Public Works
Cynthia A. Hartman - Purchasing Agent
Julie A. Bush - Director of Management Services
Tina L. Presley - Acting Clerk of Council
Andrea D. Lilley - Zoning Officer
Don McPaters - Superintendent of Vehicle Maintenance
Kim Gilkey-Breeden - Acting Director of Finance
Elizabeth H. Gehringer - Office Assistant
Steven M. Burke, P.E. - Town Engineer

MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 EAST MARKET STREET, SUITE 200
LEESBURG, VIRGINIA 20176

JEFFREY D. MITCHELL, CPA
JOSHUA S. GOODWIN, CPA

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E-mail mco@mcoocpa.com

INDEPENDENT AUDITOR'S REPORT

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

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, 2005, which collectively comprise the Town of Front Royal, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Front Royal, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as identified in the Financial Section of the accompanying table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2005 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 12, 2005
Leesburg, Virginia

Mitchell & Company, P.C.

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, 2005. 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 1-5 of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$127,055,068. Of this amount, \$9,324,096 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$1,354,925.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$5,602,878, an increase of \$176,689 in comparison with the prior year. Most of this total amount, \$5,055,087, is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,996,494, or 44.2 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$906,112 (15 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 assets presents information on all Town assets and liabilities with the difference between the two reported as net assets. 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 assets changed during the most recent fiscal year. All changes in net assets 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, public works, planning, zoning and community development, and culture and recreation. The business-type activities of the Town include water, sewer, electricity, and refuse operations.

The government-wide financial statements can be found on pages 20 – 21 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 nine 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 and the debt service fund, both of which are considered to be major funds. Data from the other seven 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 22 – 25 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 refuse 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 refuse funds, all of which are considered to be major funds of the Town.

The basic proprietary fund financial statements can be found starting on pages 26 – 30 of this report.

Notes to the financial statements. 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 can be found on pages 31 – 53 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 54 – 68 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 69 – 71 of this report.

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 \$127,055,068 at the close of the most recent fiscal year.

By far the largest portion of the Town’s net assets (93 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 of Front Royal 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, 2005.

TOWN OF FRONT ROYAL -- NET ASSETS			
	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 6,478,431	\$ 14,630,461	\$ 21,108,892
Capital assets	78,843,279	34,862,430	113,705,709
Total Assets	85,321,710	49,492,891	134,814,601
Long-term liabilities	1,080,854	4,150,953	5,231,807
Other liabilities	591,229	1,936,497	2,527,726
Total Liabilities	1,672,083	6,087,450	7,759,533
Net Assets			
Invested in capital assets, net of related debt	78,199,373	39,531,599	117,730,972
Unrestricted	5,450,254	3,873,842	9,324,096
Total Net Assets	\$ 83,649,627	\$ 43,405,441	\$ 127,055,068

An additional portion of the Town of Front Royal’s net assets (0.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets 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 three 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 decreased by \$1,354,925 during the current fiscal year.

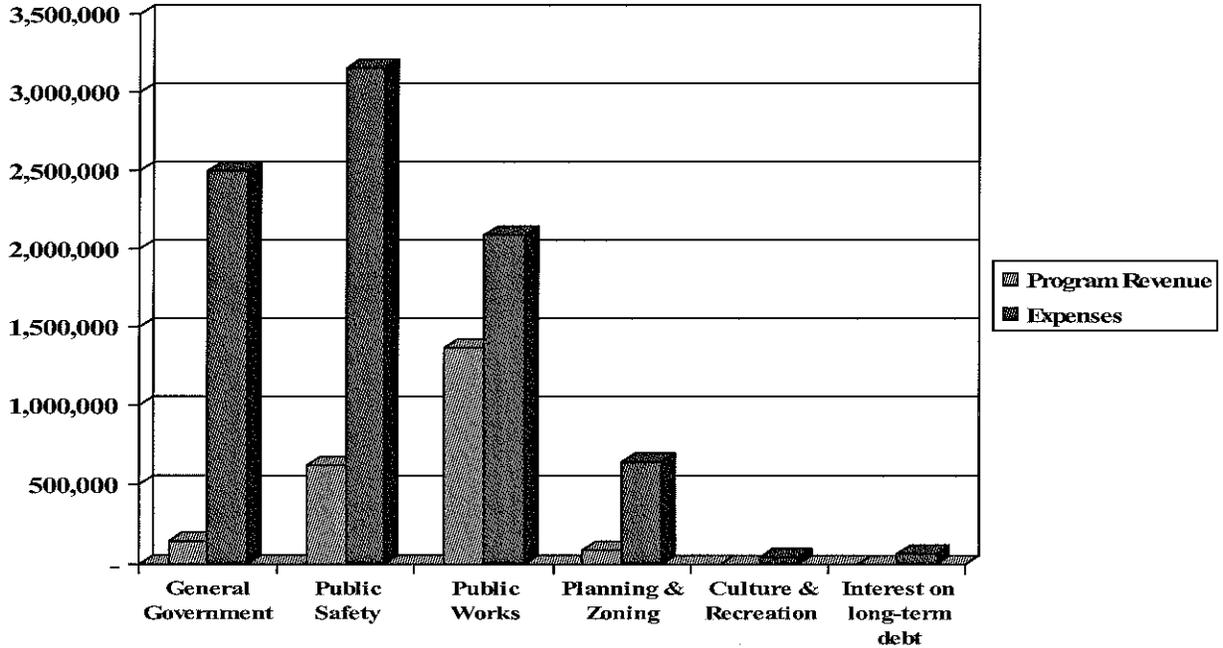
Governmental activities. Governmental activities decreased the Town of Front Royal, Virginia's net assets by \$2,497,776. These changes are presented in column one of the following table:

TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 446,182	\$ 17,656,514	\$ 18,102,696
Operating grants and contributions	1,704,613	-	1,704,613
Capital grants and Contributions	80,484	226,919	307,403
General revenues			
Property taxes	1,213,101	-	1,213,101
Other taxes	3,856,913	-	3,856,913
Grants and contributions not restricted	-	-	-
Other	160,006	173,241	333,247
Total revenues	7,461,299	18,056,674	25,517,973
Expenses			
General government	2,493,723	-	2,493,723
Public safety	3,150,426	-	3,150,426
Public works	2,086,799	-	2,086,799
Planning and zoning	652,296	-	652,296
Culture and recreation	45,142	-	45,142
Interest on long-term debt	69,567	-	69,567
Infrastructure depreciation	3,588,522	-	3,588,522
Electric	-	9,082,609	9,082,609
Water	-	2,328,499	2,328,499
Sewer	-	2,636,183	2,636,183
Refuse	-	739,132	739,132
Total expenses	12,086,475	14,786,423	26,872,898
Increase in net assets before transfers	(4,625,176)	3,270,251	(1,354,925)
Transfers	2,127,400	(2,127,400)	-
Increase (decrease) in net assets	(2,497,776)	1,142,851	(1,354,925)
Net assets – 7/1/04	86,147,403	42,262,590	128,409,993
Net assets – 6/30/05	\$ 83,649,627	\$ 43,405,441	\$ 127,055,068

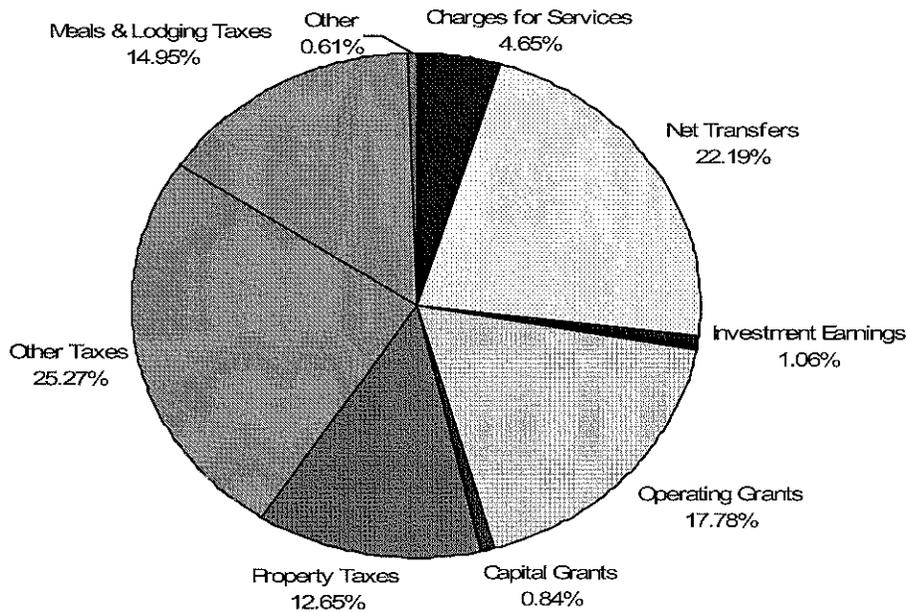
- Revenue from property taxes decreased by \$44,912 (3.6 percent) during the year.
- Operating grants for governmental activities amounted to \$1,704,613, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety and public works and engineering.
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

The following charts present a graphic representation of the Town's Governmental activities and the related revenue structure for fiscal year 2005.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



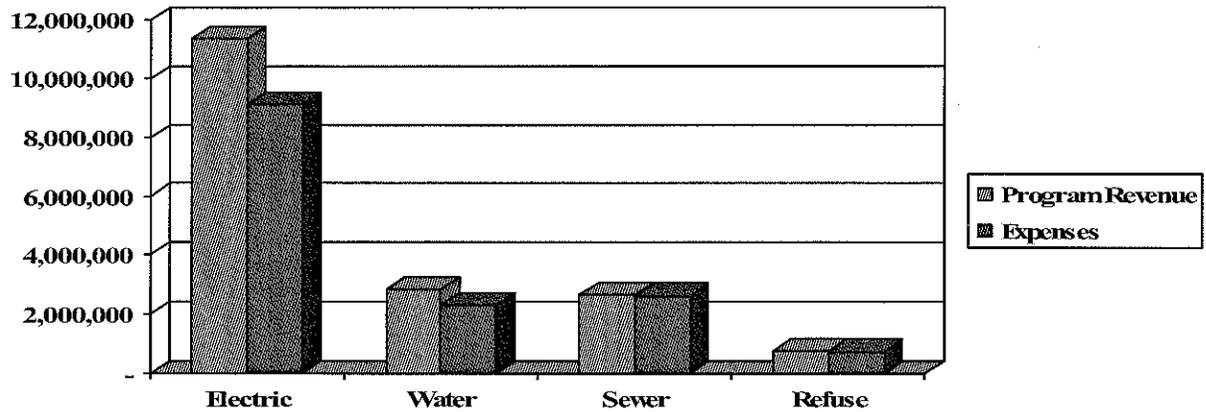
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



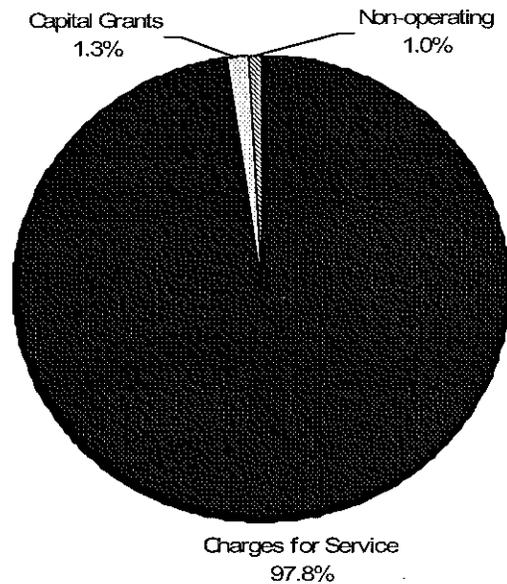
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia's net assets by \$1,142,851, accounting for all the growth in the town's net assets. Key elements of this increase are as follows.

- Charges for services for business-type activities increased by \$1,146,100. The electric system accounted for a significant portion of this increase, which resulted from a modest increase in demand as well as consumer price increases due to wholesale price increases.
- Capital contributions by developers are a source of water system expansion resulting in donated systems valued at \$226,919.
- Investment earnings increased by \$58,384 for business-type activities.

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



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 spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$5,602,878, an increase of \$176,689 in comparison with the prior year. More than half of this total amount (\$5,055,087) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$547,791 of which \$446,816 represents funds designated by Town Council for future system construction and for a variety of other restricted purposes (\$100,975).

The general fund is the chief operating fund of the Town of Front Royal, Virginia. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,996,494, while total fund balance reached \$4,544,285. 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. Unreserved fund balance represents 44.2 percent of total general fund expenditures, while total fund balance represents 50.3 percent of that same amount.

The fund balance of the Town of Front Royal, Virginia's general fund increased by \$70,705 during the current fiscal year. Key factors in this increase are as follows:

- Expenditures were in excess of revenues by 2,049,695.
- The general fund received its annual transfers from the proprietary funds. These net transfers of \$2,127,400 are used to subsidize the need for a property tax increase.

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 refuse functions at the end of the year amounted to \$29,728,743 and those for the electric function amounted to \$13,676,698. The total growth in net assets for all enterprise funds was \$1,142,851. 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 between the original budget and the final amended budget totaled \$185,372 and are noted as follows. These differences are attributed to a \$24,800 increase in appropriations as a result of increased need at the tourism office, a \$29,000 increase in fees for the town attorney, a \$35,000 increase in equipment maintenance needs, a \$23,928 increase for town council contractual needs, and a \$9,964 increase in public safety needs. It also included a \$74,070 increase in planning and zoning expenditures, a \$4,960 increase in town engineer needs, a \$230 increase in boards and commissions expenditures, a \$12,273 increase for additional community development costs, a \$17,233 decrease in the contingency reserve, and a \$11,600 decrease in expenditures for property code inspections.

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, 2005, amounts to \$113,705,709 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, roads, highways, and bridges.

The table below summarizes the capital assets of the Town at June 30, 2005.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (Net of Depreciation)			
	Governmental Activities	Business-type Activities	Total
Land	\$ 1,117,508	\$ 1,368,968	\$ 2,486,476
Construction in progress	77,927	-	77,927
Buildings and Improvements	2,552,435	4,025,611	6,578,046
Utility distribution systems	-	27,831,595	27,831,595
Vehicles	411,618	912,949	1,324,567
Machinery and Equipment	922,781	723,307	1,646,088
Infrastructure	73,761,010	-	73,761,010
Total	\$ 78,843,279	\$ 34,862,430	\$ 113,705,709

Additional information on the Town of Front Royal's capital assets can be found in note IV. E on pages 44 – 46 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 \$5,300,524. All of this amount comprises debt backed by the full faith and credit of the government even though most (88 percent) of it will be repaid from enterprise fund revenue.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (General Obligation Bonds)			
	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 643,906	\$ 4,656,618	\$ 5,300,524

The Town of Front Royal's total debt decreased by \$906,112 (15 percent) during the current fiscal year. The key factor in this decrease was the fact that no new debt was issued.

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.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$76,458,758 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 46 – 48 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town of Front Royal is currently 3.1 percent, which is less than a year ago.
- This compares favorably to the state's average unemployment rate of 3.4 percent and the national average rate of 4.8 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 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$3,996,494. Town of Front Royal has appropriated none of this amount for spending in the 2006 fiscal year budget. It also is available to obviate the need for the transfer of additional resources to the general fund from the electric fund.

The electric distribution operation's rates were increased for the 2004 budget year. This increase was the result of a new contract for the purchase of wholesale electric power. Unfortunately, the new contract brought to an end the extremely profitable rates that were negotiated five years ago. Consequently, the Town's wholesale rates increased almost 32 percent necessitating an increase in the retail rates. The Town Council has committed by ordinance to phase in annual increases of seven percent over three years in order to recover the increased cost.

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, 16 North Royal Avenue, P.O. Box 1560, Front Royal, Virginia 22630-1560.

FINANCIAL SECTION

PART II

TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,539,112	\$ 2,509,462	\$ 5,048,574
Investments	4,113,060	8,101,649	12,214,709
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	291,406	-	291,406
Accrued interest	1,300	2,450	3,750
Accounts	-	1,953,608	1,953,608
Other	34,891	18,971	53,862
Internal balances	(996,430)	996,430	-
Due from other governments	401,065	-	401,065
Inventories and other assets	76,363	665,757	742,120
Temporarily restricted assets			
Cash and cash equivalents	17,664	231,950	249,614
Deferred charges	-	133,584	133,584
Escrow deposit	-	16,600	16,600
Capital assets (net of accumulated depreciation)			
Land	1,117,508	1,368,968	2,486,476
Construction in progress	77,927	-	77,927
Buildings and improvements	2,552,435	4,025,611	6,578,046
Utility distribution systems	-	27,831,595	27,831,595
Vehicles	411,618	912,949	1,324,567
Machinery and equipment	922,781	723,307	1,646,088
Infrastructure	73,761,010	-	73,761,010
Total Assets	85,321,710	49,492,891	134,814,601
Liabilities			
Accounts payable	490,797	913,907	1,404,704
Cash advances	11,007	-	11,007
Accrued interest payable	-	47,600	47,600
Liabilities payable with restricted assets	14,004	200,128	214,132
Noncurrent liabilities			
Due within one year	75,421	774,862	850,283
Due in more than one year	1,080,854	4,150,953	5,231,807
Total Liabilities	1,672,083	6,087,450	7,759,533
Net Assets			
Invested in capital assets, net of related debt	78,199,373	39,531,599	117,730,972
Unrestricted	5,450,254	3,873,842	9,324,096
Total Net Assets	\$ 83,649,627	\$ 43,405,441	\$ 127,055,068

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, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 2,493,723	\$ 71,572	\$ -	\$ 80,484	\$ (2,341,667)	\$ -	\$ (2,341,667)
Public safety	3,150,426	235,282	386,638	-	(2,528,506)	-	(2,528,506)
Public works	2,086,799	45,371	1,317,975	-	(723,453)	-	(723,453)
Planning, zoning, and community development	652,296	93,957	-	-	(558,339)	-	(558,339)
Culture and recreation	45,142	-	-	-	(45,142)	-	(45,142)
Interest on long-term debt	69,567	-	-	-	(69,567)	-	(69,567)
Infrastructure depreciation - unallocated	3,588,522	-	-	-	(3,588,522)	-	(3,588,522)
Total governmental activities	12,086,475	446,182	1,704,613	80,484	(9,855,196)	-	(9,855,196)
Business-type activities							
Electric	9,082,609	11,346,761	-	-	-	2,264,152	2,264,152
Water	2,328,499	2,856,329	-	226,919	-	754,749	754,749
Sewer	2,636,183	2,674,149	-	-	-	37,966	37,966
Refuse	739,132	779,275	-	-	-	40,143	40,143
Total business-type activities	14,786,423	17,656,514	-	226,919	-	3,097,010	3,097,010
Total primary government	\$ 26,872,898	\$ 18,102,696	\$ 1,704,613	\$ 307,403	(9,855,196)	3,097,010	(6,758,186)
General Revenues							
Property taxes					1,213,101	-	1,213,101
Sales taxes					570,926	-	570,926
Business and occupational taxes					624,511	-	624,511
Franchise taxes					211,544	-	211,544
Consumer taxes					178,423	-	178,423
Alcoholic beverage taxes					16,317	-	16,317
Meals and lodging taxes					1,433,420	-	1,433,420
Virginia personal property tax reduction					262,457	-	262,457
Other general taxes					559,315	-	559,315
Unrestricted investment earnings					101,589	173,241	274,830
Gain on sale of capital assets and other recoveries					58,417	-	58,417
Transfers					2,127,400	(2,127,400)	-
Total general revenues and transfers					7,357,420	(1,954,159)	5,403,261
Change in net assets					(2,497,776)	1,142,851	(1,354,925)
Net assets - beginning					86,147,403	42,262,590	128,409,993
Net assets - ending					\$ 83,649,627	\$ 43,405,441	\$ 127,055,068

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

TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,165,604	\$ 1,373,508	\$ 2,539,112
Investments	4,113,060	-	4,113,060
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	247,384	44,022	291,406
Accrued interest	1,300	-	1,300
Other	34,891	-	34,891
Due from other governments	401,065	-	401,065
Inventories and other assets	76,363	-	76,363
Cash - restricted	17,664	-	17,664
Total Assets	6,057,331	1,417,530	7,474,861
Liabilities and Fund Balances			
Liabilities			
Accounts payable	404,773	1,981	406,754
Cash advances	-	11,007	11,007
Accrued liabilities	84,043	-	84,043
Deferred revenue	260,226	99,519	359,745
Interfund advances	750,000	246,430	996,430
Liabilities payable with restricted assets	14,004	-	14,004
Total Liabilities	1,513,046	358,937	1,871,983
Fund balances			
Reserved for			
Inventory	60,975	-	60,975
Restricted use	40,000	-	40,000
Encumbrances	446,816	-	446,816
Unreserved, reported in			
General fund	3,996,494	-	3,996,494
Special revenue funds	-	1,050,959	1,050,959
Capital projects funds	-	7,634	7,634
Total Fund Balances	4,544,285	1,058,593	5,602,878
Total Liabilities and Fund Balances	\$ 6,057,331	\$ 1,417,530	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	78,843,279
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	359,745
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,156,275)</u>
Net assets of governmental activities	<u>\$ 83,649,627</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, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Property	\$ 1,056,480	\$ -	\$ 204,704	\$ 1,261,184
Sales	570,926	-	-	570,926
Business and occupational	624,511	-	-	624,511
Franchise	211,544	-	-	211,544
Consumer	178,423	-	-	178,423
Vehicle licenses	236,441	-	-	236,441
Bank stock	166,904	-	-	166,904
Meals and lodging	1,151,349	-	282,071	1,433,420
Permits, fees, and licenses	93,957	-	-	93,957
Fines and forfeitures	219,713	-	-	219,713
Revenues from use of money & property	101,589	-	-	101,589
Charges for services	101,343	-	-	101,343
Miscellaneous	58,304	-	15,713	74,017
Recovered costs	-	-	15,569	15,569
Payment in lieu of taxes	84,251	-	-	84,251
Intergovernmental	2,135,590	-	-	2,135,590
Total revenues	<u>6,991,325</u>	<u>-</u>	<u>518,057</u>	<u>7,509,382</u>
Expenditures				
General government				
Legislative	205,523	-	-	205,523
Executive	1,165,197	-	-	1,165,197
Legal	246,472	-	-	246,472
Finance	670,026	-	-	670,026
Public safety				
Police	2,937,684	-	-	2,937,684
Fire protection	100,005	-	-	100,005
Planning, zoning, and community development	768,074	-	126,837	894,911
Engineering and public works	2,285,996	-	-	2,285,996
Parks and recreation	41,000	-	-	41,000
Nondepartmental	621,043	-	-	621,043
Debt Service				
Principal	-	144,742	-	144,742
Interest	-	69,567	-	69,567
Capital outlay	-	-	77,927	77,927
Total expenditures	<u>9,041,020</u>	<u>214,309</u>	<u>204,764</u>	<u>9,460,093</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,049,695)</u>	<u>(214,309)</u>	<u>313,293</u>	<u>(1,950,711)</u>
Other Financing Sources (Uses)				
Transfers in	2,127,400	214,309	7,000	2,348,709
Transfers (out)	(7,000)	-	(214,309)	(221,309)
Total other financing sources and uses	<u>2,120,400</u>	<u>214,309</u>	<u>(207,309)</u>	<u>2,127,400</u>
Net change in fund balances	70,705	-	105,984	176,689
Fund balances - beginning	<u>4,473,580</u>	<u>-</u>	<u>952,609</u>	<u>5,426,189</u>
Fund balances - ending	<u>\$ 4,544,285</u>	<u>\$ -</u>	<u>\$ 1,058,593</u>	<u>\$ 5,602,878</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, 2005**

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

Net change in fund balances - total governmental funds	\$ 176,689
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(2,788,342)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(48,083)
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.	144,742
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>17,218</u>
Change in net assets of governmental activities	<u><u>\$ (2,497,776)</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 (NON-GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
General property taxes	\$ 1,048,000	\$ 1,038,000	\$ 1,056,480	\$ 18,480
Other local taxes	2,964,000	2,964,000	3,224,349	260,349
Permits, fees, and licenses	83,150	83,150	93,957	10,807
Fines and forfeitures	160,000	160,000	219,713	59,713
Revenues from use of money & property	43,500	43,500	101,589	58,089
Charges for services	87,000	87,000	101,343	14,343
Miscellaneous	38,500	38,500	58,304	19,804
Recovered costs	50,000	50,000	-	(50,000)
Intergovernmental	2,110,722	2,130,666	2,135,590	4,924
Total revenues	6,584,872	6,594,816	6,991,325	396,509
Expenditures				
General Government				
Legislative	196,302	220,230	205,523	14,707
Executive	1,151,875	1,216,635	1,205,756	10,879
Legal	219,481	248,481	250,828	(2,347)
Finance	824,864	824,864	691,058	133,806
Total general government	2,392,522	2,510,210	2,353,165	157,045
Public Safety				
Police	2,893,365	2,903,309	2,942,424	(39,115)
Fire protection	70,000	70,000	100,005	(30,005)
Total public safety	2,963,365	2,973,309	3,042,429	(69,120)
Subtotal	5,355,887	5,483,519	5,395,594	87,925
Planning and zoning	401,517	476,490	846,189	(369,699)
Public works and engineering	2,270,145	2,270,145	2,584,010	(313,865)
Parks and recreation	41,000	41,000	41,000	-
Non-departmental	491,723	474,490	621,043	(146,553)
Total Expenditures	8,560,272	8,745,644	9,487,836	(742,192)
Excess (Deficiency) of Revenues over (under) Expenditures	(1,975,400)	(2,150,828)	(2,496,511)	(345,683)
Other Financing Sources (Uses)				
Transfers in	2,127,400	2,127,400	2,127,400	-
Transfers (out)	(152,000)	(152,000)	(7,000)	145,000
Total other financing sources (uses)	1,975,400	1,975,400	2,120,400	145,000
Net change in fund balances	-	(175,428)	(376,111)	(200,683)
Fund balances - beginning	4,473,580	4,473,580	4,473,580	-
Fund balances - ending	\$ 4,473,580	\$ 4,298,152	\$ 4,097,469	\$ (200,683)

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 603,910	\$ 2,461,609	\$ 952,776	\$ 2,152,853
Investments	6,226,231	3,471,506	1,547,205	-
Due from other funds	750,000	875,000	123,215	26,134
Interest receivable	200	200	2,250	2,250
Accounts receivable (net of allowance for uncollectibles)	1,333,251	1,379,844	276,338	285,631
Other receivables	8,327	11,631	1,090	1,223
Inventories	506,491	515,642	79,633	103,038
Total current assets	9,428,410	8,715,432	2,982,507	2,571,129
Noncurrent assets				
Restricted cash - cash equivalents	194,201	164,881	21,150	10,785
Deferred charges	-	-	71,474	83,600
Escrow deposit	-	-	-	-
Total noncurrent assets	194,201	164,881	92,624	94,385
Capital assets				
Land, buildings and structures	1,430,654	1,397,754	2,863,640	2,863,640
Utility distribution systems	6,972,560	6,869,892	18,857,949	18,524,453
Vehicles	827,511	827,511	320,283	325,400
Equipment	520,829	503,834	382,283	363,230
Less accumulated depreciation	(4,748,294)	(4,488,177)	(8,110,243)	(7,703,848)
Total capital assets (net of accumulated depreciation)	5,003,260	5,110,814	14,313,912	14,372,875
Total noncurrent assets	5,197,461	5,275,695	14,406,536	14,467,260
Total Assets	14,625,871	13,991,127	17,389,043	17,038,389
Liabilities				
Current liabilities				
Accounts payable	744,832	673,403	160,172	121,918
Accrued interest payable	-	-	23,800	26,700
General obligation bonds - current	-	-	387,431	380,685
Total current liabilities	744,832	673,403	571,403	529,303
Noncurrent liabilities				
Customer deposits payable	178,978	161,600	21,150	11,025
Compensated absences	25,363	45,118	106,536	87,326
General obligation bonds payable	-	-	1,940,878	2,328,309
Total noncurrent liabilities	204,341	206,718	2,068,564	2,426,660
Total Liabilities	949,173	880,121	2,639,967	2,955,963
Net Assets				
Invested in capital assets, net of related debt	5,003,261	5,110,814	16,648,496	16,326,775
Unrestricted	8,673,437	8,000,192	(1,899,420)	(2,244,349)
Total Net Assets	\$ 13,676,698	\$ 13,111,006	\$ 14,749,076	\$ 14,082,426

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Refuse	Refuse	Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 952,776	\$ 951,048	\$ -	\$ 159,711	\$ 2,509,462
Investments	107,117	-	221,096	-	8,101,649
Due from other funds	123,215	26,134	-	-	996,430
Interest receivable	-	-	-	-	2,450
Accounts receivable (net of allowance for uncollectibles)	254,087	265,034	89,932	89,995	1,953,608
Other receivables	9,554	1,926	-	203	18,971
Inventories	79,633	102,471	-	-	665,757
Total current assets	1,526,382	1,346,613	311,028	249,909	14,248,327
Noncurrent assets					
Restricted cash - cash equivalents	16,599	16,598	-	-	231,950
Deferred charges	62,110	73,236	-	-	133,584
Escrow deposit	16,600	33,200	-	-	16,600
	95,309	123,034	-	-	382,134
Capital assets					
Land, buildings and structures	4,061,137	4,061,137	-	-	8,355,431
Utility distribution systems	21,576,549	21,517,109	-	-	47,407,058
Vehicles	320,282	325,400	897,359	906,459	2,365,435
Equipment	493,834	489,209	452,040	449,445	1,848,986
Less accumulated depreciation	(11,507,148)	(10,851,614)	(748,795)	(675,447)	(25,114,480)
Total capital assets (net of accumulated depreciation)	14,944,654	15,541,241	600,604	680,457	34,862,430
Total noncurrent assets	15,039,963	15,664,275	600,604	680,457	35,244,564
Total Assets	16,566,345	17,010,888	911,632	930,366	49,492,891
Liabilities					
Current liabilities					
Accounts payable	1,314	21,352	7,589	3,497	913,907
Accrued interest payable	23,800	26,700	-	-	47,600
General obligation bonds - current	387,431	380,685	-	-	774,862
Total current liabilities	412,545	428,737	7,589	3,497	1,736,369
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	200,128
Compensated absences	107,808	86,813	29,490	24,740	269,197
General obligation bonds payable	1,940,878	2,328,309	-	-	3,881,756
Total noncurrent liabilities	2,048,686	2,415,122	29,490	24,740	4,351,081
Total Liabilities	2,461,231	2,843,859	37,079	28,237	6,087,450
Net Assets					
Invested in capital assets, net of related debt	17,279,238	17,495,141	600,604	680,457	39,531,599
Unrestricted	(3,174,124)	(3,328,112)	273,949	221,672	3,873,842
Total Net Assets	\$ 14,105,114	\$ 14,167,029	\$ 874,553	\$ 902,129	\$ 43,405,441

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 NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds			
	Electric	Electric	Water	Water
	Current Year	Prior Year	Current Year	Prior Year
Operating revenues				
Charges for sales and services				
Electric sales	\$ 11,296,186	\$ 10,853,093	\$ -	\$ -
Water and sewer sales	-	-	2,458,133	2,173,328
Installation and connection charges	38,643	37,227	383,880	269,953
Refuse service fees	-	-	-	-
Miscellaneous revenues	11,932	68,823	14,316	7,569
Total operating revenues	<u>11,346,761</u>	<u>10,959,143</u>	<u>2,856,329</u>	<u>2,450,850</u>
Operating expenses				
Personal service	577,054	651,533	676,253	637,841
Contractual service	299,968	335,833	103,374	98,690
Electric power	7,506,632	7,722,938	-	-
Depreciation	304,249	299,489	417,089	410,627
Other charges	533,551	592,394	1,146,891	655,486
Operating expenses capitalized	(146,801)	(436,470)	(112,154)	(61,898)
Total operating expenses	<u>9,074,653</u>	<u>9,165,717</u>	<u>2,231,453</u>	<u>1,740,746</u>
Operating income	<u>2,272,108</u>	<u>1,793,426</u>	<u>624,876</u>	<u>710,104</u>
Nonoperating revenues (expenses)				
Investment earnings	98,840	75,277	41,201	20,356
Interest expense	(7,956)	(7,945)	(91,130)	(104,571)
Bond issuance costs	-	-	(5,916)	(5,916)
Total nonoperating revenue (expenses)	<u>90,884</u>	<u>67,332</u>	<u>(55,845)</u>	<u>(90,131)</u>
Income before contributions and transfers	<u>2,362,992</u>	<u>1,860,758</u>	<u>569,031</u>	<u>619,973</u>
Transfers and contributions				
Capital contributions	-	-	226,919	316,543
Transfers in	-	-	-	-
Transfers (out)	(1,797,300)	(1,711,750)	(129,300)	(123,200)
Change in net assets	<u>565,692</u>	<u>149,008</u>	<u>666,650</u>	<u>813,316</u>
Total net assets - beginning of year	<u>13,111,006</u>	<u>12,961,998</u>	<u>14,082,426</u>	<u>13,269,110</u>
Total net assets - end of year	<u>\$ 13,676,698</u>	<u>\$ 13,111,006</u>	<u>\$ 14,749,076</u>	<u>\$ 14,082,426</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 NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Refuse	Refuse	Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year
Operating revenues					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$11,296,186
Water and sewer sales	2,388,442	2,124,866	-	-	4,846,575
Installation and connection charges	285,302	205,211	-	-	707,825
Refuse service fees	-	-	779,275	770,344	779,275
Miscellaneous revenues	405	-	-	-	26,653
Total operating revenues	<u>2,674,149</u>	<u>2,330,077</u>	<u>779,275</u>	<u>770,344</u>	<u>17,656,514</u>
Operating expenses					
Personal service	833,024	788,606	483,571	455,204	2,569,902
Contractual service	40,487	33,465	6,338	6,754	450,167
Electric power	-	-	-	-	7,506,632
Depreciation	661,295	659,821	82,448	82,846	1,465,081
Other charges	1,064,413	506,857	166,775	104,519	2,911,630
Operating expenses capitalized	(60,082)	(37,694)	-	-	(319,037)
Total operating expenses	<u>2,539,137</u>	<u>1,951,055</u>	<u>739,132</u>	<u>649,323</u>	<u>14,584,375</u>
Operating income	<u>135,012</u>	<u>379,022</u>	<u>40,143</u>	<u>121,021</u>	<u>3,072,139</u>
Nonoperating revenues (expenses)					
Investment earnings	29,419	16,809	3,781	2,415	173,241
Interest expense	(91,130)	(104,571)	-	-	(190,216)
Bond issuance costs	(5,916)	(5,916)	-	-	(11,832)
Total nonoperating revenue (expenses)	<u>(67,627)</u>	<u>(93,678)</u>	<u>3,781</u>	<u>2,415</u>	<u>(28,807)</u>
Income before contributions and transfers	<u>67,385</u>	<u>285,344</u>	<u>43,924</u>	<u>123,436</u>	<u>3,043,332</u>
Transfers and contributions					
Capital contributions	-	-	-	-	226,919
Transfers in	-	-	-	5,000	-
Transfers (out)	(129,300)	(123,000)	(71,500)	(68,100)	(2,127,400)
Change in net assets	(61,915)	162,344	(27,576)	60,336	1,142,851
Total net assets - beginning of year	<u>14,167,029</u>	<u>14,004,685</u>	<u>902,129</u>	<u>841,793</u>	<u>42,262,590</u>
Total net assets - end of year	<u>\$14,105,114</u>	<u>\$14,167,029</u>	<u>\$ 874,553</u>	<u>\$ 902,129</u>	<u>\$43,405,441</u>

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE 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 generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the more significant policies is presented to assist the reader in interpreting the financial statements and other data contained in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

The Town is an incorporated municipal government governed by an elected mayor and six-member council. As required by generally accepted accounting principles, these financial statements present the Town and its 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 will by the primary government, 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 there are no material component units requiring inclusion reporting.

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

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

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and road, and general obligations debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

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 and fiduciary 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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 fixed assets or construction of major capital projects not being financed by proprietary or non-expendable trust funds.

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 *refuse fund* accounts for the activities of the Town's refuse collection and processing operation.

Private-sector standards of accounting and financial reporting issued prior to December 2, 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 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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 nonoperating 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.

D. Assets, Liabilities and Net Assets or Equity

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 are stated at fair value, which approximates cost due to the short-term nature of the investment maturities.

2. Receivables and Payables

Activity 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. The allowance amounted to \$788,971 on June 30, 2005 and is composed of the following:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 1,118
Enterprise Funds	787,853
	<u>\$ 788,971</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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 taxes are levied annually on January 1 and are due on December 5. Personal property taxes are levied annually on January 1 and are due December 5 with proration of personal property taxes 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 purchased. 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.

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.

Surety Bonds - Cash held in general fund for performance guarantees are held as a restricted cash asset.

5. 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 fixed 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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

In accordance with GASB 34, infrastructure has been capitalized retroactively effectively July 1, 2002. A summary of capitalized infrastructure is as follows:

Asset Classification	Asset Value			
	Current Replacement	Deflated Current Replacement	7/1/2002 Accumulated Depreciation	7/1/2002 Net Book Value
Roads	\$ 117,918,554	\$ 98,686,367	\$ 21,324,664	\$ 77,361,703
Sidewalks	11,019,780	7,158,924	3,340,831	3,818,093
Bridges	2,342,111	758,272	335,068	423,204
Road Land	21,508,812	2,846,581	-	2,846,581
	<u>\$ 152,789,257</u>	<u>\$ 109,450,144</u>	<u>\$ 25,000,563</u>	<u>\$ 84,449,581</u>

Roads and road land value were determined utilizing VDOT provided replacement cost and related valuation methods and information. Sidewalks were valued utilizing measured information and cost data provided by the Town's public works department. Bridges were valued by inspection reports and VDOT's valuation methods.

6. 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

7. 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 an other 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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. 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 has been reclassified to be consistent with current year's presentation.

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 a 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 \$1,156,275 are as follows:

Description	Amount
Bonds/notes payable	\$ 643,906
Compensated absences	512,369
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$ 1,156,275</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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 a 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 this \$2,788,342 difference is as follows:

Description	Amount
Capital outlay	\$ 1,060,006
Depreciation expense	<u>(3,848,348)</u>
Net adjustment to increase <i>net changes in fund balances -total governmental funds</i> to arrive at changes in net assets of governmental activities	<u>\$ (2,788,342)</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 \$144,742 difference are as follows:

Description	Amount
Principal debt retirements of bonded/note debt	\$ 144,742
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	<u>\$ 144,742</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted and maintained on the modified accrual basis adjusted for encumbrances. Annual appropriated budgets are adopted for all governmental funds. Annual appropriations lapse at fiscal year-end to the extent they have not been expended or lawfully encumbered. Budgets are not adopted for debt service funds since budgetary control is maintained through the general fund. Budgets for enterprise funds serve as a spending guide for the Town and do not constitute legally binding limitations.

Each year all departments of the government submit requests for appropriation to the Town Manager and Director of Finance so that a budget may be prepared. The budget is prepared by fund, department, activity, and expenditure and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Before April 1, the proposed budget is presented to Town Council for review. The Town Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Town Manager or the revenue estimates must be changes by an affirmative vote of a majority of the Town Council.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Expenditures may not legally exceed budgeted appropriations at the department level. The Town Manager has authority to amend or transfer appropriations within the department level. During the year ended June 30, 2005, general fund net supplemental appropriations totaling \$185,372 were authorized by Town Council.

B. Budgeted (Non-GAAP)/GAAP Reconciliation

The following is a reconciliation of actual general fund expenditures and fund balance presented on the budgetary basis to the actual general fund expenditures and fund balance in accordance with generally accepted accounting principles (GAAP):

Description	Expenditures	Fund Balance
Budgetary basis	\$ 9,494,836	\$ 4,097,469
Encumbrances at June 30, 2005	(446,816)	446,816
GAAP basis	<u>\$ 9,048,020</u>	<u>\$ 4,544,285</u>

C. Excess of Expenditures over Appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations in the following general fund departments:

Department	Excess Expenditures and Encumbrances Over Appropriations
Legal	\$ 2,347
Planning, zoning, and community development	369,699
Police	39,115
Fire protection	30,005
Engineering and public works	313,865
Non-departmental	146,553

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

D. Deficit Fund Equity

At June 30, 2005 the Special Revenue Funds had a deficit fund balance as noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 10,307
Economic Development	7,335

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Deposits

As of June 30, 2005, the carrying amount of the Town's deposits with banks and savings institutions was \$933,396 and the bank balance was \$892,223. All of the Town's deposits are covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans. The funds deposited in accordance with the requirements of the Act are considered fully secured and thus are not categorized below as to 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).

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2005, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	1-5 Years
SunTrust US Government MM Fund	\$ 363,578	\$ 363,578	\$ -
Commercial Paper	1,978,868	1,978,868	-
Cash equivalents - US Government	3,228,781	3,228,781	-
Government and agency bonds	6,857,036	4,617,278	2,239,758
Corporate obligations	150,024	150,024	-
Repurchase agreements	107,272	107,272	-
LGIP Pool	2,496,140	2,496,140	-
SunTrust US Government Fund	1,385,307	1,385,307	-
Total	\$ 16,567,006	\$ 14,327,248	\$ 2,239,758

Investment rate risk. In accordance with its investment policy, the government manages its exposure to declines in fair value by limiting the average maturity of its investment portfolio.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments of the government have a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the government's brokerage firm or outside custodial which is also the counterparty for these particular securities.

Credit risk. As of June 30, 2005, the Town's investment in the State Treasurer's investment pool was rated AAAM by Standard & Poor's. The Town's investments in commercial paper were rated A-1+ by Standard & Poor's and P-1 by Moody's Investors Service. The Town's investments in corporate bonds were rated AA- by Standard & Poor's and AA1 by Moody's Investors Service.

Concentration of credit risk. The Town's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the Town's total investments.

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

Footnote Classification	Combined Balance Sheet Classifications			
	Total	Cash and Equivalents	Cash Advances	Investments
Petty Cash	\$ 1,488	\$ 1,488	\$ -	\$ -
Bank Deposits	933,396	944,403	(11,007)	-
Investments	16,567,006	4,352,297	-	12,214,709
Total	\$ 17,501,890	\$ 5,298,188	\$ (11,007)	\$ 12,214,709

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2005. 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, 2005, the amount of unbilled service recorded was \$990,001.

C. Receivables

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

	General	Electric	Water	Sewer	Refuse	Nonmajor	Total
Receivables:							
Delinquent taxes	\$ 248,502	\$ -	\$ -	\$ -	\$ -	\$ 44,022	\$ 292,524
Accounts	-	1,265,218	218,091	177,238	77,512	-	1,738,059
Interest	1,300	200	2,250	-	-	-	3,750
Intergovernmental	401,065	-	-	-	-	-	401,065
Unbilled	-	670,085	147,475	131,156	41,285	-	990,001
Other	34,891	11,735	5,056	15,388	193	-	67,263
Less: allowance for uncollectibles	(1,118)	(605,460)	(93,194)	(60,141)	(29,058)	-	(788,971)
Net total receivables	\$ 684,640	\$ 1,341,778	\$ 279,678	\$ 263,641	\$ 89,932	\$ 44,022	\$ 2,703,691

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 deferred revenue reported in the governmental funds was \$359,745, representing delinquent property taxes in the general fund.

D. Due from Other Governments

At June 30, 2005 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Highway Maintenance	\$ 329,494
State Programs	24,448
Warren County, Virginia - Sales Tax	47,123
	<u>\$ 401,065</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

E. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 784,463	\$ 333,045	\$ -	\$ 1,117,508
Construction in progress	-	77,927	-	77,927
Total capital assets, not being depreciated	784,463	410,972	-	1,195,435
Capital assets, being depreciated				
Buildings and improvements	3,250,981	94,465		3,345,446
Vehicles	1,222,548	196,462	(129,222)	1,289,788
Equipment	2,322,597	281,112	(33,128)	2,570,581
Infrastructure	109,450,144	76,995	-	109,527,139
Total capital assets being depreciated	116,246,270	649,034	(162,350)	116,732,954
Less accumulated depreciation for				
Buildings and improvements	(706,367)	(86,644)	-	(793,011)
Vehicles	(888,528)	(118,864)	129,222	(878,170)
Equipment	(1,626,610)	(54,318)	33,128	(1,647,800)
Infrastructure	(32,177,607)	(3,588,522)	-	(35,766,129)
Total accumulated depreciation	(35,399,112)	(3,848,348)	162,350	(39,085,110)
Net capital assets being depreciated	80,847,158	(3,199,314)	-	77,647,844
Governmental capital assets, net	\$ 81,631,621	\$ (2,788,342)	\$ -	\$ 78,843,279

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1,336,068	\$ 32,900	\$ -	\$ 1,368,968
Total capital assets not being depreciated	1,336,068	32,900	-	1,368,968
Capital assets, being depreciated				
Buildings and improvements	6,986,463	-	-	6,986,463
Utility Distribution Systems	46,911,454	545,956	(50,352)	47,407,058
Vehicles	2,384,770	-	(19,335)	2,365,435
Equipment	1,805,718	43,268	-	1,848,986
Total capital assets, being depreciated	58,088,405	589,224	(69,687)	58,607,942
Less accumulated depreciation for				
Buildings and improvements	(2,761,423)	(199,429)	-	(2,960,852)
Utility Distribution Systems	(18,518,100)	(1,107,715)	50,352	(19,575,463)
Vehicles	(1,377,212)	(94,609)	19,335	(1,452,486)
Equipment	(1,062,351)	(63,328)	-	(1,125,679)
Total accumulated depreciation	(23,719,086)	(1,465,081)	69,687	(25,114,480)
Net capital assets being depreciated	34,369,319	(875,857)	-	33,493,462
Business-type activities	\$ 35,705,387	\$ (842,957)	\$ -	\$ 34,862,430

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Activity	Depreciation
Governmental activities:	
General government	\$ 69,532
Public safety	92,347
Public works	69,495
Planning, zoning, and community development	27,206
Culture and recreation	1,246
Infrastructure depreciation	3,588,522
Total depreciation expense - governmental activities	<u>\$ 3,848,348</u>
Business-type activities:	
Electric	\$ 304,249
Water	417,089
Sewer	661,295
Refuse	82,448
Total depreciation expense - business-type activities	<u>\$ 1,465,081</u>

F. Interfund Advances/Transfers

The composition and activity of interfund advances/transfers for 2005 is as follows:

Advanced to	Advanced/Paid	Amount
General Fund	Electric	\$ 750,000
Special Revenue	Water	123,215
Special Revenue	Sewer	123,215
		<u>\$ 996,430</u>

G. Long-Term Debt

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 THE FINANCIAL STATEMENTS

General obligation bonds and notes outstanding at June 30, 2005 are as follows:

\$5,655,523 2002 series general obligation refunding bond, issued November 14, 2002 due in increasing annual maturities starting with \$135,131 in 2002 and increasing to \$502,674 in 2013, with interest at 3.22%.	\$ 4,431,618
\$135,000, 1997 note agreement issued with BB&T bank on July 29, 1997 interest due in monthly installments at 5.45% due in full January 29, 2006.	8,072
\$2,275,000, 1998 series public improvement bonds, issued June 30, 1998, due in annual installments of \$547,966 through June 30, 2001, and \$97,031 from June 30, 2002 through June 30, 2013 including interest at 4.27% and 4.67%.	635,834
\$1,600,000, 1998 series general fund refunding bonds, issued December 15, 1998 due in increasing annual maturities starting with \$165,000 in 1999 and increasing to \$225,000 in 2006, with interest at 3.10% to 4.00%.	<u>225,000</u>
Total General Obligation Debt	<u><u>\$ 5,300,524</u></u>

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
2006	\$ 75,421	\$ 29,796	\$ 774,862	\$ 151,698
2007	70,495	26,537	553,467	124,993
2008	73,787	23,244	557,189	107,171
2009	77,233	19,799	561,030	89,230
2010	80,839	19,192	564,996	71,164
Thereafter	266,131	25,211	1,645,074	103,804
Total	<u>\$ 643,906</u>	<u>\$ 143,779</u>	<u>\$ 4,656,618</u>	<u>\$ 648,060</u>

The legal debt limit mandated by the Commonwealth of Virginia is \$76,458,758.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

The Town issued \$5,655,523 of 2002 series of general obligation refunding bonds to provide resources to purchase U.S. Governmental State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,467,202 of general obligation water and sewer bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$104,200. This amount is being amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$393,867 and resulted in an economic gain of \$358,124.

Long-term liability activity for the year ended June 30, 2005 was as follows:

	June 30, 2004	Additions	Retirements	June 30, 2005	One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 761,405	\$ -	\$ (125,571)	\$ 635,834	\$ 67,349
Demand note	27,243	-	(19,171)	8,072	8,072
Compensated absences	529,587	-	(17,218)	512,369	-
Governmental activity					
Long-term liabilities	\$ 1,318,235	\$ -	\$ (161,960)	\$ 1,156,275	\$ 75,421
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 5,417,988	\$ -	\$ (761,370)	\$ 4,656,618	\$ 774,862
Compensated absences	243,997	25,200	-	269,197	-
Business-type activity					
Long-term liabilities	\$ 5,661,985	\$ 25,200	\$ (761,370)	\$ 4,925,815	\$ 774,862

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ -	\$ 512,369
Electric	-	25,363
Water	-	106,536
Sewer	-	107,808
Refuse	-	29,490

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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 2005 the Town paid premiums of approximately \$212,988 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 2005, the Town paid contributions of approximately \$235,658 to the VMLP.

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

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.

Contingent Liability: Federal programs in which the Town participates were audited in accordance with the provisions of the Federal Program. Pursuant to the provisions of A-133, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of non-compliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of grant program expenditures would not have a material effect on the Town's financial condition.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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%	<u>\$ 3,300,000</u>
Town of Front Royal support agreement obligation – 20%	<u>\$ 660,000</u>

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
2006	\$ 225,000	\$ 114,431	\$ 45,000	22,886	\$ 67,886
2007	235,000	106,174	47,000	21,235	68,235
2008	240,000	97,648	48,000	19,530	67,530
2009	250,000	88,852	50,000	17,770	67,770
2010	260,000	79,697	52,000	15,939	67,939
Thereafter	2,090,000	285,168	418,000	57,034	475,034
	<u>\$ 3,300,000</u>	<u>\$ 771,970</u>	<u>\$ 660,000</u>	<u>\$ 154,394</u>	<u>\$ 814,394</u>

D. Other Post-employment Benefits

In addition to providing pension benefits, the Town Personnel Policies allow the Town to provide certain health care insurance benefits for retired public employees. Substantially all of the Town’s public employees may become eligible for those benefits at varying levels dependent on years of service and employment. The cost of retiree health care insurance benefits is recognized as an expenditure as premiums are paid. For 2005 those costs totaled approximately \$21,000 covering approximately 30 employees.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

E. Defined Benefit Pension Plan

Plan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for retirement benefits.

In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the 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 that report may be obtained by writing the System at P. O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The Town assumed this 5% member contribution. 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 statute and approved by the VRS Board of Trustees. The Town's total contribution rate (employee and employer) for the fiscal year ended 2005 was 13.5% of annual covered payroll.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Annual Pension Cost

For 2005, the Town's annual pension cost of \$694,382 was equal to the Town's and employee's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases that range between 4.25% and 6.10% per year, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method was determined using 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 is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Six-year historical trend information for annual premium costs is as follows:

Fiscal Year Ended	Annual	% APC	Net Pension
2005	\$ 694,382	100	None
2004	501,074	100	None
2003	484,692	100	None
2002	559,531	100	None
2001	544,617	100	None
2000	673,530	100	None

Required Supplementary Information

Five-year historical trend information about the funding process is presented below as required supplementary information. This information is intended to help users assess the System's funding status on an on-going concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
June 30, 2004	\$ 17,485,601	\$ 19,325,038	\$ 1,839,437	90.5%	\$ 4,929,451	37.32%
June 30, 2003	17,324,257	17,999,823	675,566	96.25%	4,810,582	14.04%
June 30, 2002	17,131,301	16,906,356	(224,945)	101.33%	4,487,067	-5.01%
June 30, 2001	16,438,001	15,262,536	(1,175,465)	107.70%	4,232,311	-27.77%
June 30, 2000	14,924,630	14,187,744	(736,886)	105.19%	4,121,418	-17.88%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

F. 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
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 718,000	\$ 708,000	\$ 752,634	\$ 44,634
Delinquent taxes, including penalties	18,550	18,550	16,591	(1,959)
Personal property taxes				
Current taxes, including penalties	275,000	275,000	267,011	(7,989)
Delinquent taxes, including penalties	-	-	-	-
Machinery and tools taxes				
Current taxes, including penalties	-	-	4,524	4,524
Mobile home taxes				
Current taxes, including penalties	-	-	210	210
Public service corporation taxes	20,000	20,000	-	(20,000)
Interest on delinquent taxes	16,450	16,450	15,510	(940)
Total General Property Taxes	<u>1,048,000</u>	<u>1,038,000</u>	<u>1,056,480</u>	<u>18,480</u>
Other Local Taxes				
Warren County sales tax	490,000	490,000	570,926	80,926
Business and occupational taxes and penalties	561,000	561,000	624,511	63,511
Franchise taxes	185,000	185,000	211,544	26,544
Consumer Taxes - electric deregulation	180,000	180,000	178,423	(1,577)
Vehicle licenses	238,000	238,000	236,441	(1,559)
Bank stock taxes	150,000	150,000	166,904	16,904
Lodging taxes	260,000	260,000	284,494	24,494
Meal taxes	840,000	840,000	866,855	26,855
Payment in lieu of taxes	60,000	60,000	84,251	24,251
Total Other Local Taxes	<u>2,964,000</u>	<u>2,964,000</u>	<u>3,224,349</u>	<u>260,349</u>
Permits, Fees and Licenses				
Zoning income	20,000	20,000	50,955	30,955
Building maintenance fees	15,000	15,000	11,250	(3,750)
Public ROW use fees	48,000	48,000	29,802	(18,198)
Sign permits	150	150	1,950	1,800
Total Permits, Fees and Licenses	<u>83,150</u>	<u>83,150</u>	<u>93,957</u>	<u>10,807</u>
Fines and Forfeitures				
Town Prosecutions	56,000	56,000	68,033	12,033
Fines and Forfeitures - county	59,200	59,200	125,996	66,796
Fines and Forfeitures - town	44,800	44,800	25,684	(19,116)
Total Fines and Forfeitures	<u>160,000</u>	<u>160,000</u>	<u>219,713</u>	<u>59,713</u>
Revenues from Use of Money and Property				
Interest on bank deposits	36,500	36,500	89,606	53,106
Interest on accounts receivable	1,000	1,000	5,971	4,971
Rental - general property	-	-	12	12
Rental - Adelpia property	6,000	6,000	6,000	-
Total Revenues from Use of Money and Property	<u>\$ 43,500</u>	<u>\$ 43,500</u>	<u>\$ 101,589</u>	<u>\$ 58,089</u>

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND**

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Charges for Services				
Curb and gutter charges	\$ 30,000	\$ 30,000	\$ 47,274	\$ 17,274
Street & walk assessment	2,000	2,000	(1,903)	(3,903)
Credit card fees	-	-	2,457	2,457
Sales at Visitors' Center	54,000	54,000	51,713	(2,287)
Sales of publications	1,000	1,000	1,802	802
Total Charges for Services	<u>87,000</u>	<u>87,000</u>	<u>101,343</u>	<u>14,343</u>
Miscellaneous Revenue				
Miscellaneous	38,500	38,500	58,304	19,804
Recovered Costs				
Warren County Fire Department	50,000	50,000	-	(50,000)
Intergovernmental				
ABC profits	8,000	8,000	7,967	(33)
Wine tax distribution	9,000	9,000	8,350	(650)
Rolling stock tax	12,000	12,000	12,584	584
Virginia personal property tax reduction	275,000	275,000	262,457	(12,543)
Rental tax vehicles	40,000	40,000	59,135	19,135
State aid for police and fire	330,000	330,000	386,638	56,638
Highway maintenance	1,325,000	1,325,000	1,317,975	(7,025)
Grants	111,722	131,666	80,484	(51,182)
Total Intergovernmental	<u>2,110,722</u>	<u>2,130,666</u>	<u>2,135,590</u>	<u>4,924</u>
Total General Fund Revenues	<u>6,584,872</u>	<u>6,594,816</u>	<u>6,991,325</u>	<u>396,509</u>
Other Financing Sources				
Transfers from other funds	2,127,400	2,127,400	2,127,400	-
Total Other Financing Sources	<u>2,127,400</u>	<u>2,127,400</u>	<u>2,127,400</u>	<u>-</u>
Total General Fund Revenues and Other Financing Sources	<u>\$ 8,712,272</u>	<u>\$ 8,722,216</u>	<u>\$ 9,118,725</u>	<u>\$ 396,509</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2005**

	Revised Budget	Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance Positive (Negative)
Legislative					
Town Council					
Personal service	\$ 53,301	\$ -	\$ 53,301	\$ 53,301	\$ -
Contractual service	56,428	-	60,098	60,098	(3,670)
Materials and supplies	600	-	740	740	(140)
Travel and communications	15,300	-	24,046	24,046	(8,746)
Capital outlays	3,900	-	3,687	3,687	213
Total Town Council	129,529	-	141,872	141,872	(12,343)
Clerk of Council					
Personal service	74,701	-	47,679	47,679	27,022
Contractual service	7,500	-	8,715	8,715	(1,215)
Materials and supplies	2,800	-	2,399	2,399	401
Travel and communications	5,400	-	4,574	4,574	826
Dues and memberships	300	-	284	284	16
Total Clerk of Council	90,701	-	63,651	63,651	27,050
Total Legislative	220,230	-	205,523	205,523	14,707
Executive					
Town Manager					
Personal service	133,955	-	158,340	158,340	(24,385)
Contractual service	14,000	-	22,904	22,904	(8,904)
Materials and supplies	4,550	-	2,425	2,425	2,125
Travel and communications	11,074	-	7,202	7,202	3,872
Dues and memberships	1,400	-	245	245	1,155
Capital outlays	250	-	200	200	50
Total Town Manager	165,229	-	191,316	191,316	(26,087)
Management Services					
Personal service	94,637	-	112,787	112,787	(18,150)
Contractual service	36,300	-	28,668	28,668	7,632
Materials and supplies	3,700	-	6,184	6,184	(2,484)
Travel and communications	3,700	-	1,964	1,964	1,736
Dues and memberships	900	-	520	520	380
Total Management Services	139,237	-	150,123	150,123	(10,886)
Office of the Town Engineer					
Personal service	64,742	-	63,424	63,424	1,318
Contractual service	6,750	-	3,271	3,271	3,479
Materials and supplies	5,950	-	3,591	3,591	2,359
Travel and communications	3,250	-	2,511	2,511	739
Dues and memberships	400	-	287	287	113
Capital outlays	4,960	-	4,960	4,960	-
Total Office of the Town Engineer	86,052	-	78,044	78,044	8,008
Auto/Motorpool					
Personal service	252,304	-	235,393	235,393	16,911
Contractual service	(157,000)	-	(156,361)	(156,361)	(639)
Materials and supplies	227,505	4,250	207,357	211,607	15,898
Travel and communications	4,200	-	3,255	3,255	945
Utilities	3,000	-	1,285	1,285	1,715
Capital outlays	38,995	-	38,995	38,995	-
Total Auto/Motorpool	369,004	4,250	329,924	334,174	34,830
Office of Information Technology					
Contractual service	45,500	-	43,628	43,628	1,872
Capital outlays	74,500	22,209	71,064	93,273	(18,773)
Total Office of Information Technology	\$ 120,000	\$ 22,209	\$ 114,692	\$ 136,901	\$ (16,901)

SCHEDULE 2
(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2005**

	Revised Budget	Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance Positive (Negative)
Office of Tourism					
Personal service	\$ 82,463	\$ -	\$ 90,594	\$ 90,594	\$ (8,131)
Contractual service	129,311	12,000	75,555	87,555	41,756
Materials and supplies	39,350	-	41,413	41,413	(2,063)
Utilities	120	-	108	108	12
Travel and communications	14,080	-	16,520	16,520	(2,440)
Dues and memberships	2,000	-	1,890	1,890	110
Contributions to other entities	3,500	-	4,240	4,240	(740)
Capital outlays	66,289	2,100	70,778	72,878	(6,589)
Total Office of Tourism	337,113	14,100	301,098	315,198	21,915
Board of Elections					
Contractual service	-	-	-	-	-
Total Executive	1,216,635	40,559	1,165,197	1,205,756	10,879
Legal					
Town Attorney					
Personal service	156,181	-	156,037	156,037	144
Contractual service	71,330	-	71,028	71,028	302
Materials and supplies	9,200	-	7,631	7,631	1,569
Travel and communications	7,770	-	7,291	7,291	479
Dues and memberships	1,000	-	905	905	95
Capital outlays	3,000	4,356	3,580	7,936	(4,936)
Total Legal	248,481	4,356	246,472	250,828	(2,347)
Finance					
Finance Department					
Personal service	593,774	-	464,390	464,390	129,384
Contractual service	101,150	6,000	87,183	93,183	7,967
Materials and supplies	21,700	-	17,333	17,333	4,367
Travel and communications	60,685	2,597	52,373	54,970	5,715
Dues and memberships	385	-	369	369	16
Capital outlays	47,170	12,435	48,378	60,813	(13,643)
Total Finance Department	824,864	21,032	670,026	691,058	133,806
Total General Government	2,510,210	65,947	2,287,218	2,353,165	157,045
Planning, Zoning and Community Development					
Planning and Zoning					
Personal service	173,094	-	168,184	168,184	4,910
Contractual service	142,750	69,737	26,260	95,997	46,753
Materials and supplies	2,470	-	2,301	2,301	169
Travel and communications	4,900	-	4,577	4,577	323
Dues and memberships	450	-	374	374	76
Capital outlays	3,000	-	7,787	7,787	(4,787)
Total Planning and Zoning	326,664	69,737	209,483	279,220	47,444
Property Maintenance Inspection					
Personal service	52,468	-	34,256	34,256	18,212
Contractual service	-	-	8	8	(8)
Materials and supplies	1,100	-	903	903	197
Travel and communications	1,550	-	1,456	1,456	94
Total Property Maintenance	55,118	-	36,623	36,623	18,495
Boards and Commissions					
Contractual service	13,225	-	12,868	12,868	357
Materials and supplies	(785)	-	(856)	(856)	71
Travel and communications	2,290	-	2,242	2,242	48
Dues and memberships	200	-	140	140	60
Joint operations	7,220	-	7,216	7,216	4
Total Boards and Commissions	22,150	-	21,610	21,610	540
Economic Development					
Contractual service	12,273	8,378	339,667	348,045	(335,772)
Contributions to other entities	60,285	-	159,691	159,691	(99,406)
Capital outlays	-	-	1,000	1,000	(1,000)
Total Economic Development	72,558	8,378	500,358	508,736	(436,178)
Total Planning, Zoning and Community Development	\$ 476,490	\$ 78,115	\$ 768,074	\$ 846,189	\$ (369,699)

SCHEDULE 2
(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2005**

	Revised Budget	Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance Positive (Negative)
Police					
Police Department					
Personal service	\$ 2,508,479	\$ -	\$ 2,535,695	\$ 2,535,695	\$ (27,216)
Contractual service	46,470	-	45,965	45,965	505
Materials and supplies	166,486	3,725	161,949	165,674	812
Travel and communications	61,214	-	56,948	56,948	4,266
Joint operations	19,560	-	19,484	19,484	76
Capital outlays	101,100	1,015	117,643	118,658	(17,558)
Total Police Department	<u>2,903,309</u>	<u>4,740</u>	<u>2,937,684</u>	<u>2,942,424</u>	<u>(39,115)</u>
Fire Protection					
Fire Department					
Personal service	-	-	52,941	52,941	(52,941)
Materials and supplies	70,000	-	47,064	47,064	22,936
Total Fire Department	<u>70,000</u>	<u>-</u>	<u>100,005</u>	<u>100,005</u>	<u>(30,005)</u>
Total Public Safety	<u>2,973,309</u>	<u>4,740</u>	<u>3,037,689</u>	<u>3,042,429</u>	<u>(69,120)</u>
Engineering and Public Works					
Engineering					
Personal service	109,756	-	86,225	86,225	23,531
Contractual service	4,055	5,731	18,844	24,575	(20,520)
Travel and communications	5,375	-	2,009	2,009	3,366
Dues and memberships	300	-	147	147	153
Materials and supplies	9,920	-	6,479	6,479	3,441
Capital outlays	3,000	967	2,189	3,156	(156)
Total Engineering	<u>132,406</u>	<u>6,698</u>	<u>115,893</u>	<u>122,591</u>	<u>9,815</u>
Streets and Sidewalks					
Personal service	825,504	-	746,099	746,099	79,405
Contractual service	95,305	9,531	245,002	254,533	(159,228)
Travel and communications	3,007	-	8,782	8,782	(5,775)
Utilities	45,000	-	24,316	24,316	20,684
Dues and memberships	300	-	-	-	300
Materials and supplies	490,763	2,080	312,667	314,747	176,016
Capital outlays	410,950	274,783	428,265	703,048	(292,098)
Total Streets and Sidewalks	<u>1,870,829</u>	<u>286,394</u>	<u>1,765,131</u>	<u>2,051,525</u>	<u>(180,696)</u>
General Properties					
Personal service	44,972	-	42,200	42,200	2,772
Contractual service	33,465	-	29,256	29,256	4,209
Materials and supplies	33,145	-	30,584	30,584	2,561
Travel and communications	2,600	-	2,711	2,711	(111)
Utilities	44,100	-	45,799	45,799	(1,699)
Capital outlays	23,290	-	198,700	198,700	(175,410)
Total General Properties	<u>181,572</u>	<u>-</u>	<u>349,250</u>	<u>349,250</u>	<u>(167,678)</u>
Horticulture					
Personal service	54,708	-	30,125	30,125	24,583
Contractual service	1,725	-	1,398	1,398	327
Materials and supplies	14,075	-	14,856	14,856	(781)
Travel and communications	1,200	-	635	635	565
Capital outlays	13,630	4,922	8,708	13,630	-
Total Horticulture	<u>85,338</u>	<u>4,922</u>	<u>55,722</u>	<u>60,644</u>	<u>24,694</u>
Total Engineering and Public Works	<u>2,270,145</u>	<u>298,014</u>	<u>2,285,996</u>	<u>2,584,010</u>	<u>(313,865)</u>
Parks and Recreation					
Library	41,000	-	41,000	41,000	-
Total Parks and Recreation	<u>\$ 41,000</u>	<u>\$ -</u>	<u>\$ 41,000</u>	<u>\$ 41,000</u>	<u>\$ -</u>

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2005**

	Revised Budget	Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance Positive (Negative)
Nondepartmental					
Fringe Benefits	\$ 278,000	\$ -	\$ 270,997	\$ 270,997	\$ 7,003
Insurance	170,500	-	235,728	235,728	(65,228)
Contractual services	720	-	214	214	506
Bad debt	-	-	97,714	97,714	(97,714)
Joint operations	10,500	-	10,100	10,100	400
Reserves	2,767	-	-	-	2,767
Leases	12,003	-	6,290	6,290	5,713
Total Nondepartmental	<u>474,490</u>	<u>-</u>	<u>621,043</u>	<u>621,043</u>	<u>(146,553)</u>
Subtotal	<u>8,745,644</u>	<u>446,816</u>	<u>9,041,020</u>	<u>9,487,836</u>	<u>(742,192)</u>
Transfers to Other Funds					
Transit System Fund	20,000	-	-	-	20,000
Debt Service Fund	132,000	-	7,000	7,000	125,000
Total Transfers	<u>152,000</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>	<u>145,000</u>
Total General Fund Encumbrances and Expenditures	<u>\$ 8,897,644</u>	<u>\$ 446,816</u>	<u>\$ 9,048,020</u>	<u>\$ 9,494,836</u>	<u>\$ (597,192)</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
\$ -	\$ 31,210	\$ 44,932	\$ 1,286,203	\$ 1,362,345	\$ 11,163	\$ 1,373,508	
11,073	-	76,789	(43,840)	44,022	-	44,022	
11,073	31,210	121,721	1,242,363	1,406,367	11,163	1,417,530	
Assets							
Cash and cash equivalents	-	-	(1,548)	(1,548)	3,529	1,981	
Accounts receivable - real estate taxes	10,373	76,789	12,357	99,519	-	99,519	
	-	52,267	194,163	246,430	-	246,430	
	11,007	-	-	11,007	-	11,007	
21,380	-	129,056	204,972	355,408	3,529	358,937	
Liabilities							
Accounts payable	-	-	(1,548)	(1,548)	3,529	1,981	
Deferred revenue	10,373	76,789	12,357	99,519	-	99,519	
Interfund advances	-	52,267	194,163	246,430	-	246,430	
Cash advances	11,007	-	-	11,007	-	11,007	
(10,307)	31,210	(7,335)	1,037,391	1,050,959	7,634	1,058,593	
(10,307)	31,210	(7,335)	1,037,391	1,050,959	7,634	1,058,593	
\$ 11,073	\$ 31,210	\$ 121,721	\$ 1,242,363	\$ 1,406,367	\$ 11,163	\$ 1,417,530	
Fund Balances							
Unreserved, undesignated							
Total Fund Balances							
Total Liabilities and Fund Balances							

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

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue										Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Gateways	Happy Creek Trail	South Town Project	Total	Town Facilities				
Revenues													
Real estate taxes	\$ 16,457	\$ -	\$ 136,907	\$ 51,340	\$ -	\$ -	\$ -	\$ 204,704	\$ -	\$ -	\$ -	\$ 204,704	\$ -
Meal taxes	-	-	-	282,071	-	-	-	282,071	-	-	-	282,071	-
Asset Forfeitures	-	15,569	-	-	-	-	-	15,569	-	-	-	15,569	-
Miscellaneous	-	-	-	15,713	-	-	-	15,713	-	-	-	15,713	-
Total revenues	16,457	15,569	136,907	349,124	-	-	-	518,057	-	-	-	518,057	-
Expenditures													
Current													
Contractual services	-	-	-	-	-	-	-	-	-	-	-	3,319	3,319
Materials and supplies	-	-	-	-	-	-	-	-	-	-	-	3,574	3,574
Payment in support of EDA debt issue	-	-	54,999	-	-	-	-	54,999	-	-	-	54,999	54,999
Contributions to other entities	15,073	-	49,872	-	-	-	-	64,945	-	-	-	64,945	64,945
Capital outlays	-	-	-	-	-	-	-	-	-	-	-	77,927	77,927
Total expenditures	15,073	-	104,871	-	-	-	-	119,944	-	-	-	84,820	204,764
Excess (deficiency) of revenues over (under) expenditures	1,384	15,569	32,036	349,124	-	-	-	398,113	-	-	-	(84,820)	313,293
Other Financing Sources (Uses)													
Transfers in	-	-	7,000	-	-	-	-	7,000	-	-	-	7,000	7,000
Transfers (out)	-	-	(20,146)	(194,163)	-	-	-	(214,309)	-	-	-	(214,309)	(214,309)
Total other financing sources (uses)	-	-	(13,146)	(194,163)	-	-	-	(207,309)	-	-	-	(207,309)	(207,309)
Net change in fund balances	1,384	15,569	18,890	154,961	-	-	-	190,804	-	-	-	(84,820)	105,984
Fund balances - beginning	(11,691)	15,641	(26,225)	-	746,858	9,428	126,144	860,155	92,454	-	-	952,609	952,609
Transfers	-	-	(746,858)	882,430	(9,428)	(126,144)	-	-	-	-	-	-	-
Fund balances - ending	\$ (10,307)	\$ 31,210	\$ (7,335)	\$ 1,037,391	\$ -	\$ -	\$ -	\$ 1,050,959	\$ 7,634	\$ -	\$ -	\$ 1,058,593	\$ 1,058,593

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

**TOWN OF FRONT ROYAL, VIRGINIA
DOWNTOWN SERVICE DISTRICT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 13,750	\$ 16,457	\$ 2,707
Expenditures			
Contributions to other entities	13,750	15,073	(1,323)
Excess (deficiency) of revenues over (under) expenditures	-	1,384	1,384
Fund balances - beginning	(11,691)	(11,691)	-
Fund balances - ending	<u>\$ (11,691)</u>	<u>\$ (10,307)</u>	<u>\$ 1,384</u>

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

**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, 2005**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 10,000	\$ 15,569	\$ 5,569
Expenditures			
Capital outlays	10,000	-	10,000
Excess (deficiency) of revenues over (under) expenditures	-	15,569	15,569
Other Financing Sources (Uses)			
Transfers (out)	-	-	-
Net change in fund balances	10,000	15,569	5,569
Fund balances - beginning	15,641	15,641	-
Fund balances - ending	<u>\$ 25,641</u>	<u>\$ 31,210</u>	<u>\$ 5,569</u>

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

**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, 2005**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 141,463	\$ 136,907	\$ (4,556)
Expenditures			
Payments in support of EDA debt issue	70,900	54,999	15,901
Contributions to other entities	43,832	49,872	(6,040)
Contingency	13,536	-	13,536
Total Expenditures	<u>128,268</u>	<u>104,871</u>	<u>23,397</u>
Excess (deficiency) of revenues over (under) expenditures	13,195	32,036	18,841
Other Financing Sources (Uses)			
Transfers in	7,000	7,000	-
Transfers (out)	<u>(20,195)</u>	<u>(20,146)</u>	<u>49</u>
Net change in fund balances	-	18,890	18,890
Fund balances - beginning	<u>(26,225)</u>	<u>(26,225)</u>	<u>-</u>
Fund balances - ending	<u>\$ (26,225)</u>	<u>\$ (7,335)</u>	<u>\$ 18,890</u>

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

**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, 2005**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 53,050	\$ 51,340	\$ (1,710)
Meals taxes	280,000	282,071	2,071
Miscellaneous	7,500	15,713	8,213
Total Revenues	<u>340,550</u>	<u>349,124</u>	<u>8,574</u>
Excess (deficiency) of revenues over (under) expenditures	340,550	349,124	8,574
Other Financing Sources (Uses)			
Transfers (out)	<u>(97,031)</u>	<u>(194,163)</u>	<u>(97,132)</u>
Net change in fund balances	243,519	154,961	(88,558)
Fund balances - beginning	-	-	-
Tranfers	<u>-</u>	<u>882,430</u>	<u>882,430</u>
Fund balances - ending	<u>\$ 243,519</u>	<u>\$ 1,037,391</u>	<u>\$ 793,872</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
JUNE 30, 2005 AND 2004

	2005	2004
Governmental funds capital assets		
Land	\$ 1,117,508	\$ 784,463
Construction in progress	77,927	-
Buildings and improvements	3,345,446	3,250,982
Vehicles	1,289,788	1,222,548
Machinery and equipment	2,570,581	2,322,596
Infrastructure	109,527,139	109,450,144
Total governmental funds capital assets	<u>117,928,389</u>	<u>117,030,733</u>
Investments in governmental funds capital assets by source		
General fund	<u>117,928,389</u>	<u>117,030,733</u>
Total governmental funds capital assets	<u>\$ 117,928,389</u>	<u>\$ 117,030,733</u>

This schedule presents capital assets without provisions for depreciation.

**TOWN OF FRONT ROYAL, VIRGINIA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 JUNE 30, 2005**

Function and Activity	Land	Buildings and Improvements	Vehicles	Machinery and Equipment	Infrastructure	Total
General Government						
Executive	\$ 83,155	\$ 738,857	\$ 14,668	\$ 104,172	\$ -	\$ 940,852
Finance	-	-	25,041	241,397	-	266,438
Economic development	354,345	16,695	14,705	27,647	-	413,392
General government buildings	276,808	602,545	55,041	64,568	-	998,962
Total general government	714,308	1,358,097	109,455	437,784	-	2,619,644
Public Safety	23,300	439,986	484,226	442,962	-	1,390,474
Public Works and Engineering	379,900	1,625,291	691,364	1,694,577	-	4,391,132
Infrastructure	-	-	-	-	109,527,139	109,527,139
Total governmental funds capital assets	\$ 1,117,508	\$ 3,423,374	\$ 1,285,045	\$ 2,575,323	\$ 109,527,139	\$ 117,928,389

This schedule presents capital assets without provisions for depreciation.

TOWN OF FRONT ROYAL, VIRGINIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
JUNE 30, 2005

Function and Activity	Governmental Funds Capital Assets			Governmental Funds Capital Assets
	July 1, 2004	Additions	Dispositions	June 30, 2005
General Government				
Executive	\$ 862,925	\$ 77,927	\$ -	\$ 940,852
Finance	260,509	24,617	18,688	266,438
Economic development	80,347	333,045	-	413,392
General government buildings	947,361	59,401	7,800	998,962
Total general government	<u>2,151,142</u>	<u>494,990</u>	<u>26,488</u>	<u>2,619,644</u>
Public Safety	1,232,552	194,221	36,299	1,390,474
Public Works and Engineering	4,196,895	293,800	99,563	4,391,132
Infrastructure	<u>109,450,144</u>	<u>76,995</u>	<u>-</u>	<u>109,527,139</u>
Total governmental funds capital assets	<u>\$ 117,030,733</u>	<u>\$ 1,060,006</u>	<u>\$ 162,350</u>	<u>\$ 117,928,389</u>

**TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2005**

Assets held by the Director of Finance

Cash on hand		\$	1,488
Cash in Banks			
Checking - SunTrust			383,305
Certificates of Deposit			
BB&T Bank	\$	350,000	
Greater Atlantic Bank		102,841	
Wachovia Bank		78,524	
Virginia Savings Bank		18,726	
Total Certificates of Deposit			550,091
Virginia Local Government Investment Pool			2,496,140
Repurchase Agreements - Wachovia			107,272
Suntrust Government & Agency Fund			1,385,307
Suntrust Investment Account			12,578,287
			<u>17,501,890</u>
Total Assets			<u>\$17,501,890</u>

At June 30, 2005, Greater Atlantic Bank was not a qualified depository in accordance with the Virginia Security for Public Deposits.

**TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Funds				Proprietary Funds	2005 Totals (Memorandum Only)	2004 Totals (Memorandum Only)
	General	Debt Service	Special Revenue	Capital Projects			
Balance July 1, 2004	\$ 4,987,775	\$ -	\$ 29,992	\$ 969,703	\$ 9,388,991	\$ 15,376,461	\$ 14,586,340
Reclassification	-	-	877,249	(877,249)	-	-	-
Revised Totals	4,987,775	-	907,241	92,454	9,388,991	15,376,461	14,586,340
Receipts (net)							
Interfund advances	-	-	194,163	-	-	194,163	52,268
General property taxes	1,107,466	-	263,834	-	-	1,371,300	1,310,267
Other local taxes	3,218,386	-	282,071	-	-	3,500,457	3,376,710
Permits, fees and licenses	93,957	-	-	-	-	93,957	80,864
Fines and forfeitures	219,713	-	-	-	-	219,713	203,904
Revenues from use of money and property	101,589	-	-	-	173,241	274,830	187,946
Charges for services	101,343	-	-	-	17,692,769	17,794,112	15,852,431
Miscellaneous	1,196	-	15,713	-	26,653	43,562	100,901
Recovered costs	84,251	-	-	-	-	84,251	100,277
Intergovernmental	2,226,244	-	15,569	-	-	2,241,813	2,225,230
Sale of property	58,417	-	-	-	-	58,417	46,162
Total Receipts	7,212,562	-	771,350	-	17,892,663	25,876,575	23,536,960
Total Available	12,200,337	-	1,678,591	92,454	27,281,654	41,253,036	38,123,300
Disbursements (net)							
Warrants (checks) issued	8,899,409	-	119,944	81,291	13,272,813	22,373,457	21,816,265
Retirement of indebtedness	125,000	144,742	-	-	830,532	1,100,274	697,867
Interest on other debt costs	-	69,567	-	-	207,848	277,415	232,707
Total Disbursements	9,024,409	214,309	119,944	81,291	14,311,193	23,751,146	22,746,839
Interfund Transfers							
Transfers in	2,127,400	214,309	7,000	-	-	2,348,709	2,063,450
Transfers (out)	(7,000)	-	(214,309)	-	(2,127,400)	(2,348,709)	(2,063,450)
Total Transfers in (Out)	2,120,400	214,309	(207,309)	-	(2,127,400)	-	-
Balance June 30, 2005	\$ 5,296,328	\$ -	\$ 1,351,338	\$ 11,163	\$ 10,843,061	\$ 17,501,890	\$ 15,376,461

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005**

Taxable assessed value of real property	<u>\$ 764,587,579</u>
Debt limit (10 percent of assessed value)	76,458,758
Amount of debt applicable to debt limit:	
Bonded debt	<u>5,300,524</u>
Total amount of debt applicable to debt limitation	<u>(5,300,524)</u>
Legal debt margin	<u>\$ 71,158,234</u>

Note: Section 15.1-176 of 1950 Code of Virginia, as amended, limits to 10% of the assessed valuation of the section 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.

STATISTICAL SECTION

PART III

**TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT-WIDE EXPENSES BY FUNCTION**

Fiscal Year	General Government	Public Safety	Public Works	Community Development	Culture and Recreation	Interest on Long-term Debt	Infrast. Depreciation Unallocated	Electric	Water	Sewer	Refuse	Total
2003	\$ 2,139,086	\$ 2,951,792	\$ 1,851,599	\$ 609,091	\$ 95,770	\$ 41,299	\$ 3,588,522	\$ 6,631,457	\$ 1,581,502	\$ 2,228,065	\$ 685,242	\$ 22,403,425
2004	2,213,302	2,857,066	2,103,729	501,250	43,625	3,788	3,588,522	9,173,662	1,851,233	2,061,542	649,323	25,047,042
2005	2,493,723	3,150,426	2,086,799	652,296	45,142	69,567	3,588,522	9,082,609	2,328,499	2,636,183	739,132	26,872,898

GASB 34 reporting was adopted in 2003. Additional information will be added to each subsequent year.

**TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT-WIDE REVENUES**

Fiscal Year	Program Revenues			General Revenues			Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Unrestricted Investment Earnings	Other	
2003	\$ 15,178,331	\$ 1,634,435	\$ 396,743	\$ 4,399,372	\$ 297,753	\$ 100,711	\$ 22,007,345
2004	17,035,267	1,618,991	380,699	5,071,043	187,946	46,162	24,340,108
2005	18,102,696	1,704,613	307,403	5,070,014	274,830	58,417	25,517,973

GASB 34 reporting was adopted in 2003. Additional information will added to each subsequent year.

TABLE III

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL GOVERNMENT EXPENDITURES/ENCUMBRANCES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	General Fund							Debt Service	Other Funds	Total
	General Government	Public Safety	Public Works	Parks and Recreation	Planning and Zoning	Non-Departmental	Total			
1996	\$ 1,249,119	\$ 1,999,666	\$ 1,837,767	\$ 550,186	\$ 342,853	\$ 317,728	\$ 6,297,319	\$ -	\$ -	\$ 6,297,319
1997	1,238,735	2,015,545	1,899,049	673,519	359,677	284,168	6,470,693	-	-	6,470,693
1998	1,377,868	2,159,360	2,020,953	665,604	559,181	247,016	7,029,982	-	-	7,029,982
1999	1,515,368	2,253,000	2,155,653	674,012	493,408	181,435	7,272,876	-	-	7,272,876
2000	1,707,606	2,222,162	2,368,755	730,781	287,040	165,583	7,481,927	-	-	7,481,927
2001	1,741,977	2,335,262	2,561,044	303,499	343,826	191,391	7,476,999	-	-	7,476,999
2002	1,973,809	2,568,522	3,947,211	125,000	528,527	212,271	9,355,340	-	-	9,355,340
2003	2,132,030	2,748,621	3,543,028	88,131	443,103	291,714	9,246,627	367,226	1,242,983	10,856,836
2004	2,220,642	2,889,910	3,968,199	41,000	390,708	385,770	9,896,229	21,984	166,674	10,084,887
2005	2,353,165	3,042,429	2,584,010	41,000	846,189	621,043	9,487,836	214,309	204,764	9,906,909

Includes all expenditures and encumbrances from the general fund. On Oct. 1, 2000, the Parks and Recreation function was transferred to Warren County pursuant to the Route 522 agreement.

TABLE IV

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year	Property Taxes		Other Local Taxes		Permits, Fees, and Licenses	Fines and Forfeitures	Use of Money and Property	Recovered Costs	Miscellaneous		Inter-governmental	Total
									and Charges For Services			
1996	\$ 1,069,933	\$ 1,836,419	\$ 7,141	\$ 74,636	\$ 25,704	\$ 194,224	\$ 147,667	\$ 1,234,642	\$ 4,590,366			
1997	1,253,174	1,976,552	7,318	86,286	66,028	87,500	449,275	1,270,528	5,196,661			
1998	1,243,775	2,069,764	8,201	74,380	145,068	87,500	247,606	1,284,028	5,160,322			
1999	1,150,961	2,325,284	11,156	89,579	158,998	249,879	210,308	1,361,438	5,557,603			
2000	1,061,420	2,468,465	25,382	41,073	80,610	417,000	227,413	1,951,104	6,272,467			
2001	1,058,352	2,633,208	63,576	22,370	153,466	134,379	179,704	2,121,910	6,366,965			
2002	1,057,847	2,955,913	82,389	29,943	118,466	142,515	207,402	2,065,634	6,660,109			
2003	975,882	3,020,417	73,943	106,882	77,910	145,000	108,504	1,984,347	6,492,885			
2004	1,301,901	3,427,241	80,864	203,904	73,089	104,433	127,198	2,058,357	7,376,987			
2005	1,261,184	3,506,420	93,957	219,713	101,589	15,569	175,360	2,135,590	7,509,382			

TABLE V

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year	Property Taxes	Sales Tax	Business &				Other Local Taxes				Meals & Lodging Taxes	Payment in Lieu of Taxes	Total
			Occupational Taxes	Franchise Taxes	Consumer Taxes	Vehicle Licenses	Bank Stock Taxes						
1996	\$ 1,069,933	\$ 391,739	\$ 349,531	\$ 97,910	\$ -	\$ 137,590	\$ 79,659	\$ 779,990	\$ -	\$ 2,906,352			
1997	1,253,174	409,156	386,879	103,255	-	164,524	79,250	833,488	-	3,229,726			
1998	1,243,775	450,926	365,451	109,627	-	188,020	76,305	879,435	-	3,313,539			
1999	1,150,961	464,427	460,181	126,895	-	193,595	119,826	960,360	-	3,476,245			
2000	1,061,420	481,489	457,491	135,318	-	201,648	142,961	1,049,558	-	3,529,885			
2001	1,058,352	492,119	484,820	140,506	91,736	207,004	115,285	1,100,259	1,479	3,691,560			
2002	1,057,847	462,769	574,444	155,012	181,599	221,405	156,402	1,194,212	10,070	4,013,760			
2003	975,882	448,086	539,916	179,371	182,303	226,033	143,828	1,238,298	62,582	3,996,299			
2004	1,301,901	507,804	611,617	309,497	178,879	230,743	143,065	1,378,666	66,970	4,729,142			
2005	1,261,184	570,926	624,511	211,544	178,423	236,441	166,904	1,433,420	84,251	4,767,604			

TABLE VI

**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	Delinquent Tax Collections	Total Tax Collections	Total Collection as		Outstanding Delinquent Taxes	Percent of Current Levy Delinquent
						Percent of Current Levy	Percent of Current Levy		
1996	\$ 1,165,670	\$ 892,904	76.60%	\$ 118,251	\$ 1,011,155	\$	86.74%	\$ 407,691	34.97%
1997	1,312,029	1,009,583	76.95%	177,611	1,187,194		90.49%	473,671	36.10%
1998	1,308,411	1,109,869	84.83%	78,893	1,188,762		90.86%	531,071	40.59%
1999	1,211,775	926,982	76.50%	174,871	1,101,853		90.93%	580,179	47.88%
2000	1,166,611	950,972	81.52%	228,947	1,179,919		101.14%	473,375	40.58%
2001	1,237,319	1,127,655	91.14%	129,307	1,256,962		101.59%	460,874	37.25%
2002	1,265,639	1,175,097	92.85%	115,463	1,290,560		101.97%	437,553	34.57%
2003	1,298,124	1,064,604	82.01%	87,878	1,152,482		88.78%	459,337	35.38%
2004	1,537,321	1,514,244	98.50%	74,239	1,588,483		103.33%	428,475	27.87%
2005	1,523,668	1,493,940	98.05%	40,065	1,534,005		100.68%	366,113	24.03%

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

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utility		Total
					Real Estate	Personal Property	
1996	\$539,180,600	\$ 55,073,628	\$ 557,160	\$ 194,750	\$ 15,737,004	\$ 2,892	\$ 610,746,034
1997	545,680,800	73,980,786	1,431,480	175,440	13,775,278	314,202	635,357,986
1998	545,854,900	76,226,046	742,810	156,425	13,764,420	280,942	637,025,543
1999	552,343,000	78,468,538	573,395	139,770	13,231,291	221,070	644,977,064
2000	538,807,900	84,523,192	487,990	101,460	13,042,612	101,942	637,065,096
2001	538,299,800	90,970,040	579,930	120,370	13,583,949	137,089	643,691,178
2002	565,683,000	94,753,260	611,990	140,880	11,410,301	117,799	672,717,230
2003	577,812,000	98,300,340	638,350	172,150	14,615,483	58,094	691,596,417
2004	697,130,500	106,727,512	835,030	153,930	16,664,771	-	821,511,743
2005	713,445,100	109,271,685	865,360	159,410	16,664,771	-	840,406,326

Total assessed value is based on 100 percent of estimated fair market value.

TABLE VIII

**TOWN OF FRONT ROYAL, VIRGINIA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	Real Estate			Personal Property			Machinery and Tools			Mobile Homes		
	Total Real Estate			Total Personal Property			Total Machinery and Tools			Total Mobile Homes		
	Town	County	Total	Town	County	Total	Town	County	Total	Town	County	Total
1996	0.15	0.82	0.97	0.60	3.25	3.85	0.60	2.00	2.60	0.15	0.67	0.82
1997	0.16	0.68	0.84	0.60	3.15	3.75	0.60	2.00	2.60	0.16	0.68	0.84
1998	0.16	0.68	0.84	0.60	3.15	3.75	0.60	2.00	2.60	0.16	0.68	0.84
1999	0.14	0.68	0.82	0.60	3.15	3.75	0.60	2.00	2.60	0.14	0.68	0.82
2000	0.13	0.73	0.86	0.60	3.15	3.75	0.60	2.00	2.60	0.13	0.73	0.86
2001	0.13	0.83	0.96	0.60	3.15	3.75	0.60	2.25	2.85	0.13	0.83	0.96
2002	0.13	0.86	0.99	0.60	3.15	3.75	0.60	2.25	2.85	0.13	0.86	0.99
2003	0.13	0.86	0.99	0.60	3.15	3.75	0.60	2.25	2.85	0.13	0.86	0.99
2004	0.13	0.79	0.92	0.60	3.15	3.75	0.60	2.25	2.85	0.13	0.79	0.92
2005	0.13	0.79	0.92	0.60	3.15	3.75	0.60	2.25	2.85	0.13	0.79	0.92

Note 1: Since 1979, assessments have been made at 100% of market value. Accordingly, the assessed value represents an approximation of the actual value. Public Utility Corporations are assessed by the State Corporation Commission.

Note 2: Tax rates are expressed as cents per \$100 of assessed value.

Note 3: Property is assessed effective January 1 of each year by the Commissioner of Revenue of Warren County for the concurrent use of the Town and County. The January 1, 2004 Warren County assessment for taxable real property was \$713,445,100 and the personal property was \$110,296,455.

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2005
(Unaudited)**

Ten Largest Taxpayers	Assessed Valuation	Taxes	Percentage of Total Assessed Value
Boisseau Family, L.C.	\$ 14,518,540	\$ 18,874	2.03%
Gateway Plaza Shopping Center	6,271,300	8,153	0.88%
HLI Endowment	5,858,800	7,616	0.82%
Shenandoah Square, L.P.	5,722,900	7,440	0.80%
Ramsey, Inc.	4,077,300	5,300	0.57%
Corr Family	3,522,900	4,580	0.49%
Royal Arms Associates	3,340,100	4,342	0.47%
Cogil Corporation (includes Royal Lumber)	3,116,200	4,051	0.44%
CCC Enterprises Inc of VA	3,029,900	3,939	0.42%
Shenandoah Properties II	3,028,200	3,937	0.42%
	\$ 52,486,140	\$ 68,232	7.36%
Total Assessed Valuation	\$ 713,445,100		

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

Fiscal Year	Population	Assessed Property Value in \$1,000	Gross Bonded Debt	Debt Payable from Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1996	12,617	\$ 610,746	\$ 11,253,299	\$ 11,253,299	\$ -	0.00000	\$ -
1997	12,750	635,358	10,655,545	10,655,545	-	0.00000	-
1998	13,000	637,026	12,405,661	11,135,661	1,270,000	0.00199	97.69
1999	13,464	644,977	11,285,699	10,123,906	1,161,793	0.00180	86.29
2000	13,500	637,065	9,999,807	8,938,816	1,060,991	0.00167	78.59
2001	13,529	643,691	8,694,656	7,739,304	955,352	0.00148	70.62
2002	13,560	672,717	7,784,635	6,901,864	882,771	0.00131	65.10
2003	13,584	691,596	6,977,236	6,170,392	806,844	0.00117	59.40
2004	13,584	821,512	6,206,636	5,417,988	788,648	0.00096	58.06
2005	14,184	840,406	5,300,524	4,656,618	643,906	0.00077	45.40

Note: Population estimate for 2000 was provided by the Lord Fairfax Planning District Commission, based on U.S. Census. 2002 population estimated were abstracted from The Population Estimated Program of the U.S. Census Bureau released June 30, 1999. The remaining years were provided by the Town Planning Office.

TOWN OF FRONT ROYAL, VIRGINIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL OBLIGATION BONDED DEBT
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures (Budgetary Basis)	Ratio of Debt Service to Total General Fund Expenditures (Budgetary Basis)
1996	\$ 112,000	\$ 4,210	\$ 116,210	\$ 6,297,319	1.85
1997	-	-	-	6,470,693	-
1998	-	-	-	7,029,982	-
1999	108,207	58,973	167,180	7,240,606	2.31
2000	100,802	54,459	155,261	7,481,927	2.08
2001	105,639	49,948	155,587	7,476,999	2.08
2002	72,581	44,824	117,405	9,355,340	1.25
2003	325,927	41,299	367,226	9,246,627	3.97
2004	18,196	3,788	21,984	9,896,229	0.22
2005	144,742	69,567	214,309	9,487,836	2.26

TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2005
(Unaudited)

Name of Governmental Unit	Net General Obligation Bonded Debt Outstanding	Percentage Applicable to Town	Amount Applicable to Town
Direct Debt			
Town of Front Royal - Bonded Debt	<u>\$ 5,300,524</u>	100%	<u>\$ 5,300,524</u>
Overlapping Debt¹			
Warren County	4,485,000		
Warren County School Board	<u>13,434,016</u>		
	<u>17,919,016</u>	49%	<u>8,780,318</u>
Total Direct and Overlapping Debt	<u><u>\$ 23,219,540</u></u>		<u><u>\$ 14,080,842</u></u>

¹Overlapping debt is not bonded debt of the Town of Front Royal on either a direct or contingent basis, but represents the share of debt of overlapping governmental entities which the residents of the Town of Front Royal are obligated to pay through direct tax levies of these respective governmental entities. The debt of Warren County is a direct general obligation debt of the County, which provides facilities that benefit all County residents including those of incorporated towns.

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ³	Total	
1996	\$ 12,961,912	\$ 9,200,238	\$ 3,761,674	\$ 1,033,989	\$ 646,444	\$ 1,680,433	2.24
1997	12,659,121	8,855,476	3,803,645	556,840	600,482	1,157,322	3.29
1998	13,250,730	7,690,336	5,560,394	659,884	568,543	1,228,427	4.53
1999	13,190,876	8,585,568	4,605,308	1,011,775	553,927	1,565,702	2.94
2000	14,021,657	8,927,744	5,093,913	1,185,090	473,094	1,658,184	3.07
2001	14,658,305	8,047,406	6,610,899	1,199,512	469,356	1,668,868	3.96
2002	14,556,457	9,487,331	5,069,126	837,440	369,078	1,206,518	4.20
2003	14,963,845	9,434,131	5,529,714	919,792	261,538	1,181,330	4.68
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

¹Gross revenue includes operating revenues and investment earnings

²Total operating expenses exclusive of depreciation

³Interest includes fiscal charges

**TOWN OF FRONT ROYAL, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year	Population	Per Capita Income	School Enrollment	Unemployment Rate
1996	12,617	20,128	4,819	DNA
1997	12,750	21,313	4,858	5.4%
1998	13,000	23,052	4,903	2.4%
1999	13,464	25,541	4,906	2.4%
2000	13,500	26,338	5,012	2.0%
2001	12,589	27,268	5,277	2.8%
2002	13,650	26,701	5,153	3.4%
2003	13,584	DNA	5,112	3.4%
2004	13,584	DNA	5,176	3.4%
2005	14,184	DNA	5,376	3.1%

DNA - Data Not Available

TOWN OF FRONT ROYAL, VIRGINIA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(Unaudited)

Calendar Year	Building Permits	Occupancy Permits	Housing Stock	Total Deposits Commercial Banks and Savings & Loan Institutions	Real Property Value
1995	213	48	5,355	\$ 261,356,000	\$ 539,180,600
1996	218	59	5,439	281,282,000	545,680,800
1997	218	54	5,409	252,888,000	545,854,900
1998	226	51	5,447	266,461,000	552,343,000
1999	230	60	5,500	260,000,000	551,952,444
2000	236	60	5,553	274,000,000	551,883,746
2001	268	50	5,603	286,000,000	577,093,301
2002	DNA	61	5,664	333,000,000	592,427,483
2003	DNA	46	5,710	DNA	713,794,271
2004	DNA	DNA	DNA	DNA	730,109,871

Source: Northern Shenandoah Valley Regional Commission

DNA - Data Not Available

TOWN OF FRONT ROYAL, VIRGINIA
MISCELLANEOUS STATISTICS
JUNE 30, 2005

Date of Incorporation	1788
Form of Government	Council/Manager
Number of employees (excluding police and fire)	
Classified	123
Exempt	12
Area in square miles	9
Town of Front Royal facilities and services	
Miles of streets	143
Number of streetlights	1,430
Culture and Recreation	
Community centers	1
Parks	13
Park acreage	165
Swimming pools	1
Tennis courts	9
Fire Protection	
Number of stations	1
Number of fire personnel and officers	5
Number of volunteers	35
Police Protection	
Number of stations	2
Number of police personnel officers	35
Number of patrol units	6
Sewage System	
Miles of sanitary sewers	117
Miles of storm sewers	27
Number of treatment plants	1
Number of service connections	5,300
Daily average treatment in gallons	3,523,000
Maximum daily capacity of treatment plant in gallons	4,000,000
Water System	
Number of service connections	5,300
Number of facilities	1
Daily average consumption in gallons	1,708,000
Maximum daily capacity of plant in gallons	2,500,000
Electric Distribution System	
Miles of service	140
Number of distribution stations	3
Facilities and services not included in the primary government	
Education	
Number of elementary schools	5
Number of secondary schools	3
Facilities and services not included in the reporting entity	
Hospitals	
Number of hospitals	1
Number of patient beds	250

Various items were estimated with current information.

COMPLIANCE SECTION

PART IV

MITCHELL & Co., P.C.

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

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

We have audited 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, 2005, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated October 12, 2005. We conducted our audit in accordance with 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, and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Front Royal, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under *Government Auditing Standards* and *Specifications for Audits of Counties, Cities and Towns*.

This report is intended for the information of Town Council, management, others within the Town of Front Royal, Virginia and appropriate state regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

October 12, 2005
Leesburg, Virginia

Mitchell & Company, P.C.

TOWN OF FRONT ROYAL, VIRGINIA

**AUDITOR'S COMMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

SUMMARY OF AUDITOR'S RESULTS

We have audited the financial statements of the Town of Front Royal, Virginia as of and for the year ended June 30, 2005, and have issued an unqualified opinion thereon dated October 12, 2005. We conducted our audit in accordance with 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 and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Our audit did not disclose any noncompliance which is considered material to the financial statements of the Town of Front Royal, Virginia nor did not disclose any material weaknesses in internal controls.

Findings and Questioned Costs

There are no current year questioned costs or prior year findings requiring follow-up.

SUMMARY OF COMPLIANCE MATTERS

We performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

State Compliance Matters

- Code of Virginia
 - Budget and Appropriation Laws
 - Cash and Investments Laws
 - Conflicts of Interest Act
 - Local Retirement Systems
 - Debt Provisions
 - Procurement Laws
 - Uniform Disposition of Unclaimed Property Act
- State Agency Requirements
 - Highway Maintenance Funds

Federal Compliance Matters

- Internal Revenue Service
- EEOC

Other Compliance Matters

- Bond Covenants/Support Agreement