

**TOWN OF FRONT ROYAL, VIRGINIA**

*COMPREHENSIVE  
ANNUAL FINANCIAL REPORT*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Prepared by the  
Department of Finance  
Kim Gilkey-Breden  
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 14,377.

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.

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Letter of Transmittal	1 – 4
GFOA Certificate of Achievement	5
Organizational Chart	6
List of Town Council and Principal Officials	7

**FINANCIAL SECTION**

Independent Auditor’s Report	8 – 9
Management’s Discussion & Analysis	10 – 18

**Basic Financial Statements**

**Government-wide Financial Statements**

Exhibit I	Statement of Net Assets	19
Exhibit II	Statement of Activities	20

**Fund Financial Statements**

**Governmental Funds**

Exhibit III	Balance Sheet	21
Exhibit IV	Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Exhibit V	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	23
Exhibit VI	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	24

**Proprietary Funds**

Exhibit VII	Statement of Net Assets	25 – 26
Exhibit VIII	Statement of Revenues, Expenses, and Changes in Net Assets	27 – 28
Exhibit IX	Statement of Cash Flows	29

**Notes to Financial Statements**

30 – 48

**Supplementary Information**

**General Fund**

Schedule 1	Schedule of Revenue and Other Financing Sources – Budget and Actual	49 – 50
Schedule 2	Schedule of Expenditures - Budget and Actual	51 – 54

**Combining and Individual Fund Statements and Schedules**

**Non-Major Governmental Funds**

Schedule 3	Combining Balance Sheet	55
Schedule 4	Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	56

**Schedule of Revenues, Expenditures, and Changes in Fund Balances –**

**Budget and Actual - Special Revenue Funds**

Schedule 5	Downtown Service District	57
Schedule 6	Asset Seizures	58
Schedule 7	Economic Development	59
Schedule 8	Community/Neighborhood	60

**Other Supplementary Schedules**

Schedule 9	Schedule of Director of Finance’s Accountability	61
Schedule 10	Statement of the Director of Finance’s Computation Accountability to the Town	62
Schedule 11	Computation of Legal Debt Margin	63

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

**STATISTICAL SECTION**

**Financial Trends**

Table I	Net Assets by Component	64
Table II	Changes in Net Assets	65 – 66
Table III	Governmental Activities Tax Revenue by Source	67
Table IV	Fund Balances of Governmental Funds	78
Table V	Changes in Fund Balances of Governmental Funds	69 – 70

**Revenue Capacity**

Table VI	Assessed Value and Estimated Actual Value of Taxable Property	71
Table VII	Property Tax Rates - Direct and Overlapping Governments	72
Table VIII	Principal Property Taxpayers	73
Table IX	Property Tax Levies and Collections	74

**Debt Capacity**

Table X	Ratio of Outstanding Debt by Type	75
Table XI	Ratio of General Bonded Debt Outstanding	76
Table XII	Direct and Overlapping Governmental Activities Debt	77
Table XIII	Pledged - Revenue Coverage	78

**Demographic and Economic Information**

Table XIV	Demographic and Economic Statistics	79
Table XV	Principal Employers	80

**Operating Information**

Table XVI	Full-time Equivalent Town Government Employees by Function/Program	81
Table XVII	Operating Indicators by Function/Program	82
Table XVIII	Capital Asset Statistics by Function/Program	83

**COMPLIANCE SECTION**

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	84
Auditor's Comments	85

# **INTRODUCTORY SECTION**



# TOWN OF FRONT ROYAL

Town Manager's Office  
Town Hall  
P.O. Box 1560  
16 N. Royal Avenue  
Front Royal, Virginia 22630  
(540) 635-8007  
(540) 636-7475 Fax  
www.frontroyalva.com

*J. Michael Graham*  
Town Manager  
mgraham@frontroyalva.com

November 27, 2007

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, 2007.

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, 2007, 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, 2007, 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 13,589.

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 the 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, public works, public utilities, human resources, office of tourism, public safety and planning/zoning are appointed by and under the supervision of the Town Manager.

In Virginia, incorporated towns are part of the country 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.

**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 invested 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 reduce losses were continued in 2007. 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 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.

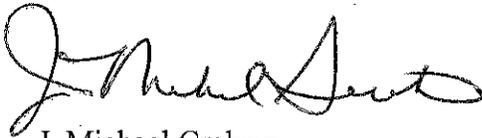
In addition to providing pension benefits, the Town provides certain health care insurance benefits for its retired employees. Substantially all employees may become eligible at varying levels depending on the years of service and employment with the Town.

**Awards and Acknowledgements.** The Government Finance Officers' 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, 2006. This is the nineteenth (20) consecutive years that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published and easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principals and applicable legal requirements.

A Certificate of 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 and we express our appreciation to all members of the Department. Credit must also be given to the Mayor and 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,



J. Michael Graham  
Town Manager



Kim Gilkey-Breeden  
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, 2006

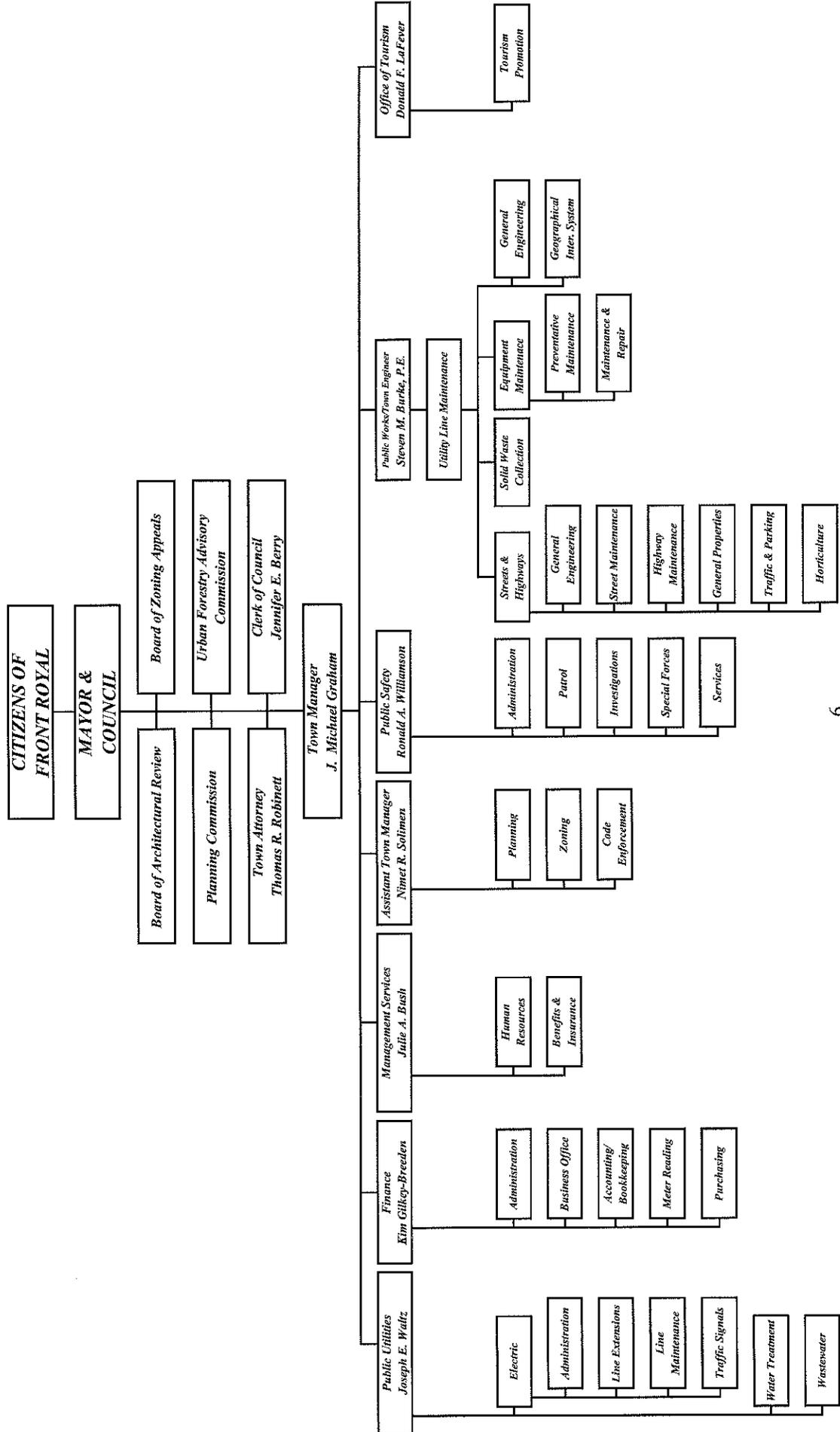
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**TOWN OF FRONT ROYAL  
ORGANIZATIONAL CHART  
FISCAL YEAR ENDED JUNE 30, 2007  
(With Full-Time Employees)**



**TOWN OF FRONT ROYAL, VIRGINIA  
JUNE 30, 2007**

**Town Council**

James M. Eastham - Mayor  
Timothy W. Darr - Vice Mayor  
Stanley W. Brooks, Jr.  
M. Eileen Grady  
Eugene R. Tewalt  
Thomas H. Sayre  
Bret W. Hrbek

**Town Officials**

J. Michael Graham - Town Manager  
Nimet R. Solimen - Assistant Town Manager of Community Development  
Thomas R. Robinett - Town Attorney  
Ronald A. Williamson - Chief of Police  
Steven M. Burke, P.E. - Director of Public Works/Town Engineer  
Joseph E. Waltz - Director of Public Utilities  
Cynthia A. Hartman - Purchasing Agent  
Julie A. Bush - Director of Management Services  
Jennifer E. Berry - Clerk of Council  
Kim Gilkey-Breeden - Director of Finance

# MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 EAST MARKET STREET, SUITE 200

LEESBURG, VIRGINIA 20176

JEFFREY D. MITCHELL, CPA

SANDRA M. TONDREAU, CPA  
LORI M. ROOD, CPA

703-777-4900

Fax: 703-771-3082

E-mail mco@mco CPA.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, 2007, 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007 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.

The management's discussion and analysis as identified in the Financial Section of the accompanying table of contents is not a required part of the basic financial statements but is 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.

September 25, 2007  
Leesburg, Virginia

*Mitchell & Co., 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, 2007. 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 \$126,713,340. Of this amount, \$30,632,688 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$358,460.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$7,956,317, an increase of \$1,002,447 in comparison with the prior year. Most of this total amount, \$7,885,869, 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 \$6,407,631, or 70.2 percent of total general fund expenditures.
- The Town's total bonded debt decreased by 623,948 (4.2 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 19 – 20 of this report.

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

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

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

The Town of Front Royal, Virginia maintains 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 21 – 24 of this report.

**Proprietary funds.** The Town of Front Royal, Virginia uses enterprise funds to report the same functions presented as business-type activities in the government-wide financial statements. The Town's enterprise funds include the water fund, sewer fund, electric fund, and 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 25 – 29 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 30 – 48 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 49 – 63 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 64 – 66 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 \$126,713,340 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (76 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, 2007 and 2006.

TOWN OF FRONT ROYAL -- NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 8,738,693	\$ 7,685,866	\$ 24,587,088	\$ 27,778,626	\$ 33,325,781	\$ 35,464,492
Capital assets	71,953,363	75,193,089	38,268,592	33,948,130	110,221,955	109,141,219
<b>Total Assets</b>	<b>80,692,056</b>	<b>82,878,955</b>	<b>62,855,680</b>	<b>61,726,756</b>	<b>143,547,736</b>	<b>144,605,711</b>
Long-term liabilities	1,144,488	1,122,244	14,189,006	14,712,862	15,333,494	15,835,106
Other liabilities	511,830	440,749	989,072	1,258,056	1,500,902	1,698,805
<b>Total Liabilities</b>	<b>1,656,318</b>	<b>1,562,993</b>	<b>15,178,078</b>	<b>15,970,918</b>	<b>16,834,396</b>	<b>17,533,911</b>
<b>Net Assets</b>						
Invested-capital assets, net of related debt	71,455,350	74,624,593	24,625,302	19,751,368	96,080,652	94,375,961
Unrestricted	7,580,388	6,691,369	23,052,300	26,004,470	30,632,688	32,695,839
<b>Total Net Assets</b>	<b>\$ 79,035,738</b>	<b>\$ 81,315,962</b>	<b>\$ 47,677,602</b>	<b>\$ 45,755,838</b>	<b>\$ 126,713,340</b>	<b>\$ 127,071,800</b>

An additional portion of the Town of Front Royal's net assets (0.08 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 \$358,460 during the current fiscal year.

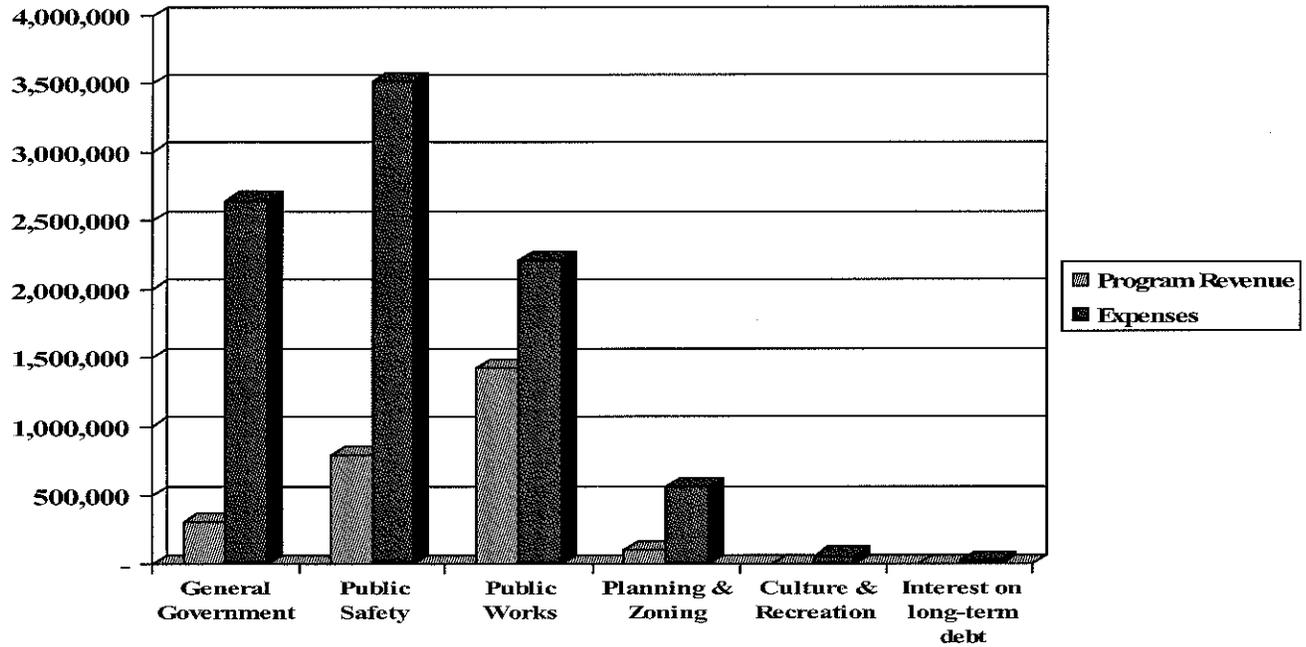
**Governmental activities.** Governmental activities decreased the Town of Front Royal, Virginia's net assets by \$2,280,224. These changes are presented in column one of the following table:

<b>TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS</b>						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 633,083	\$ 633,735	\$ 23,596,642	\$ 18,524,876	\$ 24,229,725	\$ 19,158,611
Operating grants and contributions	1,858,205	1,447,990	-	-	1,858,205	1,447,990
Capital grants and Contributions	170,526	43,416	1,094,499	71,706	1,265,025	115,122
General revenues						
Property taxes	1,335,686	1,280,730	-	-	1,335,686	1,280,730
Other taxes	4,261,642	4,190,751	-	-	4,261,642	4,190,751
Grants and contributions not restricted	-	-	-	-	-	-
Other	431,263	262,811	1,097,679	497,182	1,528,942	759,993
<b>Total revenues</b>	<b>8,690,405</b>	<b>7,859,433</b>	<b>25,788,820</b>	<b>19,093,764</b>	<b>34,479,225</b>	<b>26,953,197</b>
<b>Expenses</b>						
General government	2,646,597	2,326,711	-	-	2,646,597	2,326,711
Public safety	3,513,253	3,276,981	-	-	3,513,253	3,276,981
Public works	2,206,629	2,574,487	-	-	2,206,629	2,574,487
Planning and zoning	567,708	484,132	-	-	567,708	484,132
Culture and recreation	62,456	52,985	-	-	62,456	52,985
Interest on long-term debt	26,549	28,180	-	-	26,549	28,180
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	16,250,138	9,523,363	16,250,138	9,523,363
Water	-	-	2,343,905	1,964,023	2,343,905	1,964,023
Sewer	-	-	2,752,915	2,285,966	2,752,915	2,285,966
Refuse	-	-	876,481	828,583	876,481	828,583
<b>Total expenses</b>	<b>12,614,246</b>	<b>12,334,530</b>	<b>22,223,439</b>	<b>14,601,935</b>	<b>34,837,685</b>	<b>26,936,465</b>
Increase in net assets before transfers	(3,923,841)	(4,475,097)	3,565,381	4,491,829	(358,460)	16,732
Transfers	1,643,617	2,141,432	(1,643,617)	(2,141,432)	-	-
<b>Increase (decrease) in net assets</b>	<b>(2,280,224)</b>	<b>(2,333,665)</b>	<b>1,921,764</b>	<b>2,350,397</b>	<b>(358,460)</b>	<b>16,732</b>
Net assets – 7/1/06	81,315,962	83,649,627	45,755,838	43,405,441	127,071,800	127,055,068
<b>Net assets – 6/30/07</b>	<b>\$ 79,035,738</b>	<b>\$ 81,315,962</b>	<b>\$ 47,677,602</b>	<b>\$ 45,755,838</b>	<b>\$ 126,713,340</b>	<b>\$ 127,071,800</b>

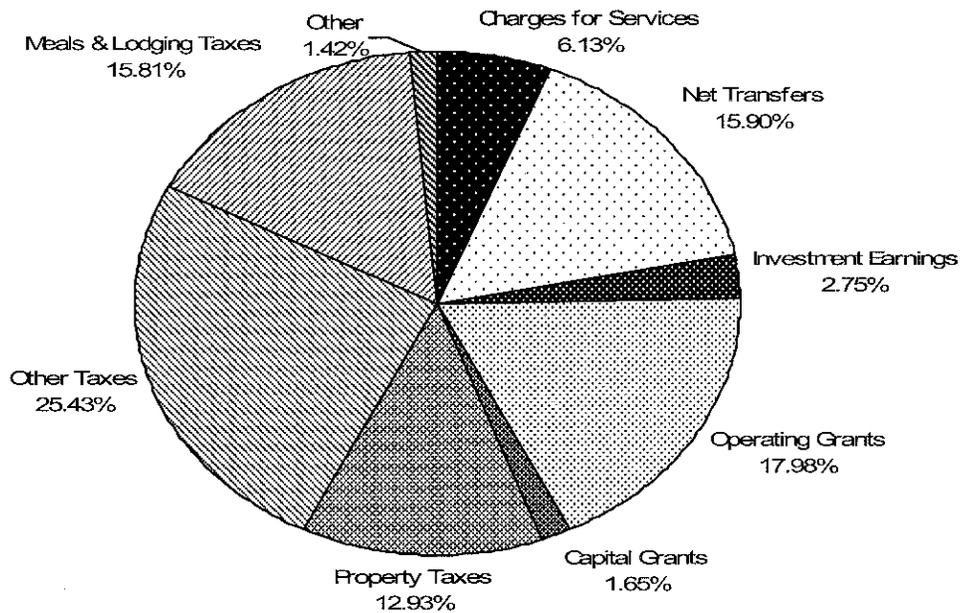
- Revenue from property taxes increased by \$54,956 (4.3 percent) during the current year.
- Operating grants for governmental activities amounted to \$1,858,205, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: 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 2007.

**EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES**



**REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES**

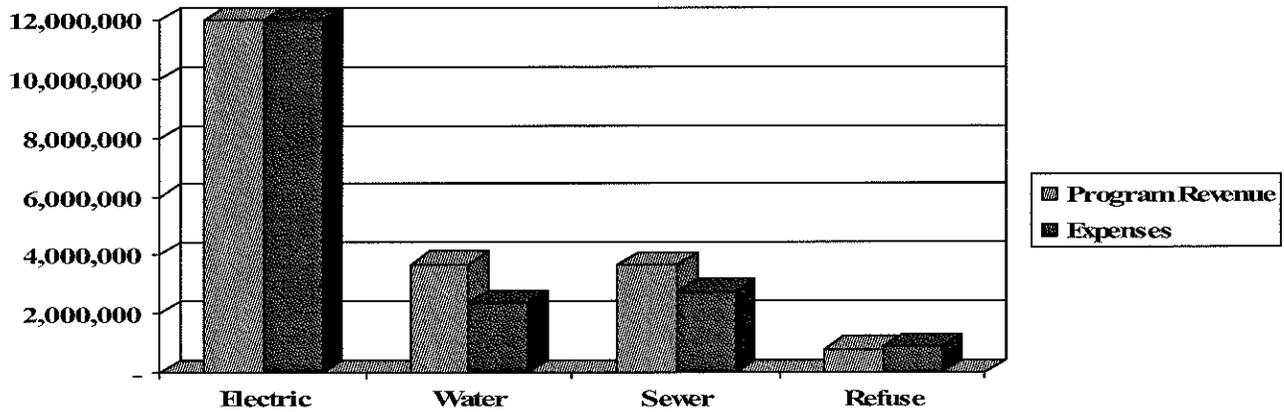


**Business-type activities.** Business-type activities increased the Town of Front Royal, Virginia's net assets by \$1,921,764, accounting for all the growth in the town's net assets. Key elements of this increase are as follows.

- Charges for services for business-type activities increased by \$5,071,766.
- Capital contributions by developers are a source of water system expansion resulting in donated systems valued at \$1,094,499.
- Investment earnings increased by \$600,497 for business-type activities.

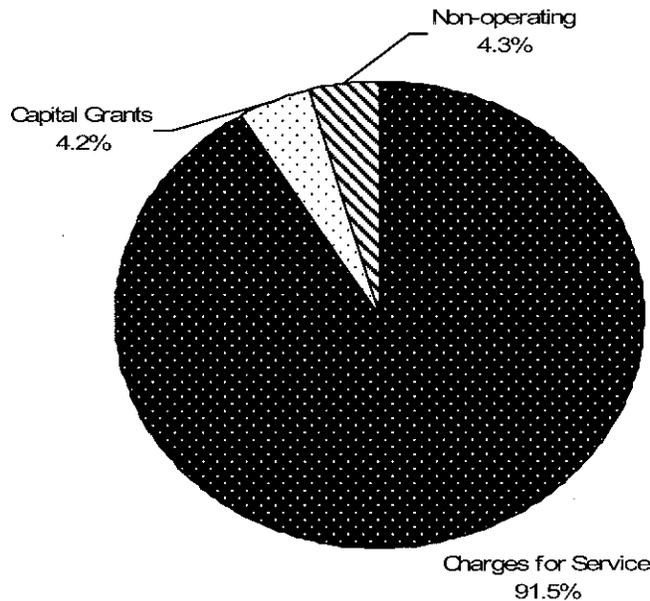
---

**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 \$7,956,317, an increase of \$1,002,447 in comparison with the prior year. More than half of this total amount (\$7,855,342) 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 (\$100,975 for a variety of restricted purposes).

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 \$6,407,631, while total fund balance reached \$6,508,606. 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 70.2 percent of total general fund expenditures, while total fund balance represents 71.3 percent of that same amount.

The fund balance of the Town of Front Royal, Virginia's general fund increased by \$1,016,044 during the current fiscal year. Key factors in this increase are as follows:

- Expenditures were in excess of revenues by 677,531.
- The general fund received its annual transfers from the proprietary funds. These net transfers of \$1,643,617 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 \$4,771,075 and those for the electric function amounted to \$12,906,527. The total growth in net assets for all enterprise funds was \$1,921,764. 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 \$783,467 and are noted as follows: a \$500 increase in Town Council; a \$500 decrease in Clerk of Council; a \$42,000 increase in Town Manager; a \$4,000 increase in Management services; a \$3,400 decrease in Office of the Town Engineer; a \$6,000 increase in Auto/Motorpool; a \$31,572 increase in Office of Information Technology; a \$16,800 increase in Legal expenditures; a \$7,403 increase in Finance; a \$247,027 increase in Planning and Zoning; an \$8,378 increase in Economic Development; a \$38,020 increase in Police Department; a \$39,732 increase in Engineering; a \$351,114 increase in Streets and Sidewalks; a \$29,386 increase in General Properties; a \$3,400 increase in Horticulture; a decrease of \$37,965 in Nondepartmental expenditures.

**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, 2007, amounts to \$110,221,955 (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, 2007 and 2006.

<b>TOWN OF FRONT ROYAL - CAPITAL ASSETS</b>						
<b>(Net of Depreciation)</b>						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,117,508	\$ 1,117,508	\$ 1,488,822	\$ 1,368,968	\$ 2,606,330	\$ 2,486,476
Construction in progress	77,927	77,927	-	-	77,927	77,927
Buildings and Improvements	2,878,911	2,465,791	7,562,718	3,826,184	10,441,629	6,291,975
Utility distribution systems	-	-	27,545,883	27,183,626	27,545,883	27,183,626
Vehicles	323,495	374,887	891,678	818,196	1,215,173	1,193,083
Machinery and Equipment	976,620	987,020	779,491	751,156	1,756,111	1,738,176
Infrastructure	66,578,902	70,169,956	-	-	66,578,902	70,169,956
<b>Total</b>	<b>\$ 71,953,363</b>	<b>\$ 75,193,089</b>	<b>\$ 38,268,592</b>	<b>\$ 33,948,130</b>	<b>\$ 110,221,955</b>	<b>\$ 109,141,219</b>

Additional information on the Town of Front Royal’s capital assets can be found in note IV. E on pages 30 – 41 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 \$14,141,303. All of this amount comprises debt backed by the full faith and credit of the government even though most (96 percent) of it will be repaid from enterprise fund revenue.

<b>TOWN OF FRONT ROYAL -- OUTSTANDING DEBT</b>						
<b>(General Obligation Bonds)</b>						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 498,013	\$ 568,496	\$ 13,643,291	\$ 14,196,756	\$ 14,141,304	\$ 14,765,252

The Town of Front Royal's total debt decreased by \$623,948 (4.2 percent) during the current fiscal year. The majority of the debt is a \$10,315,000 general obligation bond in the Water Fund.

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 \$143,323,827 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 42 – 44 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the Town of Front Royal is currently 2.5 percent, which is less than a year ago.
- This compares favorably to the state's average unemployment rate of 3.1 percent and the national average rate of 4.4 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 2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$6,407,631. Town of Front Royal has appropriated none of this amount for spending in the 2008 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.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,761,320	\$ 14,613,187	\$ 17,374,507
Investments	6,131,700	4,970,131	11,101,831
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	265,534	-	265,534
Accrued interest	1,300	2,450	3,750
Accounts	-	3,187,809	3,187,809
Other	72,967	29,604	102,571
Internal balances	(689,033)	689,033	-
Due from other governments	97,385	-	97,385
Inventories and other assets	97,520	748,073	845,593
Temporarily restricted assets			
Cash and cash equivalents	-	193,864	193,864
Deferred charges	-	152,937	152,937
Capital assets (net of accumulated depreciation)			
Land	1,117,508	1,488,822	2,606,330
Construction in progress	77,927	-	77,927
Buildings and improvements	2,878,911	7,562,718	10,441,629
Utility distribution systems	-	27,545,883	27,545,883
Vehicles	323,495	891,678	1,215,173
Machinery and equipment	976,620	779,491	1,756,111
Infrastructure	66,578,902	-	66,578,902
<b>Total Assets</b>	<b>80,692,056</b>	<b>62,855,680</b>	<b>143,547,736</b>
<b>Liabilities</b>			
Accounts payable	511,830	635,437	1,147,267
Accrued interest payable	-	159,771	159,771
Liabilities payable with restricted assets	-	193,864	193,864
Noncurrent liabilities			
Due within one year	73,799	887,189	960,988
Due in more than one year	1,070,689	13,301,817	14,372,506
<b>Total Liabilities</b>	<b>1,656,318</b>	<b>15,178,078</b>	<b>16,834,396</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	71,455,350	24,625,302	96,080,652
Unrestricted	7,580,388	23,052,300	30,632,688
<b>Total Net Assets</b>	<b>\$ 79,035,738</b>	<b>\$ 47,677,602</b>	<b>\$ 126,713,340</b>

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, 2007**

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		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 2,646,597	\$ 141,719	\$ -	\$ 170,526	\$ (2,334,352)	\$ -	\$ (2,334,352)
Public safety	3,513,253	361,844	433,409	-	(2,718,000)	-	(2,718,000)
Public works	2,206,629	27,757	1,424,796	-	(754,076)	-	(754,076)
Planning, zoning, and community development	567,708	101,763	-	-	(465,945)	-	(465,945)
Culture and recreation	62,456	-	-	-	(62,456)	-	(62,456)
Interest on long-term debt	26,549	-	-	-	(26,549)	-	(26,549)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	12,614,246	633,083	1,858,205	170,526	(9,952,432)	-	(9,952,432)
Business-type activities							
Electric	16,250,138	15,454,130	-	-	-	(796,008)	(796,008)
Water	2,343,905	3,695,001	-	697,193	-	2,048,289	2,048,289
Sewer	2,752,915	3,645,537	-	397,306	-	1,289,928	1,289,928
Refuse	876,481	801,974	-	-	-	(74,507)	(74,507)
Total business-type activities	22,223,439	23,596,642	-	1,094,499	-	2,467,702	2,467,702
Total primary government	\$ 34,837,685	\$ 24,229,725	\$ 1,858,205	\$ 1,265,025	(9,952,432)	2,467,702	(7,484,730)
General Revenues							
Property taxes					1,335,686	-	1,335,686
Sales taxes					613,495	-	613,495
Business and occupational taxes					721,486	-	721,486
Franchise taxes					206,989	-	206,989
Consumer taxes					240,682	-	240,682
Alcoholic beverage taxes					16,316	-	16,316
Meals and lodging taxes					1,633,723	-	1,633,723
Virginia personal property tax reduction					287,878	-	287,878
Other general taxes					541,073	-	541,073
Unrestricted investment earnings					284,273	1,097,679	1,381,952
Gain on sale of capital assets and other recoveries					-	-	-
Other sources					146,990	-	146,990
Transfers					1,643,617	(1,643,617)	-
Total general revenues and transfers					7,672,208	(545,938)	7,126,270
Change in net assets					(2,280,224)	1,921,764	(358,460)
Net assets - beginning					81,315,962	45,755,838	127,071,800
Net assets - ending					\$ 79,035,738	\$ 47,677,602	\$ 126,713,340

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 1,223,015	\$ 1,538,305	\$ 2,761,320
Investments	6,131,700	-	6,131,700
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	261,982	3,552	265,534
Accrued interest	1,300	-	1,300
Other	72,967	-	72,967
Due from other governments	97,385	-	97,385
Interfund advances	-	4,888	4,888
Inventories and other assets	97,520	-	97,520
<b>Total Assets</b>	<u>7,885,869</u>	<u>1,546,745</u>	<u>9,432,614</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	321,370	(1,549)	319,821
Accrued liabilities	192,009	-	192,009
Deferred revenue	266,994	3,552	270,546
Interfund advances	596,890	97,031	693,921
<b>Total Liabilities</b>	<u>1,377,263</u>	<u>99,034</u>	<u>1,476,297</u>
<b>Fund balances</b>			
<b>Reserved for</b>			
Inventory	60,975	-	60,975
Restricted use	40,000	-	40,000
<b>Unreserved, reported in</b>			
General fund	6,407,631	-	6,407,631
Special revenue funds	-	1,447,323	1,447,323
Capital projects funds	-	388	388
<b>Total Fund Balances</b>	<u>6,508,606</u>	<u>1,447,711</u>	<u>7,956,317</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 7,885,869</u>	<u>\$ 1,546,745</u>	

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.	71,953,363
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	270,546
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,144,488)</u>
Net assets of governmental activities	<u>\$ 79,035,738</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, 2007**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes				
Property	\$ 1,254,425	\$ -	\$ 101,962	\$ 1,356,387
Sales	613,495	-	-	613,495
Business and occupational	721,486	-	-	721,486
Franchise	206,989	-	-	206,989
Consumer	240,682	-	-	240,682
Vehicle licenses	239,854	-	-	239,854
Bank stock	159,285	-	-	159,285
Meals and lodging	1,633,723	-	-	1,633,723
Permits, fees, and licenses	101,763	-	-	101,763
Fines and forfeitures	356,631	-	-	356,631
Revenues from use of money & property	284,273	-	-	284,273
Charges for services	100,909	-	-	100,909
Miscellaneous	65,242	-	3,325	68,567
Recovered costs	-	-	5,213	5,213
Payment in lieu of taxes	90,215	-	-	90,215
Intergovernmental	2,384,644	-	-	2,384,644
Total revenues	8,453,616	-	110,500	8,564,116
<b>Expenditures</b>				
General government				
Legislative	156,788	-	-	156,788
Executive	1,243,995	-	-	1,243,995
Legal	248,934	-	-	248,934
Finance	748,380	-	-	748,380
Public safety				
Police	3,153,821	-	-	3,153,821
Fire protection	105,403	-	-	105,403
Planning, zoning, and community development	390,307	-	124,097	514,404
Engineering and public works	2,493,932	-	-	2,493,932
Parks and recreation	56,594	-	-	56,594
Nondepartmental	532,993	-	-	532,993
Debt Service				
Principal	-	70,483	-	70,483
Interest	-	26,549	-	26,549
Capital outlay	-	-	-	-
Total expenditures	9,131,147	97,032	124,097	9,352,276
Excess (deficiency) of revenues over (under) expenditures	(677,531)	(97,032)	(13,597)	(788,160)
<b>Other Financing Sources (Uses)</b>				
Other sources	146,990	-	-	146,990
Transfers in	1,643,617	97,032	-	1,740,649
Transfers (out)	(97,032)	-	-	(97,032)
Total other financing sources and uses	1,693,575	97,032	-	1,790,607
Net change in fund balances	1,016,044	-	(13,597)	1,002,447
Fund balances - beginning	5,492,562	-	1,461,308	6,953,870
Fund balances - ending	\$ 6,508,606	\$ -	\$ 1,447,711	\$ 7,956,317

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, 2007**

---

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

Net change in fund balances - total governmental funds	\$ 1,002,447
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlays in the current period.	(3,239,726)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(20,701)
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.	70,483
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>(92,727)</u>
Change in net assets of governmental activities	<u><u>\$ (2,280,224)</u></u>

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

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues</b>				
General property taxes	\$ 1,264,217	\$ 1,264,217	\$ 1,254,425	\$ (9,792)
Other local taxes	3,739,300	3,739,300	3,905,729	166,429
Permits, fees, and licenses	60,500	60,500	101,763	41,263
Fines and forfeitures	313,610	313,610	356,631	43,021
Revenues from use of money & property	70,400	70,400	284,273	213,873
Charges for services	108,000	108,000	100,909	(7,091)
Miscellaneous	28,000	28,000	65,242	37,242
Recovered costs	50,000	50,000	-	(50,000)
Intergovernmental	2,269,845	2,288,551	2,384,644	96,093
<b>Total revenues</b>	<b>7,903,872</b>	<b>7,922,578</b>	<b>8,453,616</b>	<b>531,038</b>
<b>Expenditures</b>				
General Government				
Legislative	167,927	167,927	156,788	11,139
Executive	1,506,174	1,586,346	1,243,995	342,351
Legal	240,709	257,509	248,934	8,575
Finance	808,915	816,318	748,380	67,938
<b>Total general government</b>	<b>2,723,725</b>	<b>2,828,100</b>	<b>2,398,097</b>	<b>430,003</b>
Public Safety				
Police	3,205,552	3,243,572	3,153,821	89,751
Fire protection	50,000	50,000	105,403	(55,403)
<b>Total public safety</b>	<b>3,255,552</b>	<b>3,293,572</b>	<b>3,259,224</b>	<b>34,348</b>
<b>Subtotal</b>	<b>5,979,277</b>	<b>6,121,672</b>	<b>5,657,321</b>	<b>464,351</b>
Planning and zoning	422,920	678,325	390,307	288,018
Public works and engineering	3,243,558	3,667,190	2,493,932	1,173,258
Parks and recreation	56,594	56,594	56,594	-
Non-departmental	724,450	686,485	532,993	153,492
<b>Total Expenditures</b>	<b>10,426,799</b>	<b>11,210,266</b>	<b>9,131,147</b>	<b>2,079,119</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(2,522,927)</b>	<b>(3,287,688)</b>	<b>(677,531)</b>	<b>2,610,157</b>
<b>Other Financing Sources (Uses)</b>				
Other Sources	500,000	500,000	146,990	(353,010)
Transfers in	1,477,678	1,477,678	1,643,617	165,939
Transfers (out)	(20,000)	(20,000)	(97,032)	(77,032)
<b>Total other financing sources (uses)</b>	<b>1,957,678</b>	<b>1,957,678</b>	<b>1,693,575</b>	<b>(264,103)</b>
<b>Net change in fund balances</b>	<b>(565,249)</b>	<b>(1,330,010)</b>	<b>1,016,044</b>	<b>2,346,054</b>
<b>Fund balances - beginning</b>	<b>5,492,562</b>	<b>5,492,562</b>	<b>5,492,562</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 4,927,313</b>	<b>\$ 4,162,552</b>	<b>\$ 6,508,606</b>	<b>\$ 2,346,054</b>

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, 2007**

	Business-type Activities - Enterprise Funds			
	Electric	Electric	Water	Water
	Current Year	Prior Year	Current Year	Prior Year
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,414,272	\$ 5,121,283	\$ 12,136,773	\$ 11,530,699
Investments	2,544,911	2,871,967	-	2,142,905
Due from other funds	500,000	625,000	403,199	46,266
Interest receivable	200	200	2,250	2,250
Accounts receivable (net of allowance for uncollectibles)	1,903,342	1,263,119	591,524	342,500
Other receivables	11,678	6,157	8,700	-
Inventories	594,769	517,781	76,652	63,101
Total current assets	6,969,172	10,405,507	13,219,098	14,127,721
Noncurrent assets				
Restricted cash - cash equivalents	182,674	147,154	11,190	22,175
Deferred charges	-	-	109,663	130,230
Escrow deposit	-	-	-	-
	182,674	147,154	120,853	152,405
Capital assets				
Land, buildings and structures	2,355,914	1,430,654	6,082,833	2,863,640
Utility distribution systems	7,356,144	7,122,612	19,775,233	18,989,285
Vehicles	1,004,204	827,511	320,282	320,282
Equipment	626,888	555,204	384,860	384,860
Less accumulated depreciation	(5,187,886)	(4,906,550)	(9,023,899)	(8,529,823)
Total capital assets (net of accumulated depreciation)	6,155,264	5,029,431	17,539,309	14,028,244
Total noncurrent assets	6,337,938	5,176,585	17,660,162	14,180,649
<b>Total Assets</b>	<b>13,307,110</b>	<b>15,582,092</b>	<b>30,879,260</b>	<b>28,308,370</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	174,895	923,111	386,318	25,733
Accrued interest payable	-	-	138,939	57,206
General obligation bonds - current	-	-	608,595	276,734
Total current liabilities	174,895	923,111	1,133,852	359,673
Noncurrent liabilities				
Customer deposits payable	182,674	147,154	11,190	22,175
Compensated absences	43,014	35,485	109,812	98,394
General obligation bonds payable	-	-	11,370,550	11,979,144
Premium on general obligation bonds payable	-	-	246,119	259,073
Total noncurrent liabilities	225,688	182,639	11,737,671	12,358,786
<b>Total Liabilities</b>	<b>400,583</b>	<b>1,105,750</b>	<b>12,871,523</b>	<b>12,718,459</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,155,264	5,029,431	5,560,164	1,772,360
Unrestricted	6,751,263	9,446,911	12,447,573	13,817,551
<b>Total Net Assets</b>	<b>\$ 12,906,527</b>	<b>\$ 14,476,342</b>	<b>\$ 18,007,737</b>	<b>\$ 15,589,911</b>

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, 2007**

EXHIBIT VII  
(Continued)

	Business-type Activities - Enterprise Funds				
	Sewer		Refuse		Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 1,046,623	\$ 992,934	\$ 15,519	\$ -	\$ 14,613,187
Investments	2,352,211	1,182,131	73,009	188,502	4,970,131
Due from other funds	(214,166)	46,265	-	-	689,033
Interest receivable	-	-	-	-	2,450
Accounts receivable (net of allowance for uncollectibles)	572,523	310,058	120,420	94,938	3,187,809
Other receivables	7,840	201	1,386	152	29,604
Inventories	76,652	63,101	-	-	748,073
Total current assets	3,841,683	2,594,690	210,334	283,592	24,240,287
Noncurrent assets					
Restricted cash - cash equivalents	-	16,573	-	-	193,864
Deferred charges	43,274	50,984	-	-	152,937
Escrow deposit	-	-	-	-	-
	43,274	67,557	-	-	346,801
Capital assets					
Land, buildings and structures	4,061,137	4,061,137	-	-	12,499,884
Utility distribution systems	22,022,552	21,611,152	-	-	49,153,929
Vehicles	320,282	320,282	897,359	897,359	2,542,127
Equipment	542,558	537,233	491,105	465,767	2,045,411
Less accumulated depreciation	(12,844,056)	(12,170,393)	(916,918)	(832,082)	(27,972,759)
Total capital assets (net of accumulated depreciation)	14,102,473	14,359,411	471,546	531,044	38,268,592
Total noncurrent assets	14,145,747	14,426,968	471,546	531,044	38,615,393
<b>Total Assets</b>	<b>17,987,430</b>	<b>17,021,658</b>	<b>681,880</b>	<b>814,636</b>	<b>62,855,680</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	67,876	58,659	6,348	6,180	635,437
Accrued interest payable	20,832	17,838	-	-	159,771
General obligation bonds - current	278,594	276,733	-	-	887,189
Total current liabilities	367,302	353,230	6,348	6,180	1,682,397
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	193,864
Compensated absences	110,912	98,833	35,859	24,321	299,597
General obligation bonds payable	1,385,551	1,664,145	-	-	12,756,101
Premium on general obligation bonds payable	-	-	-	-	246,119
Total noncurrent liabilities	1,496,463	1,762,978	35,859	24,321	13,495,681
<b>Total Liabilities</b>	<b>1,863,765</b>	<b>2,116,208</b>	<b>42,207</b>	<b>30,501</b>	<b>15,178,078</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	12,438,328	12,418,532	471,546	531,045	24,625,302
Unrestricted	3,685,337	2,486,918	168,127	253,090	23,052,300
<b>Total Net Assets</b>	<b>\$ 16,123,665</b>	<b>\$ 14,905,450</b>	<b>\$ 639,673</b>	<b>\$ 784,135</b>	<b>\$ 47,677,602</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
<b>Operating revenues</b>				
Charges for sales and services				
Electric sales	\$ 15,259,385	\$ 11,407,870	\$ -	\$ -
Water and sewer sales	-	-	2,742,246	2,820,345
Installation and connection charges	177,269	105,058	935,664	363,983
Refuse service fees	-	-	-	-
Miscellaneous revenues	17,476	(5,690)	17,091	14,363
Total operating revenues	<u>15,454,130</u>	<u>11,507,238</u>	<u>3,695,001</u>	<u>3,198,691</u>
<b>Operating expenses</b>				
Personal service	686,223	609,963	749,553	673,430
Contractual service	578,931	432,379	108,399	104,018
Electric power	14,396,124	7,816,545	-	-
Depreciation	349,422	310,003	494,076	419,580
Other charges	515,374	650,033	500,257	715,821
Operating expenses capitalized	(283,107)	(301,798)	(88,755)	(69,208)
Total operating expenses	<u>16,242,967</u>	<u>9,517,125</u>	<u>1,763,530</u>	<u>1,843,641</u>
Operating income	<u>(788,837)</u>	<u>1,990,113</u>	<u>1,931,471</u>	<u>1,355,050</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	279,943	270,768	688,821	150,210
Interest expense	(7,171)	(6,238)	(559,807)	(114,466)
Bond issuance costs	-	-	(20,568)	(5,916)
Total nonoperating revenue (expenses)	<u>272,772</u>	<u>264,530</u>	<u>108,446</u>	<u>29,828</u>
Income before contributions and transfers	<u>(516,065)</u>	<u>2,254,643</u>	<u>2,039,917</u>	<u>1,384,878</u>
<b>Transfers and contributions</b>				
Capital contributions	-	-	697,193	62,127
Transfers in (out)	(1,053,750)	(1,454,999)	(319,284)	(606,170)
Change in net assets	<u>(1,569,815)</u>	<u>799,644</u>	<u>2,417,826</u>	<u>840,835</u>
Total net assets - beginning of year	<u>14,476,342</u>	<u>13,676,698</u>	<u>15,589,911</u>	<u>14,749,076</u>
Total net assets - end of year	<u>\$12,906,527</u>	<u>\$14,476,342</u>	<u>\$18,007,737</u>	<u>\$15,589,911</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Refuse	Refuse	Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year
<b>Operating revenues</b>					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$15,259,385
Water and sewer sales	2,832,037	2,770,865	-	-	5,574,283
Installation and connection charges	813,500	240,864	-	-	1,926,433
Refuse service fees	-	-	801,974	806,968	801,974
Miscellaneous revenues	-	250	-	-	34,567
Total operating revenues	<u>3,645,537</u>	<u>3,011,979</u>	<u>801,974</u>	<u>806,968</u>	<u>23,596,642</u>
<b>Operating expenses</b>					
Personal service	888,200	795,936	643,804	580,419	2,967,780
Contractual service	231,477	275,004	5,933	29,642	924,740
Electric power	-	-	-	-	14,396,124
Depreciation	673,664	663,245	84,835	83,287	1,601,997
Other charges	900,468	495,792	147,309	135,235	2,063,408
Operating expenses capitalized	(14,095)	(25,024)	(5,400)	-	(391,357)
Total operating expenses	<u>2,679,714</u>	<u>2,204,953</u>	<u>876,481</u>	<u>828,583</u>	<u>21,562,692</u>
Operating income	<u>965,823</u>	<u>807,026</u>	<u>(74,507)</u>	<u>(21,615)</u>	<u>2,033,950</u>
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	121,545	69,107	7,370	7,097	1,097,679
Interest expense	(65,491)	(75,097)	-	-	(632,469)
Bond issuance costs	(7,710)	(5,916)	-	-	(28,278)
Total nonoperating revenue (expenses)	<u>48,344</u>	<u>(11,906)</u>	<u>7,370</u>	<u>7,097</u>	<u>436,932</u>
Income before contributions and transfers	<u>1,014,167</u>	<u>795,120</u>	<u>(67,137)</u>	<u>(14,518)</u>	<u>2,470,882</u>
<b>Transfers and contributions</b>					
Capital contributions	397,306	9,579	-	-	1,094,499
Transfers in (out)	(193,258)	(4,363)	(77,325)	(75,900)	(1,643,617)
Change in net assets	<u>1,218,215</u>	<u>800,336</u>	<u>(144,462)</u>	<u>(90,418)</u>	<u>1,921,764</u>
Total net assets - beginning of year	<u>14,905,450</u>	<u>14,105,114</u>	<u>784,135</u>	<u>874,553</u>	<u>45,755,838</u>
Total net assets - end of year	<u>\$16,123,665</u>	<u>\$14,905,450</u>	<u>\$ 639,673</u>	<u>\$ 784,135</u>	<u>\$47,677,602</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 14,808,386	\$ 3,437,277	\$ 3,375,433	\$ 775,258	\$ 22,396,354
Payments to suppliers	(15,997,006)	(163,285)	(1,114,474)	(147,674)	(17,422,439)
Payments to employees	(678,694)	(738,135)	(876,121)	(632,266)	(2,925,216)
Net cash provided by operating activities	(1,867,314)	2,535,857	1,384,838	(4,682)	2,048,699
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers to other funds	(1,053,750)	(319,284)	(193,258)	(77,325)	(1,643,617)
Repayment of interfund advances	125,000	(356,933)	260,431	-	278,900
Net cash provided (used) by capital and related financing activities	(928,750)	(676,217)	67,173	(77,325)	(1,364,717)
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital contributions	-	697,193	397,306	-	1,094,499
Acquisition and construction of capital assets	(1,475,254)	(4,005,141)	(416,726)	(25,338)	(5,922,459)
Principal paid on capital debt	-	(276,732)	(276,733)	-	(553,465)
Interest paid	(7,171)	(511,597)	(70,207)	-	(588,975)
Net cash provided (used) by capital and related financing activities	(1,482,425)	(4,096,277)	(366,360)	(25,338)	(5,970,400)
<b>Cash Flows from Investing Activities</b>					
(Purchases)/sale of investments	327,055	2,142,905	(1,170,080)	115,494	1,415,374
Interest and dividends received	279,943	688,821	121,545	7,370	1,097,679
Net cash provided (used) by investing activities	606,998	2,831,726	(1,048,535)	122,864	2,513,053
Net increase in cash and cash equivalents	(3,671,491)	595,089	37,116	15,519	(3,023,767)
Cash and cash equivalents July 1, 2006	5,268,437	11,552,874	1,009,507	-	17,830,818
Cash and cash equivalents June 30, 2007	\$ 1,596,946	\$ 12,147,963	\$ 1,046,623	\$ 15,519	\$ 14,807,051
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income	\$ (788,837)	\$ 1,931,471	\$ 965,823	\$ (74,507)	\$ 2,033,950
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	349,422	494,076	673,664	84,835	1,601,997
(Increase) decrease in accounts receivable	(640,223)	(249,024)	(262,465)	(25,482)	(1,177,194)
(Increase) decrease in other receivables	(5,521)	(8,700)	(7,639)	(1,234)	(23,094)
(Increase) decrease in inventories	(76,988)	(13,551)	(13,551)	-	(104,090)
(Increase) decrease in deferred charges	-	20,567	7,710	-	28,277
Increase (decrease) in customer deposits	35,520	(10,985)	-	-	24,535
Increase (decrease) in accounts payable	(748,216)	360,585	9,217	168	(378,246)
Increase (decrease) in compensated absences	7,529	11,418	12,079	11,538	42,564
Total adjustments	(1,078,477)	604,386	419,015	69,825	14,749
Net cash provided by operating activities	\$ (1,867,314)	\$ 2,535,857	\$ 1,384,838	\$ (4,682)	\$ 2,048,699
<b>Noncash investing, capital, and financing activities</b>					
Capital assets contributed by developers	\$ -	\$ 697,193	\$ 397,306	\$ -	\$ 1,094,499

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**

**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.

**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.

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.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

---

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.

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

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.

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 operations.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

---

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.

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.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 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.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE 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.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

---

**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.

**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 \$1,144,488 are as follows:

Description	Amount
Bonds payable	\$ 498,013
Compensated absences	646,475
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$ 1,144,488</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 \$3,239,726 difference is as follows:

Description	Amount
Capital outlay	\$ 642,389
Depreciation expense	<u>(3,882,115)</u>
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>\$ (3,239,726)</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 \$70,483 difference are as follows:

Description	Amount
Principal debt retirements of bonded debt	\$ 70,483
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>\$ 70,483</u>

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

---

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several general fund budgetary appropriations throughout the year, totaling \$783,467.

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

**B. Excess of Expenditures over Appropriations**

For the year ended June 30, 2007, expenditures exceeded appropriations in the following general fund department:

Department	Excess Expenditures Over Appropriations
Fire protection	\$ 55,403

**C. Deficit Fund Equity**

At June 30, 2007 Special Revenue Fund - Downtown Service District had a deficit fund balance as noted below:

Fund	Deficit
Downtown Service District	\$ 2,194

**A. Deposits and Investments**

Deposits

As of June 30, 2007, the carrying amount of the Town's deposits with banks and savings institutions was (\$332,530) and the bank balance was \$1,512,029. 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS

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).

As of June 30, 2007, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
SunTrust US Government MM Fund	\$ 2,424,745	\$ 2,424,745	\$ -
Commercial Paper	7,316,146	7,316,146	-
Government and agency bonds/notes	3,785,685	3,785,685	-
Repurchase agreements	119,467	119,467	-
LGIP Pool	2,742,006	2,742,006	-
SNAP Pool	11,105,669	11,105,669	-
SunTrust US Government Fund	1,507,526	1,507,526	-
Total	\$ 29,001,244	\$ 29,001,244	\$ -

*Interest 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. The Town's investment policy provides for annual review of custodian and selecting custodians that have annual 3rd party audits of their custodian accounts and financial internal accounting control.

*Credit risk.* State Law limits investments in commercial paper and corporate bonds to the top rating issued by nationally recognized statistical rating organizations. It is the Town's policy to limit its investments in these types of investments to the state Law. As of June 30, 2007, the Town's investment in the State Treasurer's investment pool was rated AAA by Standard & Poor's. The Town's investments in commercial paper were rated A1 by Standard & Poor's and P-1 by Moody's Investors Service. The Town's investments in government and agency bonds/notes are direct guaranteed obligations of the U.S.

*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.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 1,488	\$ 1,488	\$ -
Bank Deposits	(332,530)	(332,530)	-
Investments	29,001,244	17,899,413	11,101,831
<b>Total</b>	<b>\$ 28,670,202</b>	<b>\$ 17,568,371</b>	<b>\$ 11,101,831</b>

**B. Estimated Unbilled Revenue**

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2007. 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, 2007, the amount of unbilled service recorded was \$1,224,037.

**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	\$ 261,982	\$ -	\$ -	\$ -	\$ -	\$ 3,552	\$ 265,534
Accounts	-	1,911,117	529,269	501,508	100,482	-	3,042,376
Interest	1,300	200	2,250	-	-	-	3,750
Intergovernmental	97,385	-	-	-	-	-	97,385
Unbilled	-	845,900	175,390	148,165	54,583	-	1,224,038
Other	80,718	19,509	11,438	13,098	1,435	-	126,198
Less: allowance for uncollectibles	(7,751)	(861,506)	(115,873)	(82,408)	(34,694)	-	(1,102,232)
Net total receivables	\$ 433,634	\$ 1,915,220	\$ 602,474	\$ 580,363	\$ 121,806	\$ 3,552	\$ 3,657,049

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of the unearned revenue reported in the governmental funds were as follows:

Fund/Type	Unavailable	Unearned
General Fund - Property Taxes	\$ 266,994	\$ -
Special Revenue Fund - Property Taxes	3,552	-
	<b>\$ 270,546</b>	<b>\$ -</b>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

**D. Due from Other Governments**

At June 30, 2007 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Grants	\$ 15,628
Communication Tax	28,000
Warren County, Virginia - Sales Tax	53,757
	<u>\$ 97,385</u>

**E. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,117,508	\$ -	\$ -	\$ 1,117,508
Construction in progress	77,927	-	-	77,927
Total capital assets, not being depreciated	<u>1,195,435</u>	-	-	<u>1,195,435</u>
Capital assets, being depreciated				
Buildings and improvements	3,345,446	512,745		3,858,191
Vehicles	1,392,454	83,704	(105,210)	1,370,948
Equipment	2,662,433	45,940	(20,103)	2,688,270
Infrastructure	109,527,139	-	-	109,527,139
Total capital assets being depreciated	<u>116,927,472</u>	<u>642,389</u>	<u>(125,313)</u>	<u>117,444,548</u>
Less accumulated depreciation for				
Buildings and improvements	(879,655)	(99,625)	-	(979,280)
Vehicles	(1,017,567)	(135,096)	105,210	(1,047,453)
Equipment	(1,675,413)	(56,340)	20,103	(1,711,650)
Infrastructure	(39,357,183)	(3,591,054)	-	(42,948,237)
Total accumulated depreciation	<u>(42,929,818)</u>	<u>(3,882,115)</u>	<u>125,313</u>	<u>(46,686,620)</u>
Net capital assets being depreciated	<u>73,997,654</u>	<u>(3,239,726)</u>	-	<u>70,757,928</u>
Governmental capital assets, net	<u>\$ 75,193,089</u>	<u>\$ (3,239,726)</u>	-	<u>\$ 71,953,363</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,368,968	\$ 119,854	\$ -	\$ 1,488,822
Total capital assets not being depreciated	1,368,968	119,854	-	1,488,822
Capital assets, being depreciated				
Buildings and improvements	6,986,463	4,024,600	-	11,011,063
Utility Distribution Systems	47,723,049	1,480,456	(49,576)	49,153,929
Vehicles	2,365,435	195,202	(18,510)	2,542,127
Equipment	1,943,064	102,347	-	2,045,411
Total capital assets, being depreciated	59,018,011	5,802,605	(68,086)	64,752,530
Less accumulated depreciation for				
Buildings and improvements	(3,160,280)	(288,066)	-	(3,448,346)
Utility Distribution Systems	(20,539,423)	(1,118,199)	49,576	(21,608,046)
Vehicles	(1,547,238)	(121,720)	18,510	(1,650,448)
Equipment	(1,191,908)	(74,012)	-	(1,265,920)
Total accumulated depreciation	(26,438,849)	(1,601,997)	68,086	(27,972,760)
Net capital assets being depreciated	32,579,162	4,200,608	-	36,779,770
Business-type activities	\$ 33,948,130	\$ 4,320,462	\$ -	\$ 38,268,592

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

Activity	Depreciation
Governmental activities:	
General government	\$ 78,895
Public safety	107,224
Public works	86,159
Planning, zoning, and community development	16,923
Culture and recreation	1,860
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	\$ 3,882,115
Business-type activities:	
Electric	\$ 349,422
Water	494,076
Sewer	673,664
Refuse	84,835
Total depreciation expense - business-type activities	\$ 1,601,997

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

**F. Interfund Advances/Transfers**

The composition and activity of interfund advances/transfers for 2006 is as follows:

Advanced to	Advanced from	Amount
General Fund	Electric	\$ 500,000
General Fund	Water	48,516
General Fund	Sewer	47,987
Special Revenue	Water	46,265
Special Revenue	Sewer	46,265
		<u>\$ 689,033</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.

General obligation bonds and notes outstanding at June 30, 2007 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%.	\$ 3,328,291
\$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%.	498,013
\$10,315,000, 2006 series general obligation bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%.	<u>10,315,000</u>
Total General Obligation Debt	<u>\$ 14,141,304</u>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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
2008	\$ 73,799	\$ 23,244	\$ 887,189	\$ 578,800
2009	77,233	19,799	906,030	548,601
2010	80,839	19,192	919,996	517,208
2011	84,615	12,417	939,089	485,017
2012	88,566	8,465	958,313	450,927
Thereafter	92,961	4,329	9,032,674	3,492,999
<b>Total</b>	<b>\$ 498,013</b>	<b>\$ 87,446</b>	<b>\$ 13,643,291</b>	<b>\$ 6,073,552</b>

The legal debt limit mandated by the Commonwealth of Virginia is \$143,323,827.

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, 2007 was as follows:

	June 30, 2006	Additions	Retirements	June 30, 2007	One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 568,496	\$ -	\$ (70,483)	\$ 498,013	\$ 73,799
Demand note	-	-	-	-	-
Compensated absences	553,748	92,727	-	646,475	-
Governmental activity					
Long-term liabilities	\$ 1,122,244	\$ 92,727	\$ (70,483)	\$ 1,144,488	\$ 73,799
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 14,196,756	\$ -	\$ (553,465)	\$ 13,643,291	\$ 887,189
Unamortized premium	259,073	-	(12,954)	246,119	-
Compensated absences	257,033	42,563	-	299,596	-
Business-type activity					
Long-term liabilities	\$ 14,712,862	\$ 42,563	\$ (566,419)	\$ 14,189,006	\$ 887,189

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ -	\$ 646,475
Electric	-	43,014
Water	-	109,812
Sewer	-	110,912
Refuse	-	35,859
	\$ -	\$ 299,597

**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 2007 the Town paid premiums of approximately \$182,539 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 2007, the Town paid contributions of approximately \$282,701 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.

**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.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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>\$ 2,840,000</u>
Town of Front Royal support agreement obligation – 20%	<u>\$ 568,000</u>

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
2008	240,000	97,648	48,000	19,530	67,530
2009	250,000	88,853	50,000	17,771	67,771
2010	260,000	79,698	52,000	15,940	67,940
2011	270,000	70,185	54,000	14,037	68,037
2012	280,000	60,312	56,000	12,062	68,062
Thereafter	1,540,000	142,164	308,000	28,433	336,433
	<u>\$ 2,840,000</u>	<u>\$ 538,860</u>	<u>\$ 568,000</u>	<u>\$ 107,773</u>	<u>\$ 675,773</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 2007 those costs totaled approximately \$22,300 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 adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. 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 2007 was 14.35% of annual covered payroll.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

Annual Pension Cost

For 2007, the Town's annual pension cost of \$795,405 was equal to the Town's and employee's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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) 3.0% 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.

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

Fiscal Year Ended	Annual	% APC	Net Pension
2007	\$ 795,405	100	None
2006	695,723	100	None
2005	677,061	100	None
2004	501,074	100	None
2003	484,692	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 Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
June 20, 2006	\$ 18,887,465	\$ 20,416,447	\$ 1,528,982	92.51%	\$ 5,149,154	29.69%
June 30, 2005	17,855,882	20,383,018	2,527,138	87.60%	4,945,591	51.10%
June 30, 2004	17,485,601	19,325,038	1,839,437	90.48%	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%

**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, 2007**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Source of Revenues</b>				
<b>General Property Taxes</b>				
Real estate taxes				
Current taxes, including penalties	\$ 891,217	\$ 891,217	\$ 856,699	\$ (34,518)
Delinquent taxes, including penalties	19,000	19,000	43,930	24,930
Personal property taxes				
Current taxes, including penalties	323,800	323,800	299,041	(24,759)
Delinquent taxes, including penalties	-	-	32,308	32,308
Mobile home taxes				
Current taxes, including penalties	-	-	225	225
Public service corporation taxes	13,200	13,200	11,772	(1,428)
Interest on delinquent taxes	17,000	17,000	10,450	(6,550)
Total General Property Taxes	<u>1,264,217</u>	<u>1,264,217</u>	<u>1,254,425</u>	<u>(9,792)</u>
<b>Other Local Taxes</b>				
Warren County sales tax	580,000	580,000	613,495	33,495
Business and occupational taxes and penalties	681,000	681,000	721,486	40,486
Franchise taxes	240,000	240,000	206,989	(33,011)
Consumer taxes - electric deregulation	190,300	190,300	240,682	50,382
Vehicle licenses	255,000	255,000	239,854	(15,146)
Bank stock taxes	175,000	175,000	159,285	(15,715)
Lodging taxes	307,000	307,000	315,532	8,532
Meal taxes	1,233,000	1,233,000	1,318,191	85,191
Payment in lieu of taxes	78,000	78,000	90,215	12,215
Total Other Local Taxes	<u>3,739,300</u>	<u>3,739,300</u>	<u>3,905,729</u>	<u>166,429</u>
<b>Permits, Fees and Licenses</b>				
Zoning income	30,000	30,000	28,248	(1,752)
Public ROW use fees	30,000	30,000	73,115	43,115
Sign permits	500	500	400	(100)
Total Permits, Fees and Licenses	<u>60,500</u>	<u>60,500</u>	<u>101,763</u>	<u>41,263</u>
<b>Fines and Forfeitures</b>				
Fines and forfeitures - county	283,610	283,610	337,133	53,523
Fines and forfeitures - town	30,000	30,000	19,498	(10,502)
Total Fines and Forfeitures	<u>313,610</u>	<u>313,610</u>	<u>356,631</u>	<u>43,021</u>
<b>Revenues from Use of Money and Property</b>				
Interest on bank deposits	62,000	62,000	274,233	212,233
Interest on accounts receivable	-	-	1,042	1,042
Rental - general property	-	-	312	312
Rental - Adelpia property	8,400	8,400	8,686	286
Total Revenues from Use of Money and Property	<u>\$ 70,400</u>	<u>\$ 70,400</u>	<u>\$ 284,273</u>	<u>\$ 213,873</u>

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

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Charges for Services</b>				
Curb and gutter charges	\$ 45,000	\$ 45,000	\$ 26,982	\$ (18,018)
Street & walk assessment	2,000	2,000	775	(1,225)
Credit card fees	2,200	2,200	(2,350)	(4,550)
Sales at Visitors' Center	57,800	57,800	74,255	16,455
Sales of publications	1,000	1,000	1,247	247
Total Charges for Services	<u>108,000</u>	<u>108,000</u>	<u>100,909</u>	<u>(7,091)</u>
<b>Miscellaneous Revenue</b>				
Miscellaneous	<u>28,000</u>	<u>28,000</u>	<u>65,242</u>	<u>37,242</u>
<b>Recovered Costs</b>				
Warren County Fire Department	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
<b>Intergovernmental</b>				
ABC profits	7,960	7,960	7,966	6
Wine tax distribution	8,350	8,350	8,350	-
Rolling stock tax	12,400	12,400	11,874	(526)
Virginia personal property tax reduction	270,000	270,000	287,878	17,878
Rental tax vehicles	55,000	55,000	39,845	(15,155)
State aid for police and fire	420,447	420,447	433,409	12,962
Highway maintenance	1,418,250	1,418,250	1,424,796	6,546
Grants	77,438	96,144	170,526	74,382
Total Intergovernmental	<u>2,269,845</u>	<u>2,288,551</u>	<u>2,384,644</u>	<u>96,093</u>
Total General Fund Revenues	<u>7,903,872</u>	<u>7,922,578</u>	<u>8,453,616</u>	<u>531,038</u>
<b>Other Financing Sources</b>				
Other Sources	500,000	500,000	146,990	(353,010)
Transfers from other funds	1,477,678	1,477,678	1,643,617	165,939
Total Other Financing Sources	<u>1,977,678</u>	<u>1,977,678</u>	<u>1,790,607</u>	<u>(187,071)</u>
Total General Fund Revenues and Other Financing Sources	<u>\$ 9,881,550</u>	<u>\$ 9,900,256</u>	<u>\$ 10,244,223</u>	<u>\$ 343,967</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Legislative</b>				
Town Council				
Personal service	\$ 55,966	\$ 55,968	\$ 55,967	\$ 1
Contractual service	39,000	38,998	30,407	8,591
Materials and supplies	1,000	750	472	278
Travel and communications	14,750	15,500	13,616	1,884
Total Town Council	<u>110,716</u>	<u>111,216</u>	<u>100,462</u>	<u>10,754</u>
Clerk of Council				
Personal service	47,161	47,161	46,804	357
Contractual service	4,750	5,610	6,045	(435)
Materials and supplies	1,500	1,575	1,441	134
Travel and communications	3,500	2,065	1,866	199
Dues and memberships	300	300	170	130
Total Clerk of Council	<u>57,211</u>	<u>56,711</u>	<u>56,326</u>	<u>385</u>
Total Legislative	<u>167,927</u>	<u>167,927</u>	<u>156,788</u>	<u>11,139</u>
<b>Executive</b>				
Town Manager				
Personal service	190,464	209,444	184,294	25,150
Contractual service	4,400	2,400	2,480	(80)
Materials and supplies	5,200	6,870	6,856	14
Travel and communications	6,000	29,350	29,446	(96)
Dues and memberships	1,400	1,400	1,330	70
Capital outlays	-	-	-	-
Total Town Manager	<u>207,464</u>	<u>249,464</u>	<u>224,406</u>	<u>25,058</u>
Management Services				
Personal service	120,143	97,143	93,563	3,580
Contractual service	35,740	62,400	62,253	147
Materials and supplies	3,000	5,000	5,254	(254)
Travel and communications	2,800	800	624	176
Dues and memberships	-	340	340	-
Total Management Services	<u>161,683</u>	<u>165,683</u>	<u>162,034</u>	<u>3,649</u>
Office of the Town Engineer				
Personal service	68,818	51,463	29,618	21,845
Contractual service	5,000	5,000	4,350	650
Materials and supplies	2,000	4,200	3,938	262
Travel and communications	1,250	1,280	1,114	166
Dues and memberships	500	500	217	283
Capital outlays	18,275	30,000	29,952	48
Total Office of the Town Engineer	<u>95,843</u>	<u>92,443</u>	<u>69,189</u>	<u>23,254</u>
Auto/Motorpool				
Personal service	262,505	263,005	263,281	(276)
Contractual service	(160,050)	(160,550)	(194,041)	33,491
Materials and supplies	236,500	242,500	226,167	16,333
Travel and communications	3,400	3,400	1,063	2,337
Utilities	3,000	3,000	479	2,521
Dues and memberships	-	-	-	-
Capital outlays	10,000	10,000	-	10,000
Total Auto/Motorpool	<u>355,355</u>	<u>361,355</u>	<u>296,949</u>	<u>64,406</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Office of Information Technology</b>				
Personal service	3,960	3,960	2,496	1,464
Contractual service	184,547	184,547	112,800	71,747
Materials and supplies	2,700	2,700	128	2,572
Travel and communications	57,563	58,203	38,988	19,215
Dues and memberships	250	250	-	250
Capital outlays	127,500	158,432	43,659	114,773
Total Office of Information Technology	<u>\$ 376,520</u>	<u>\$ 408,092</u>	<u>\$ 198,071</u>	<u>\$ 210,021</u>
<b>Office of Tourism</b>				
Personal service	\$ 123,016	\$ 123,016	\$ 119,937	\$ 3,079
Contractual service	98,918	98,918	81,095	17,823
Materials and supplies	57,025	57,025	66,521	(9,496)
Utilities	300	300	90	210
Travel and communications	16,400	16,400	16,618	(218)
Dues and memberships	2,500	2,500	1,360	1,140
Contributions to other entities	3,400	3,400	1,700	1,700
Capital outlays	7,750	7,750	6,025	1,725
Total Office of Tourism	<u>309,309</u>	<u>309,309</u>	<u>293,346</u>	<u>15,963</u>
<b>Board of Elections</b>				
Contractual service	-	-	-	-
Total Executive	<u>1,506,174</u>	<u>1,586,346</u>	<u>1,243,995</u>	<u>342,351</u>
<b>Legal</b>				
Town Attorney				
Personal service	186,234	191,034	183,252	7,782
Contractual service	41,350	53,350	53,187	163
Materials and supplies	6,750	6,750	6,858	(108)
Travel and communications	5,425	5,425	5,317	108
Dues and memberships	950	950	320	630
Capital outlays	-	-	-	-
Total Legal	<u>240,709</u>	<u>257,509</u>	<u>248,934</u>	<u>8,575</u>
<b>Finance</b>				
Finance Department				
Personal service	690,765	691,065	655,313	35,752
Contractual service	45,150	46,860	21,897	24,963
Materials and supplies	17,650	20,400	18,587	1,813
Travel and communications	54,950	57,593	52,513	5,080
Dues and memberships	400	400	70	330
Capital outlays	-	-	-	-
Total Finance Department	<u>808,915</u>	<u>816,318</u>	<u>748,380</u>	<u>67,938</u>
Total General Government	<u>2,723,725</u>	<u>2,828,100</u>	<u>2,398,097</u>	<u>430,003</u>
<b>Planning, Zoning and Community Development</b>				
Planning and Zoning				
Personal service	288,088	288,088	240,007	48,081
Contractual service	37,350	182,727	59,970	122,757
Materials and supplies	2,250	5,500	5,050	450
Travel and communications	3,300	1,900	2,605	(705)
Dues and memberships	1,000	800	85	715
Capital outlays	-	100,000	-	100,000
Total Planning and Zoning	<u>331,988</u>	<u>579,015</u>	<u>307,717</u>	<u>271,298</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Property Maintenance Inspection</b>				
Personal service				-
Contractual service				-
Materials and supplies				-
Travel and communications				-
<b>Total Property Maintenance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Boards and Commissions</b>				
Personal service	6,500	6,500	6,271	229
Contractual service	8,050	8,050	6,593	1,457
Materials and supplies	1,200	1,200	338	862
Travel and communications	2,950	2,950	3,154	(204)
Dues and memberships	50	50	-	50
Joint operations	7,850	7,850	7,797	53
<b>Total Boards and Commissions</b>	<b>26,600</b>	<b>26,600</b>	<b>24,153</b>	<b>2,447</b>
<b>Economic Development</b>				
Contractual service	-	8,378	-	8,378
Contributions to other entities	64,332	64,332	58,437	5,895
Capital outlays	-	-	-	-
<b>Total Economic Development</b>	<b>64,332</b>	<b>72,710</b>	<b>58,437</b>	<b>14,273</b>
<b>Total Planning, Zoning and Community Development</b>	<b>\$ 422,920</b>	<b>\$ 678,325</b>	<b>\$ 390,307</b>	<b>\$ 288,018</b>
<b>Police</b>				
<b>Police Department</b>				
Personal service	\$ 2,825,092	\$ 2,825,092	\$ 2,740,871	\$ 84,221
Contractual service	47,600	42,150	36,218	5,932
Materials and supplies	167,957	199,478	210,707	(11,229)
Travel and communications	34,250	37,951	30,703	7,248
Dues and memberships	4,300	2,300	1,805	495
Joint operations	25,960	41,716	41,507	209
Capital outlays	100,393	94,885	92,010	2,875
<b>Total Police Department</b>	<b>3,205,552</b>	<b>3,243,572</b>	<b>3,153,821</b>	<b>89,751</b>
<b>Fire Protection</b>				
<b>Fire Department</b>				
Personal service	-	-	72,015	(72,015)
Materials and supplies	50,000	50,000	33,388	16,612
<b>Total Fire Department</b>	<b>50,000</b>	<b>50,000</b>	<b>105,403</b>	<b>(55,403)</b>
<b>Total Public Safety</b>	<b>3,255,552</b>	<b>3,293,572</b>	<b>3,259,224</b>	<b>34,348</b>
<b>Engineering and Public Works</b>				
<b>Engineering</b>				
Personal service	36,729	70,729	60,135	10,594
Contractual service	6,800	10,832	2,955	7,877
Materials and supplies	3,750	3,825	4,189	(364)
Travel and communications	2,800	4,425	3,723	702
Dues and memberships	200	200	35	165
Capital outlays	-	-	-	-
<b>Total Engineering</b>	<b>50,279</b>	<b>90,011</b>	<b>71,037</b>	<b>18,974</b>

SCHEDULE 2  
(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Streets and Sidewalks</b>				
Personal service	1,002,676	958,376	846,124	112,252
Contractual service	634,600	901,250	657,782	243,468
Materials and supplies	548,000	462,200	397,091	65,109
Travel and communications	4,550	6,150	6,420	(270)
Utilities	29,250	38,250	37,647	603
Dues and memberships	300	-	-	-
Capital outlays	636,500	840,764	159,446	681,318
<b>Total Streets and Sidewalks</b>	<b>2,855,876</b>	<b>3,206,990</b>	<b>2,104,510</b>	<b>1,102,480</b>
<b>General Properties</b>				
Personal service	44,774	44,774	36,915	7,859
Contractual service	122,900	142,286	106,469	35,817
Materials and supplies	21,900	31,900	24,782	7,118
Travel and communications	2,400	2,400	2,257	143
Utilities	40,000	40,000	64,188	(24,188)
Capital outlays	-	-	-	-
<b>Total General Properties</b>	<b>231,974</b>	<b>261,360</b>	<b>234,611</b>	<b>26,749</b>
<b>Horticulture</b>				
Personal service	68,979	72,079	62,441	9,638
Contractual service	1,900	1,900	1,916	(16)
Materials and supplies	17,500	17,700	15,539	2,161
Travel and communications	1,050	1,150	1,112	38
Capital outlays	16,000	16,000	2,766	13,234
<b>Total Horticulture</b>	<b>105,429</b>	<b>108,829</b>	<b>83,774</b>	<b>25,055</b>
<b>Total Engineering and Public Works</b>				
	<b>3,243,558</b>	<b>3,667,190</b>	<b>2,493,932</b>	<b>1,173,258</b>
<b>Parks and Recreation</b>				
Library	56,594	56,594	56,594	-
<b>Total Parks and Recreation</b>	<b>\$ 56,594</b>	<b>\$ 56,594</b>	<b>\$ 56,594</b>	<b>\$ -</b>
<b>Nondepartmental</b>				
Fringe Benefits	\$ 315,500	\$ 312,449	\$ 223,271	\$ 89,178
Insurance	292,000	293,500	283,781	9,719
Contractual services	-	23,986	21,660	2,326
Materials and supplies	-	300	-	300
Dues and memberships	6,700	-	-	-
Bad debt	-	-	(5,719)	5,719
Joint operations	10,250	10,250	10,000	250
Reserves	100,000	46,000	-	46,000
Leases	-	-	-	-
<b>Total Nondepartmental</b>	<b>724,450</b>	<b>686,485</b>	<b>532,993</b>	<b>153,492</b>
<b>Subtotal</b>				
	<b>10,426,799</b>	<b>11,210,266</b>	<b>9,131,147</b>	<b>2,079,119</b>
<b>Transfers to Other Funds</b>				
Transit System Fund	20,000	20,000	-	20,000
Debt Service Fund	-	-	97,032	(97,032)
<b>Total Transfers</b>	<b>20,000</b>	<b>20,000</b>	<b>97,032</b>	<b>(77,032)</b>
<b>Total General Fund Expenditures</b>				
	<b>\$ 10,446,799</b>	<b>\$ 11,230,266</b>	<b>\$ 9,228,179</b>	<b>\$ 2,002,087</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007**

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
<b>Assets</b>							
Cash and cash equivalents	\$ (2,194)	\$ 59,677	\$ 48,568	\$ 1,432,254	\$ 1,538,305	\$ -	\$ 1,538,305
Accounts receivable - real estate taxes	3,552	-	-	-	3,552	-	3,552
Interfund advances	-	-	4,500	-	4,500	388	4,888
<b>Total Assets</b>	<b>1,358</b>	<b>59,677</b>	<b>53,068</b>	<b>1,432,254</b>	<b>1,546,357</b>	<b>388</b>	<b>1,546,745</b>
<b>Liabilities</b>							
Accounts payable	-	-	-	(1,549)	(1,549)	-	(1,549)
Deferred revenue	3,552	-	-	-	3,552	-	3,552
Interfund advances	-	-	-	97,031	97,031	-	97,031
<b>Total Liabilities</b>	<b>3,552</b>	<b>-</b>	<b>-</b>	<b>95,482</b>	<b>99,034</b>	<b>-</b>	<b>99,034</b>
<b>Fund Balances</b>							
Unreserved, undesignated	(2,194)	59,677	53,068	1,336,772	1,447,323	388	1,447,711
<b>Total Fund Balances</b>	<b>(2,194)</b>	<b>59,677</b>	<b>53,068</b>	<b>1,336,772</b>	<b>1,447,323</b>	<b>388</b>	<b>1,447,711</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,358</b>	<b>\$ 59,677</b>	<b>\$ 53,068</b>	<b>\$ 1,432,254</b>	<b>\$ 1,546,357</b>	<b>\$ 388</b>	<b>\$ 1,546,745</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue					Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities		
<b>Revenues</b>								
Real estate taxes	\$ 681	\$ -	\$ 101,281	\$ -	\$ 101,962	\$ -	\$ 101,962	
Meal taxes	-	-	-	-	-	-	-	
Asset Forfeitures	-	5,213	-	-	5,213	-	5,213	
Miscellaneous	-	-	-	3,325	3,325	-	3,325	
Total revenues	681	5,213	101,281	3,325	110,500	-	110,500	
<b>Expenditures</b>								
Current								
Payment in support of EDA debt issue	-	-	68,235	-	68,235	-	68,235	
Contributions to other entities	-	-	55,862	-	55,862	-	55,862	
Capital outlays	-	-	-	-	-	-	-	
Total expenditures	-	-	124,097	-	124,097	-	124,097	
Excess (deficiency) of revenues over (under) expenditures	681	5,213	(22,816)	3,325	(13,597)	-	(13,597)	
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	-	-	-	-	-	
Transfers (out)	-	-	-	-	-	-	-	
Total other financing sources (uses)	-	-	-	-	-	-	-	
Net change in fund balances	681	5,213	(22,816)	3,325	(13,597)	-	(13,597)	
Fund balances - beginning	(2,875)	54,464	75,884	1,333,447	1,460,920	388	1,461,308	
Fund balances - ending	\$ (2,194)	\$ 59,677	\$ 53,068	\$ 1,336,772	\$ 1,447,323	\$ 388	\$ 1,447,711	

**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, 2007**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ -	\$ 681	\$ 681
<b>Expenditures</b>			
Contributions to other entities	-	-	-
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	681	681
Fund balances - beginning	(2,875)	(2,875)	-
Fund balances - ending	<u>\$ (2,875)</u>	<u>\$ (2,194)</u>	<u>\$ 681</u>

**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, 2007**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Asset forfeitures	\$ 12,000	\$ 5,213	\$ (6,787)
<b>Expenditures</b>			
Capital outlays	12,000	-	12,000
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	5,213	5,213
Fund balances - beginning	54,464	54,464	-
Fund balances - ending	<u>\$ 54,464</u>	<u>\$ 59,677</u>	<u>\$ 5,213</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 99,644	\$ 101,281	\$ 1,637
<b>Expenditures</b>			
Payments in support of EDA debt issue	49,822	68,235	(18,413)
Contributions to other entities	49,822	55,862	(6,040)
Total Expenditures	99,644	124,097	(24,453)
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	(22,816)	(22,816)
<b>Other Financing Sources (Uses)</b>			
Transfers (out)	-	-	-
Net change in fund balances	-	(22,816)	(22,816)
Fund balances - beginning	75,884	75,884	-
Fund balances - ending	<u>\$ 75,884</u>	<u>\$ 53,068</u>	<u>\$ (22,816)</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
COMMUNITY/NEIGHBORHOOD REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ -	\$ -	\$ -
Meals taxes	-	-	-
Miscellaneous	7,000	3,325	(3,675)
Total Revenues	<u>7,000</u>	<u>3,325</u>	<u>(3,675)</u>
<b>Expenditures</b>			
Contractual services	1,044,000	-	1,044,000
Total Expenditures	<u>1,044,000</u>	<u>-</u>	<u>1,044,000</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(1,037,000)	3,325	(1,047,675)
<b>Other Financing Sources (Uses)</b>			
Transfers (out)	-	-	-
Net change in fund balances	(1,037,000)	3,325	(1,047,675)
Fund balances - beginning	<u>1,333,447</u>	<u>1,333,447</u>	<u>-</u>
Fund balances - ending	<u>\$ 296,447</u>	<u>\$ 1,336,772</u>	<u>\$ (1,047,675)</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY**  
**JUNE 30, 2007**

---

**Assets held by the Director of Finance**

Cash on hand		\$	1,488
Cash in Banks			
Checking - SunTrust			(893,900)
Certificates of Deposit			
BB&T Bank	\$	350,000	
Greater Atlantic Bank		111,392	
Wachovia Bank		80,596	
Virginia Savings Bank		19,382	
Total Certificates of Deposit			561,370
Virginia Local Government Investment Pool			2,742,006
Repurchase Agreements - Wachovia			119,467
SunTrust Government & Agency Fund			1,507,526
SNAP Pool			11,105,669
SunTrust Investment Account			13,526,576
			<u>13,526,576</u>
<b>Total Assets</b>			<u><u>\$28,670,202</u></u>

At June 30, 2007, 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, 2007

	Governmental Funds					2007 Totals	2006 Totals
	General	Debt Service	Special Revenue	Capital Projects	Proprietary Funds	(Memorandum Only)	(Memorandum Only)
Balance July 1, 2006	\$ 6,392,361	\$ -	\$ 1,602,875	\$ 388	\$ 24,216,323	\$ 32,211,947	\$ 17,501,890
Revised Totals	6,392,361	-	1,602,875	388	24,216,323	32,211,947	17,501,890
<b>Receipts (net)</b>							
Interfund advances/receipts	-	-	-	-	28,498	28,498	278,900
General property taxes	1,249,657	-	52,488	-	-	1,302,145	1,340,146
Other local taxes	3,765,674	-	-	-	-	3,765,674	3,765,900
Permits, fees and licenses	101,763	-	-	-	-	101,763	77,858
Fines and forfeitures	356,631	-	-	-	-	356,631	307,275
Revenues from use of money and property	284,273	-	-	-	1,097,679	1,381,952	706,651
Charges for services	100,909	-	-	-	22,361,787	22,462,696	18,555,769
Capital contributed	-	-	-	-	1,094,499	1,094,499	71,706
Miscellaneous	65,242	-	3,325	-	34,567	103,134	127,590
Recovered costs	-	-	5,213	-	-	5,213	98,806
Payment in lieu of taxes	90,215	-	-	-	-	90,215	80,200
Intergovernmental	2,338,375	-	-	-	-	2,338,375	2,197,878
Debt issuance	-	-	-	-	-	-	10,574,073
Other Sources	146,990	-	-	-	-	146,990	-
<b>Total Receipts</b>	8,499,729	-	61,026	-	24,617,030	33,177,785	38,182,752
<b>Total Available</b>	14,892,090	-	1,663,901	388	48,833,353	65,389,732	55,684,642
<b>Disbursements (net)</b>							
Warrants (checks) issued	9,055,850	-	125,596	388	26,270,114	35,451,948	22,135,155
Retirement of indebtedness	125,000	70,483	-	-	566,420	761,903	973,442
Interfund advance payments	(96,890)	-	-	-	-	(96,890)	153,899
Interest on other debt costs	-	26,549	-	-	576,020	602,569	210,199
<b>Total Disbursements</b>	9,083,960	97,032	125,596	388	27,412,554	36,719,530	23,472,695
Transfers in	1,643,617	97,032	-	-	-	1,740,649	2,245,022
Transfers (out)	(97,032)	-	-	-	(1,643,617)	(1,740,649)	(2,245,022)
<b>Total Transfers In (Out)</b>	1,546,585	97,032	-	-	(1,643,617)	-	-
<b>Balance June 30, 2007</b>	\$ 7,354,715	\$ -	\$ 1,538,305	\$ -	\$ 19,777,182	\$ 28,670,202	\$ 32,211,947

**TOWN OF FRONT ROYAL, VIRGINIA  
COMPUTATION OF LEGAL DEBT MARGIN  
JUNE 30, 2007**

---

Taxable assessed value of real property	<u>\$ 1,433,238,269</u>
Debt limit (10 percent of assessed value)	143,323,827
Amount of debt applicable to debt limit:	
Bonded debt	<u>14,141,304</u>
Total amount of debt applicable to debt limitation	<u>(14,141,304)</u>
Legal debt margin	<u>\$ 129,182,523</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

This part of the Town of Front Royal's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the town's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the town's financial performance and well-being have changed over time.</i>	64
Revenue Capacity <i>These schedules contain information to help the reader assess the town's most significant local revenue source, the property tax.</i>	71
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the town's current levels of outstanding debt and the town's ability to issue additional debt in the future.</i>	75
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the town's financial activities take place.</i>	79
Operating Information <i>These schedule contain service and infrastructure data to help the reader understand how the information in the town's financial report relates to the services the town provides and the activities it performs.</i>	81

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**NET ASSETS BY COMPONENT**  
**Last Five Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 85,759,208	\$ 80,842,973	\$ 78,199,373	\$ 74,624,593	\$ 74,624,593
Restricted	-	-	-	-	-
Unrestricted	2,280,133	5,304,430	5,450,254	6,691,369	4,411,145
Total Governmental Activities Net Assets	<u>\$ 88,039,341</u>	<u>\$ 86,147,403</u>	<u>\$ 83,649,627</u>	<u>\$ 81,315,962</u>	<u>\$ 79,035,738</u>
Business-type Activities					
Invested in capital assets, net of related debt	\$ 85,759,208	\$ 39,613,187	\$ 39,531,599	\$ 19,751,368	\$ 24,625,302
Restricted	-	-	-	-	-
Unrestricted	2,280,133	2,649,403	3,873,842	26,004,470	23,052,300
Total Business-type Activities Net Assets	<u>\$ 88,039,341</u>	<u>\$ 42,262,590</u>	<u>\$ 43,405,441</u>	<u>\$ 45,755,838</u>	<u>\$ 47,677,602</u>
Primary Government					
Invested in capital assets, net of related debt	\$ 125,180,698	\$ 120,456,160	\$ 117,730,972	\$ 94,375,961	\$ 99,249,895
Restricted	-	-	-	-	-
Unrestricted	3,936,229	7,953,833	9,324,096	32,695,839	27,463,445
Total Primary Government Net Assets	<u>\$ 129,116,927</u>	<u>\$ 128,409,993</u>	<u>\$ 127,055,068</u>	<u>\$ 127,071,800</u>	<u>\$ 126,713,340</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**CHANGES IN NET ASSETS, LAST FIVE FISCAL YEARS**  
**(accrual basis of accounting)**

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
<b>Governmental Activities:</b>					
General government and administration	\$ 2,139,086	\$ 2,213,302	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597
Public safety	2,951,792	2,857,066	3,150,426	3,276,981	3,513,253
Public works	1,851,599	2,103,729	2,086,799	2,574,487	2,206,629
Planning, zoning, and community development	609,091	501,250	652,296	484,132	567,708
Culture and recreation	95,770	43,625	45,142	52,985	62,456
Interest on long term debt	41,299	3,788	69,567	28,180	26,549
Infrastructure depreciation	3,588,522	3,588,522	3,588,522	3,591,054	3,591,054
<b>Total Governmental Activities Expenses</b>	<b>11,277,159</b>	<b>11,311,282</b>	<b>12,086,475</b>	<b>12,334,530</b>	<b>12,614,246</b>
<b>Business-Type Activities:</b>					
Electric	6,631,457	9,173,662	9,082,609	9,523,363	16,250,138
Water	1,581,502	1,851,233	2,328,499	1,964,023	2,343,905
Sewer	2,228,065	2,061,542	2,636,183	2,285,966	2,752,915
Refuse	685,242	649,323	739,132	828,583	876,481
<b>Total Business-Type Activities Expenses</b>	<b>11,126,266</b>	<b>13,735,760</b>	<b>14,786,423</b>	<b>14,601,935</b>	<b>22,223,439</b>
<b>Total Primary Government Expenses</b>	<b>22,403,425</b>	<b>25,047,042</b>	<b>26,872,898</b>	<b>26,936,465</b>	<b>34,837,685</b>
<b>Program Revenues</b>					
<b>Governmental Activities:</b>					
<b>Charges for services:</b>					
General government	7,397	88,891	71,572	131,037	141,719
Public safety	251,882	308,337	235,282	406,081	361,844
Public works	50,918	46,761	45,371	18,759	27,757
Planning, zoning, and community development	73,943	80,864	93,957	77,858	101,763
Culture and recreation	50,189	-	-	-	-
Operating grants and contributions	1,634,435	1,618,991	1,704,613	1,447,990	1,858,205
Capital grants and contributions	-	64,156	80,484	43,416	170,526
<b>Total Governmental Activities Program Revenues</b>	<b>2,068,764</b>	<b>2,208,000</b>	<b>2,231,279</b>	<b>2,125,141</b>	<b>2,661,814</b>
<b>Business-Type Activities:</b>					
<b>Charges for services:</b>					
Electric	9,617,905	10,959,143	11,346,761	11,507,238	15,454,130
Water	2,241,254	2,450,850	2,856,329	3,198,691	3,695,001
Sewer	2,153,905	2,330,077	2,674,149	3,011,979	3,645,537
Refuse	730,938	770,344	779,275	806,968	801,974
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	396,743	316,543	226,919	71,706	1,094,499
<b>Total Business-Type Activities Program Revenues</b>	<b>15,140,745</b>	<b>16,826,957</b>	<b>17,883,433</b>	<b>18,596,582</b>	<b>24,691,141</b>
<b>Total Primary Government Program Revenues</b>	<b>17,209,509</b>	<b>19,034,957</b>	<b>20,114,712</b>	<b>20,721,723</b>	<b>27,352,955</b>

(continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**CHANGES IN NET ASSETS, LAST FIVE FISCAL YEARS**  
**(accrual basis of accounting)**

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Net (Expense) Revenue</b>					
Governmental Activities	\$ (9,208,395)	\$ (9,103,282)	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)
Business-Type Activities	4,014,479	3,091,197	3,097,010	3,994,647	2,467,702
Total Primary Government Net Expense	<u>(5,193,916)</u>	<u>(6,012,085)</u>	<u>(6,758,186)</u>	<u>(6,214,742)</u>	<u>(7,484,730)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental Activities:					
Property taxes	1,029,043	1,258,013	1,213,101	1,280,730	1,335,686
Sales taxes	448,086	507,804	570,926	586,133	613,495
Business and occupational taxes	539,916	611,617	624,511	740,268	721,486
Franchise taxes	179,371	309,497	211,544	213,601	206,989
Consumer taxes	182,303	178,879	178,423	191,554	240,682
Alcoholic beverage taxes	31,668	33,569	16,317	16,316	16,316
Meals and lodging taxes	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723
Virginia personal property tax reduction	254,979	285,334	262,457	280,041	287,878
Other general taxes	495,708	507,664	559,315	583,928	541,073
Unrestricted investment earnings	77,910	73,089	101,589	209,469	284,273
Gain on sale of capital assets and other recoveries	100,711	46,162	58,417	53,342	-
Other Sources	-	-	-	-	146,990
Transfers	1,957,860	2,021,050	2,127,400	2,141,432	1,643,617
Total Governmental Activities	<u>6,535,853</u>	<u>7,211,344</u>	<u>7,357,420</u>	<u>7,875,724</u>	<u>7,672,208</u>
Business-Type Activities:					
Unrestricted investment earnings	219,843	114,857	173,241	497,182	1,097,679
Transfers	(1,957,860)	(2,021,050)	(2,127,400)	(2,141,432)	(1,643,617)
Total Business-Type Activities	<u>(1,738,017)</u>	<u>(1,906,193)</u>	<u>(1,954,159)</u>	<u>(1,644,250)</u>	<u>(545,938)</u>
Total Primary Government	<u>4,797,836</u>	<u>5,305,151</u>	<u>5,403,261</u>	<u>6,231,474</u>	<u>7,126,270</u>
<b>Change in Net Assets</b>					
Governmental Activities	(2,672,542)	(1,891,938)	(2,497,776)	(2,333,665)	(2,280,224)
Business-Type Activities	2,276,462	1,185,004	1,142,851	2,350,397	1,921,764
Total Primary Government	<u>\$ (396,080)</u>	<u>\$ (706,934)</u>	<u>\$ (1,354,925)</u>	<u>\$ 16,732</u>	<u>\$ (358,460)</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE**  
**LAST FIVE FISCAL YEARS**  
 (accrual basis of accounting)

Fiscal Year	Property	Sales	Business and Occupational	Franchise	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	Other General	Total
2003	1,029,043	448,086	539,916	179,371	182,303	31,668	1,238,298	254,979	495,708	4,399,372
2004	1,258,013	507,804	611,617	309,497	178,879	33,569	1,378,666	285,334	507,664	5,071,043
2005	1,213,101	570,926	624,511	211,544	178,423	16,317	1,433,420	262,457	559,315	5,070,014
2006	1,280,730	586,133	740,268	213,601	191,554	16,316	1,578,910	280,041	583,928	5,471,481
2007	1,335,686	613,495	721,486	206,989	240,682	16,316	1,633,723	287,878	541,073	5,597,328

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA**  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST FIVE FISCAL YEARS**  
**(modified accrual basis of accounting)**

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>REVENUES:</b>					
Taxes:					
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387
Sales	448,086	507,804	570,926	586,133	613,495
Business and occupational	539,916	611,617	624,511	740,268	721,486
Franchise	179,371	309,497	211,544	213,601	206,989
Consumer	182,303	178,879	178,423	191,554	240,682
Vehicle licenses	226,033	230,743	236,441	246,458	239,854
Bank stock	143,828	143,065	166,904	197,212	159,285
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631
Revenues from use of money and property	77,910	73,089	101,589	209,469	284,273
Charges for services	101,107	111,143	101,343	84,363	100,909
Miscellaneous	7,397	16,055	74,017	118,667	68,567
Recovered costs	145,000	104,433	15,569	98,806	5,213
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644
Total Revenues	6,492,885	7,376,987	7,509,382	7,927,931	8,564,116
<b>EXPENDITURES:</b>					
General government					
Legislative	165,682	188,630	205,523	135,379	156,788
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995
Legal	187,413	215,643	246,472	215,991	248,934
Finance	664,008	779,038	670,026	673,576	748,380
Public Safety					
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821
Fire protection	191,125	78,900	100,005	88,073	105,403
Planning, zoning, and community development	601,409	471,241	894,911	434,876	514,404
Engineering and public works	2,154,147	2,688,013	2,285,996	2,312,554	2,493,932
Parks and recreation	88,131	41,000	41,000	47,596	56,594
Nondepartmental	291,714	385,770	621,043	584,781	532,993
Debt Service					
Principal	325,927	18,196	144,742	75,410	70,483
Interest	41,299	3,788	69,567	28,180	26,549
Capital outlay	1,025,638	24,201	77,927	7,246	-
Total Expenditures	9,300,522	8,632,972	9,460,093	8,718,371	9,352,276
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	(2,807,637)	(1,255,985)	(1,950,711)	(790,440)	(788,160)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	2,348,562	2,058,450	2,348,709	2,245,022	1,740,649
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)
Special revenue	-	8,454	-	-	-
Interfund borrowing proceeds	1,250,000	-	-	-	-
Sale of capital assets	100,711	46,162	-	-	-
Other sources	-	-	-	-	146,990
Total Other Financing Sources (Uses)	3,308,571	2,075,666	2,127,400	2,141,432	1,790,607
<b>NET CHANGE IN FUND BALANCES</b>					
	\$ 500,934	\$ 819,681	\$ 176,689	\$ 1,350,992	\$ 1,002,447
Debt service as a percentage of noncapital expenditures					
	4.44%	0.26%	2.28%	1.19%	1.04%

Additional years will be added as information is available

TABLE V (2)

**TOWN OF FRONT ROYAL, VIRGINIA  
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
LAST FIVE FISCAL YEARS  
(modified accrual basis of accounting)**

Fiscal Year	Property	Sales	Business and Occupational	Franchise	Consumer	Meals and Lodging	Vehicle	Bank	Total
2003	975,882	448,086	539,916	179,371	182,303	1,238,298	226,033	143,828	3,933,717
2004	1,301,901	507,804	611,617	309,497	178,879	1,378,666	230,743	143,065	4,662,172
2005	1,261,184	570,926	624,511	211,544	178,423	1,433,420	236,441	166,904	4,683,353
2006	1,349,228	586,133	740,268	213,601	191,554	1,578,910	246,458	197,212	5,103,364
2007	1,356,387	613,495	721,486	206,989	240,682	1,633,723	239,854	159,285	5,171,901

Additional years will be added as information is available

TABLE VI

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

Fiscal Year	Real Property		Personal Property		Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Other		Real Estate	Personal Property
1998	545,854,900	13,764,420	76,506,988	899,235	637,025,543	0.16	0.60
1999	552,343,000	13,231,291	78,689,608	713,165	644,977,064	0.14	0.60
2000	538,807,900	13,042,612	84,625,134	589,450	637,065,096	0.13	0.60
2001	538,299,800	13,583,949	91,107,129	700,300	643,691,178	0.13	0.60
2002	565,683,000	11,410,301	94,871,059	752,870	672,717,230	0.13	0.60
2003	577,812,000	14,615,483	98,358,434	810,500	691,596,417	0.13	0.60
2004	697,130,500	16,664,771	106,727,512	988,960	821,511,743	0.13	0.60
2005	713,445,100	16,664,771	109,271,685	1,024,770	840,406,326	0.13	0.60
2006	719,331,408	15,918,461	103,400,500	1,082,710	839,733,079	0.13	0.60
2007	768,759,200	8,910,969	103,206,048	965,665	881,841,882	0.13	0.60

TOWN OF FRONT ROYAL, VIRGINIA  
 DIRECT AND OVERLAPPING PROPERTY TAX RATES (per \$100 of assessed value)  
 LAST TEN FISCAL YEARS

Fiscal Year	Town Direct Rates						Overlapping Rates						
	Town Real Estate	Town Personal Property	Town Machinery and Tools		Town Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery and Tools		Mobile Homes	Total Overlapping Rate	Total Direct & Overlapping Rates
			Town Personal Property	Town Machinery and Tools					Machinery and Tools	Machinery and Tools			
1998	\$ 0.16	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.16	\$ 1.52	\$ 0.68	\$ 3.15	\$ 2.00	\$ 0.68	\$ 6.51	\$ 8.03	
1999	0.14	0.60	0.60	0.60	0.14	1.48	0.68	3.15	2.00	0.68	6.51	7.99	
2000	0.13	0.60	0.60	0.60	0.13	1.46	0.73	3.15	2.00	0.73	6.61	8.07	
2001	0.13	0.60	0.60	0.60	0.13	1.46	0.83	3.15	2.25	0.83	7.06	8.52	
2002	0.13	0.60	0.60	0.60	0.13	1.46	0.86	3.15	2.25	0.86	7.12	8.58	
2003	0.13	0.60	0.60	0.60	0.13	1.46	0.86	3.15	2.25	0.86	7.12	8.58	
2004	0.13	0.60	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44	
2005	0.13	0.60	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44	
2006	0.13	0.60	0.60	0.60	0.13	1.46	0.82	3.15	2.25	0.82	7.04	8.50	
2007	0.13	0.60	0.60	0.60	0.13	1.46	0.82	3.15	1.30	0.82	6.09	7.55	

Source: Town of Front Royal and Warren County

TABLE VIII

**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND TEN YEARS AGO**

Taxpayer	2007		Taxpayer	1998	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family	\$ 15,019,100	1.05%	Rudacille, P W & Bosseau Ltd. Partners	\$ 8,026,700	1.28%
Gateway Plaza	6,271,300	0.44%	Gateway Plaza Shopping Center	5,318,600	0.85%
Shenandoah Square LP	5,722,900	0.40%	Shenandoah Properties	3,232,700	0.52%
Ramsey Inc.	5,287,300	0.37%	Cogil Corporation	2,695,000	0.43%
Corr Family	3,522,900	0.25%	Front Royal Associates	2,628,100	0.42%
Royal Arms Associates	3,340,100	0.23%	James E. Corr	2,717,100	0.43%
Cogil Corp.	3,220,200	0.22%	Royal Hills Limited	2,597,700	0.41%
CCC Enterprises	3,029,900	0.21%	Rappawan, Inc.	1,599,645	0.26%
Richmond Homes	2,731,000	0.19%			
Shenandoah Properties II	2,142,900	0.15%			
<b>Total</b>	<b>\$ 50,287,600</b>	<b>3.51%</b>		<b>\$ 28,815,545</b>	<b>4.60%</b>

Source: Warren County property assessors office

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

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Total Collection as Percent of Current Levy</b>
1998	1,308,411	1,109,869	84.83%	78,893	1,188,762	90.86%
1999	1,211,775	926,982	76.50%	174,871	1,101,853	90.93%
2000	1,166,611	950,972	81.52%	228,947	1,179,919	101.14%
2001	1,237,319	1,127,655	91.14%	129,307	1,256,962	101.59%
2002	1,265,639	1,175,097	92.85%	115,463	1,290,560	101.97%
2003	1,298,124	1,064,604	82.01%	87,878	1,152,482	88.78%
2004	1,537,321	1,514,244	98.50%	74,239	1,588,483	103.33%
2005	1,523,668	1,493,940	98.05%	40,065	1,534,005	100.68%
2006	1,597,087	1,599,025	100.12%	55,002	1,654,027	103.57%
2007	1,643,960	1,558,306	94.79%	76,919	1,635,225	99.47%

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

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

Fiscal Year	Governmental Activities	Business Type Activities	Total Primary Government	Personal Income (thousands of dollars)	Percentage of Personal Income	Population	Per Capita
	General Obligation Bonds	General Obligation Refunding Bonds					
1998	1,270,000	11,135,661	12,405,661	299,676	4.14%	13,000	954
1999	1,161,793	10,123,906	11,285,699	343,884	3.28%	13,464	838
2000	1,060,991	8,938,816	9,999,807	355,563	2.81%	13,500	741
2001	955,352	7,739,304	8,694,656	343,277	2.53%	13,529	643
2002	882,771	6,901,864	7,784,635	364,469	2.14%	13,560	574
2003	806,844	6,170,392	6,977,236	DNA	DNA	13,584	514
2004	788,648	5,417,988	6,206,636	472,533	1.31%	13,584	457
2005	643,906	4,656,618	5,300,524	472,707	1.12%	14,184	374
2006	568,496	14,196,756	14,765,252	DNA	DNA	13,720	1,076
2007	498,013	13,643,291	14,141,304	DNA	DNA	14,377	984

DNA - Data not available

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Debt Payable from Enterprise Revenues</b>	<b>Net Bonded Debt</b>	<b>Assessed Value in \$1,000</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Population</b>	<b>Per Capita</b>
1998	12,405,661	11,135,661	1,270,000	637,026	0.20%	13,000	97.69
1999	11,285,699	10,123,906	1,161,793	644,977	0.18%	13,464	86.29
2000	9,999,807	8,938,816	1,060,991	637,065	0.17%	13,500	78.59
2001	8,694,656	7,739,304	955,352	643,691	0.15%	13,529	70.62
2002	7,784,635	6,901,864	882,771	672,717	0.13%	13,560	65.10
2003	6,977,236	6,170,392	806,844	691,596	0.12%	13,584	59.40
2004	6,206,636	5,417,988	788,648	821,512	0.10%	13,584	58.06
2005	5,300,524	4,656,618	643,906	840,406	0.08%	13,589	47.38
2006	14,765,252	14,196,756	568,496	839,733	0.07%	13,720	41.44
2007	14,141,304	13,643,291	498,013	881,842	0.06%	14,377	34.64

**TOWN OF FRONT ROYAL, VIRGINIA  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF JUNE 30, 2007**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Warren County	4,155,000		
Warren County School Board	10,959,664		
Subtotal, overlapping debt	<u>15,114,664</u>	49%	7,406,185
<b>Town of Front Royal (direct debt)</b>	<u>14,141,304</u>	100%	<u>14,141,304</u>
<b>Total direct and overlapping debt</b>			<u><u>21,547,489</u></u>

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

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

Fiscal Year	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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
2006	19,022,058	12,918,187	6,103,871	774,862	151,698	926,560	6.59
2007	24,694,321	19,960,695	4,733,626	553,465	553,525	1,106,990	4.28

<sup>1</sup>Gross revenue includes operating revenues and investment earnings

<sup>2</sup>Total operating expenses exclusive of depreciation

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

<b>Year</b>	<b>Estimated Population</b>	<b>Personal Income (thousands of dollars)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
1998	13,000	299,676	23,052	*	*	4,903	2.4%
1999	13,464	343,884	25,541	*	*	4,906	2.4%
2000	13,500	355,563	26,338	37	13	5,012	2.0%
2001	12,589	343,277	27,268	*	*	5,277	2.8%
2002	13,650	364,469	26,701	*	*	5,153	3.4%
2003	13,584	DNA	DNA	*	*	5,112	3.4%
2004	13,584	380,352	28,000	*	*	5,176	3.4%
2005	13,589	433,177	31,877	*	*	5,376	3.1%
2006	13,720	437,352	31,877	*	*	5,173	2.5%
2007	14,377	458,296	31,877	*	*	5,257	3.0%

\*Median age and education level only available in census years

Source: Town of Front Royal and Warren County School Board

DNA: Data not available

**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND 1998**

2007		1998	
<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>
Warren Co. School Board	1,105	Warren Co. School Board	840
Valley Health System	500	Valley Health System	335
Town of Front Royal	155	Pen Tab Industries	250
Warren County	150	Randolph Macon Academy	180
Martin's Food Market	140	Town of Front Royal	145
Randolph - Macon Academy	120	Warren County	140
United Parcel Serives, Inc.	100	Jackson Furniture Co.	130
VIA Satellite	95	Kmart Corporation	120
Northwest Community Mental Health	90	United Parcel Service	115
Kmart Corporation	80	North American Housing	105

Source: Estimates from Warren County Economic Development Authority

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

<u>Function/Program</u>	<u>Fiscal Year</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government	26	29	27	29	29
Fire Protection	3	1	1	1	1
Police Protection	43	45	45	45	45
Highway - Streets	21	20	20	19	22
Sanitation	13	13	14	13	14
Water	12	13	13	13	12
Sewer	17	17	16	18	17
Electrical	15	15	14	12	14
Culture and Recreation	1	1	1	1	1
	151	154	151	151	155

Additional years will be added as information is available

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

<u>Function/Program</u>	<u>Fiscal Year</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Public Safety					
Police					
Physical arrests				1,398	1,443
Parking violations				1,074	1,063
Traffic violations				3,739	3,844
Fire					
Number of calls answered					
Inspections					
Wastewater					
New service connections					320
Average daily treatment in gallons	2,100,000	3,490,755	3,523,000	3,523,000	3,069,310
Water System					
New connections					320
Average daily consumption	1,750,000	1,678,000	1,708,000	1,708,000	1,708,000
Electric Distribution					
New Connections					320
Average daily KWH consumption			472,041	492,688	493,095
Sanitation					
Refuse collected (tons/day)	40	40	40	40	40
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	0.25
Culture and Recreation					
Field permits issued					
Community center admissions					
Highway and Streets					
Repair services				55	60
Street resurfacing (miles)				15	27

Additional years will be added as information is available

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

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Public Safety</b>					
Police					
Stations	1	1	2	2	2
Patrol Units	6	6	9	12	12
Fire Stations	1	1	1	1	1
<b>Highways and Streets</b>					
Streets (miles)	143	143	143	143	143
Streetlights	1,430	1,430	1,430	1,430	1,430
Traffic signals	14	14	14	15	15
<b>Culture and Recreation</b>					
Community centers	1	1	1	1	1
Parks	13	13	13	13	13
Park acreage	165	165	165	165	165
Swimming pools	1	1	1	1	1
Tennis courts	9	9	9	9	9
<b>Sewer System</b>					
Sanitary sewers (miles)	117	117	117	196	196
Storm sewers (miles)	27	27	27	90	90
Treatment plants	1	1	1	1	1
Maximum daily capacity				4,000,000	4,000,000
<b>Water System</b>					
Facilities	1	1	1	1	1
Fire Hydrants	555	555	555	560	560
Maximum daily capacity				3,000,000	3,000,000
<b>Electric System</b>					
Miles of service lines	140	140	140	140	140
Distribution stations	3	3	3	3	3
<b>Sanitation</b>					
Collection Trucks	5	5	5	5	5

Additional years will be added as information is available

## **COMPLIANCE SECTION**

# MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 EAST MARKET STREET, SUITE 200  
LEESBURG, VIRGINIA 20176

JEFFREY D. MITCHELL, CPA

SANDRA M. TONDREAU, CPA  
LORI M. ROOD, CPA

703-777-4900

Fax: 703-771-3082

E-mail mco@mcocpa.com

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

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

We have audited 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, 2007, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated September 25, 2007. 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 solely for the information and use 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.

September 25, 2007  
Leesburg, Virginia

*Mitchell & Co., P.C.*

**TOWN OF FRONT ROYAL, VIRGINIA**

**AUDITOR'S COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

---

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, 2007, and have issued an unqualified opinion thereon dated September 25, 2007. 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