

**TOWN OF FRONT ROYAL, VIRGINIA**

*COMPREHENSIVE  
ANNUAL FINANCIAL REPORT*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

## **FOREWARD**

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington, DC. The Town was founded in 1754 and chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located 1 mile north and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 14,475.

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, 2008**

**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 Statement 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	Asset Seizures	57
Schedule 6	Economic Development	58
Schedule 7	Community/Neighborhood	59

**Other Supplementary Schedules**

Schedule 8	Schedule of Director of Finance’s Accountability	60
Schedule 9	Statement of the Director of Finance’s Computation Accountability to the Town	61
Schedule 10	Computation of Legal Debt Margin	62

**TOWN OF FRONT ROYAL, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**TABLE OF CONTENTS**

**STATISTICAL SECTION**

**Financial Trends**

Table I	Net Assets by Component	63
Table II	Changes in Net Assets	64 – 65
Table III	Governmental Activities Tax Revenue by Source	66
Table IV	Fund Balances of Governmental Funds	67
Table V	Changes in Fund Balances of Governmental Funds	68

**Revenue Capacity**

Table VI	Assessed Value and Estimated Actual Value of Taxable Property	69
Table VII	Property Tax Rates - Direct and Overlapping Governments	70
Table VIII	Principal Property Taxpayers	71
Table IX	Property Tax Levies and Collections	72

**Debt Capacity**

Table X	Ratio of Outstanding Debt by Type	73
Table XI	Ratio of General Bonded Debt Outstanding	74
Table XII	Direct and Overlapping Governmental Activities Debt	75
Table XIII	Legal Debt Margin Information	76
Table XIV	Pledged - Revenue Coverage	77

**Demographic and Economic Information**

Table XV	Demographic and Economic Statistics	78
Table XVI	Principal Employers	79

**Operating Information**

Table XVII	Full-time Equivalent Town Government Employees by Function/Program	80
Table XVIII	Operating Indicators by Function/Program	81
Table XIX	Capital Asset Statistics by Function/Program	82

**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>	83 – 84
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# **INTRODUCTORY SECTION**



# TOWN OF FRONT ROYAL

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P.O. Box 1580  
16 N. Royal Avenue  
Front Royal, Virginia 22630  
(540) 635-8007  
(540) 636-7475 Fax  
www.frontroyalva.com

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

November 25, 2008

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, 2008.

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, 2008, 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, 2008, 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 2008. The overall goals of risk management are to reduce the Town's losses to the lowest possible level and to protect the Town's assets from loss, theft and misuse.

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

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

**Awards and Acknowledgements.** The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2007. This is the twenty-first (21) consecutive years that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principals and applicable legal requirements.

A Certificate 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, 2007

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.



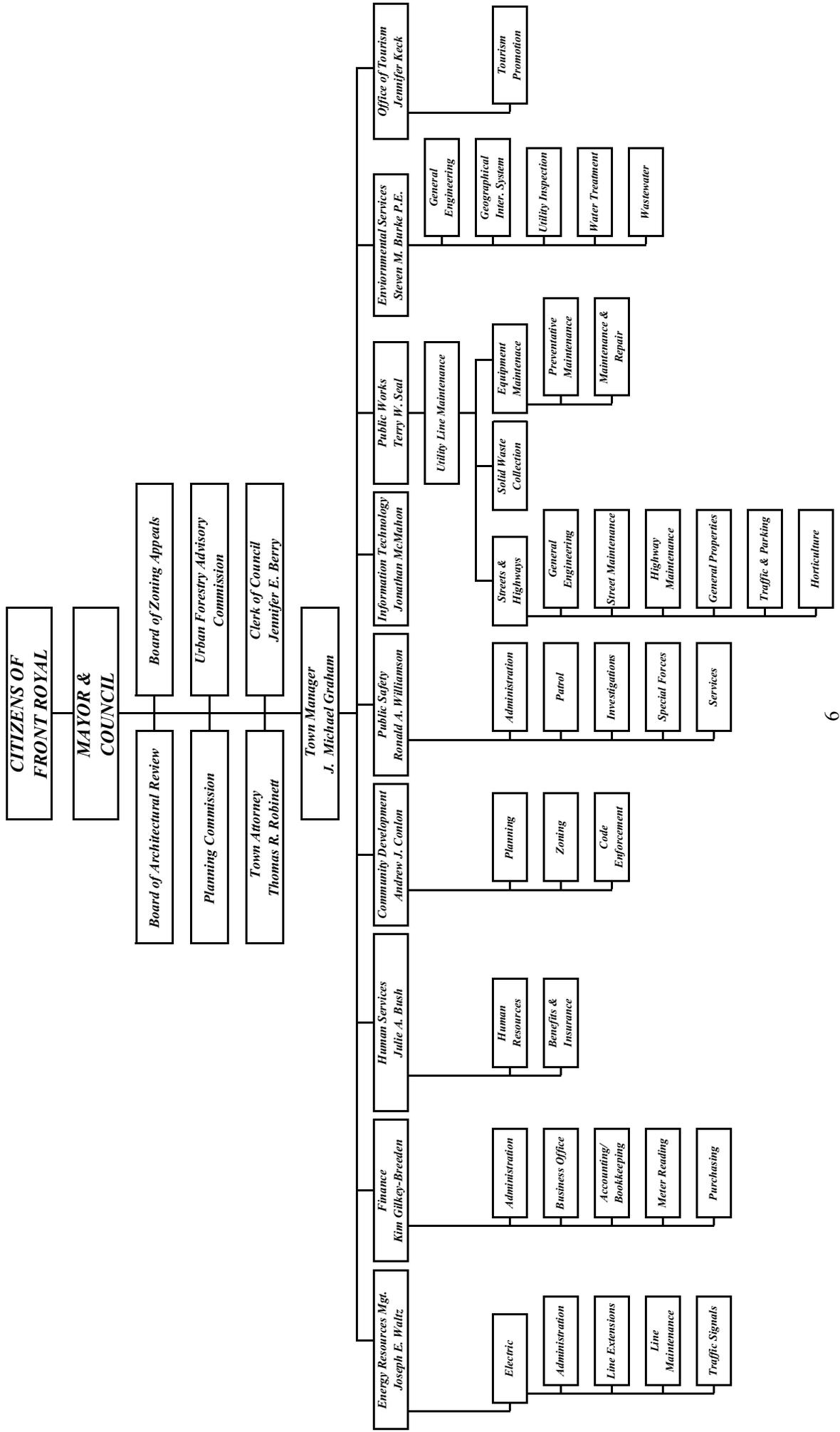
*Charles S. Cox*

President

*Jeffrey R. Emery*

Executive Director

**TOWN OF FRONT ROYAL  
ORGANIZATIONAL CHART  
FISCAL YEAR ENDED JUNE 30, 2008  
(With Full-Time Employees)**



**TOWN OF FRONT ROYAL, VIRGINIA  
JUNE 30, 2008**

**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  
Andrew J. Conlon - Director of Community Development  
Thomas R. Robinett - Town Attorney  
Ronald A. Williamson - Chief of Police  
Terry W. Seal - Director of Public Works  
Steven M. Burke, P.E. - Director of Environmental Services  
Cynthia A. Hartman - Purchasing Agent  
Julie A. Bush - Director of Human Services  
Jennifer E. Berry - Clerk of Council  
Kim Gilkey-Breeden - Director of Finance  
Jennifer Kech - Director of Tourism  
Jonathan McMahon - Director of Information Technology  
Joseph P. Waltz - Director of Energy Resources Management

# **FINANCIAL SECTION**

**MITCHELL & Co., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
110 EAST MARKET STREET, SUITE 200  
LEESBURG, VIRGINIA 20176

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**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, 2008, 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 and an audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in 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 October 08, 2008 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 compliance and the results of that testing 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.

Leesburg, Virginia  
October 8, 2008

*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, 2008. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report.

### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$126,309,424. Of this amount, \$27,023,610 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$403,916.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$7,731,927, an decrease of \$224,390 in comparison with the prior year. Most of this total amount, \$7,630,952, 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 \$6,147,170, or 60.2 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$960,965 (6.8 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 solid waste management 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 seven 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 five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere

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

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

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

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

The basic proprietary fund financial statements can be found 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 – 59 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 60 – 62 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 \$126,309,424 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (79 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, 2008 and 2007.

<b>TOWN OF FRONT ROYAL -- NET ASSETS</b>						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 8,497,733	\$ 8,738,693	\$ 21,956,816	\$ 24,587,088	\$ 30,454,549	\$ 33,325,781
Capital assets	68,359,485	71,953,363	44,339,834	38,268,592	112,699,319	110,221,955
<b>Total Assets</b>	<b>76,857,218</b>	<b>80,692,056</b>	<b>66,296,650</b>	<b>62,855,680</b>	<b>143,153,868</b>	<b>143,547,736</b>
Long-term liabilities	1,121,548	1,144,488	13,302,788	14,189,006	14,424,336	15,333,494
Other liabilities	455,920	511,830	1,964,188	989,072	2,420,108	1,500,902
<b>Total Liabilities</b>	<b>1,577,468</b>	<b>1,656,318</b>	<b>15,266,976</b>	<b>15,178,078</b>	<b>16,844,444</b>	<b>16,834,396</b>
<b>Net Assets</b>						
Invested-capital assets, net of related debt	67,935,246	71,455,350	31,350,568	24,625,302	99,285,814	96,080,652
Unrestricted	7,344,504	7,580,388	19,679,106	23,052,300	27,023,610	30,632,688
<b>Total Net Assets</b>	<b>\$ 75,279,750</b>	<b>\$ 79,035,738</b>	<b>\$ 51,029,674</b>	<b>\$ 47,677,602</b>	<b>\$ 126,309,424</b>	<b>\$ 126,713,340</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 \$403,916 during the current fiscal year.

**Governmental activities.** Governmental activities decreased the Town of Front Royal, Virginia’s net assets by \$3,755,988. These changes are presented in column one of the following table:

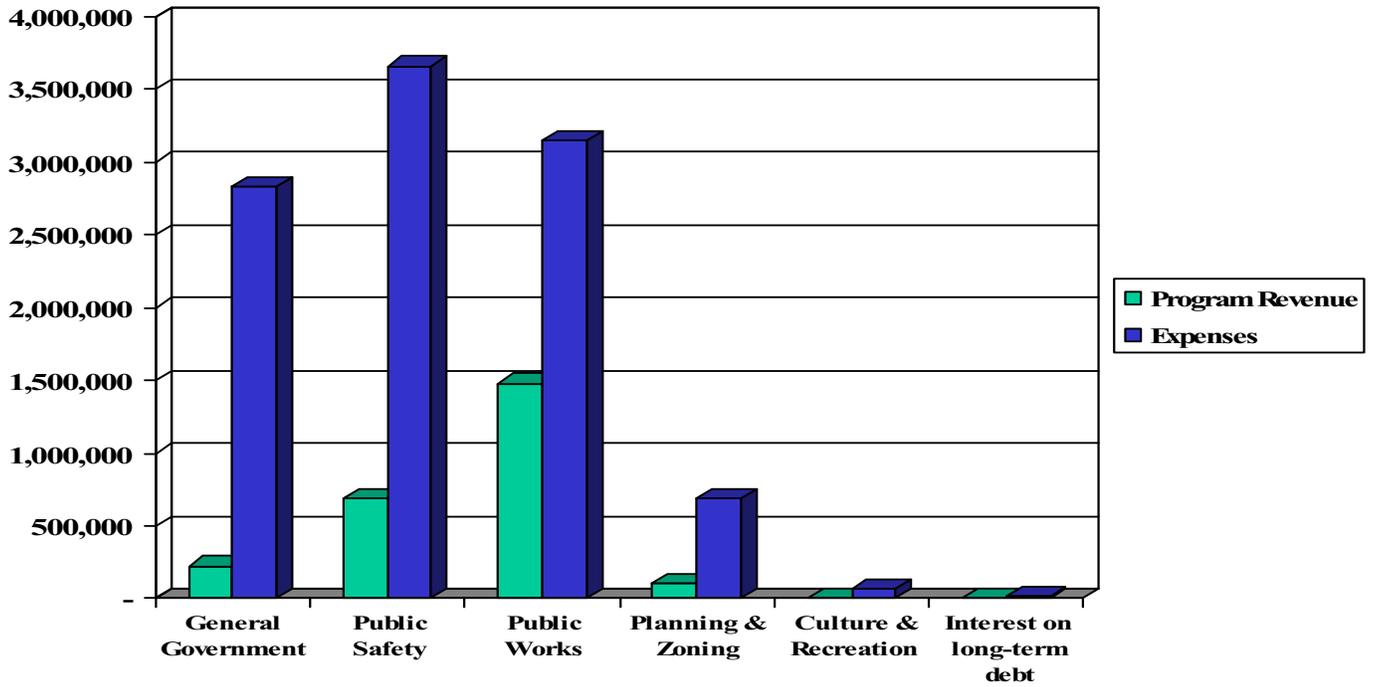
**TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 509,172	\$ 633,083	\$ 22,357,823	\$ 23,596,642	\$ 22,866,995	\$ 24,229,725
Operating grants and contributions	1,872,998	1,858,205	-	-	1,872,998	1,858,205
Capital grants and Contributions	115,062	170,526	646,430	1,094,499	761,492	1,265,025
General revenues						
Property taxes	1,330,595	1,335,686	-	-	1,330,595	1,335,686
Other taxes	4,365,192	4,261,642	-	-	4,365,192	4,261,642
Grants and contributions not restricted	-	-	-	-	-	-
Other	283,610	431,263	749,734	1,097,679	1,033,344	1,528,942
<b>Total revenues</b>	<b>8,476,629</b>	<b>8,690,405</b>	<b>23,753,987</b>	<b>25,788,820</b>	<b>32,230,616</b>	<b>34,479,225</b>
<b>Expenses</b>						
General government	2,832,009	2,646,597	-	-	2,832,009	2,646,597
Public safety	3,658,646	3,513,253	-	-	3,658,646	3,513,253
Public works	3,149,846	2,206,629	-	-	3,149,846	2,206,629
Planning and zoning	693,455	567,708	-	-	693,455	567,708
Culture and recreation	66,250	62,456	-	-	66,250	62,456
Interest on long-term debt	23,257	26,549	-	-	23,257	26,549
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	12,600,249	16,250,138	12,600,249	16,250,138
Water	-	-	2,471,839	2,343,905	2,471,839	2,343,905
Sewer	-	-	2,691,398	2,752,915	2,691,398	2,752,915
Solid Waste Management	-	-	856,529	876,481	856,529	876,481
<b>Total expenses</b>	<b>14,014,517</b>	<b>12,614,246</b>	<b>18,620,015</b>	<b>22,223,439</b>	<b>32,634,532</b>	<b>34,837,685</b>
Increase in net assets before transfers	(5,537,888)	(3,923,841)	5,133,972	3,565,381	(403,916)	(358,460)
Transfers	1,781,900	1,643,617	(1,781,900)	(1,643,617)	-	-
<b>Increase (decrease) in net assets</b>	<b>(3,755,988)</b>	<b>(2,280,224)</b>	<b>3,352,072</b>	<b>1,921,764</b>	<b>(403,916)</b>	<b>(358,460)</b>
Net assets – 7/1/07	79,035,738	81,315,962	47,677,602	45,755,838	126,713,340	127,071,800
<b>Net assets – 6/30/08</b>	<b>\$ 75,279,750</b>	<b>\$ 79,035,738</b>	<b>\$ 51,029,674</b>	<b>\$ 47,677,602</b>	<b>\$ 126,309,424</b>	<b>\$ 126,713,340</b>

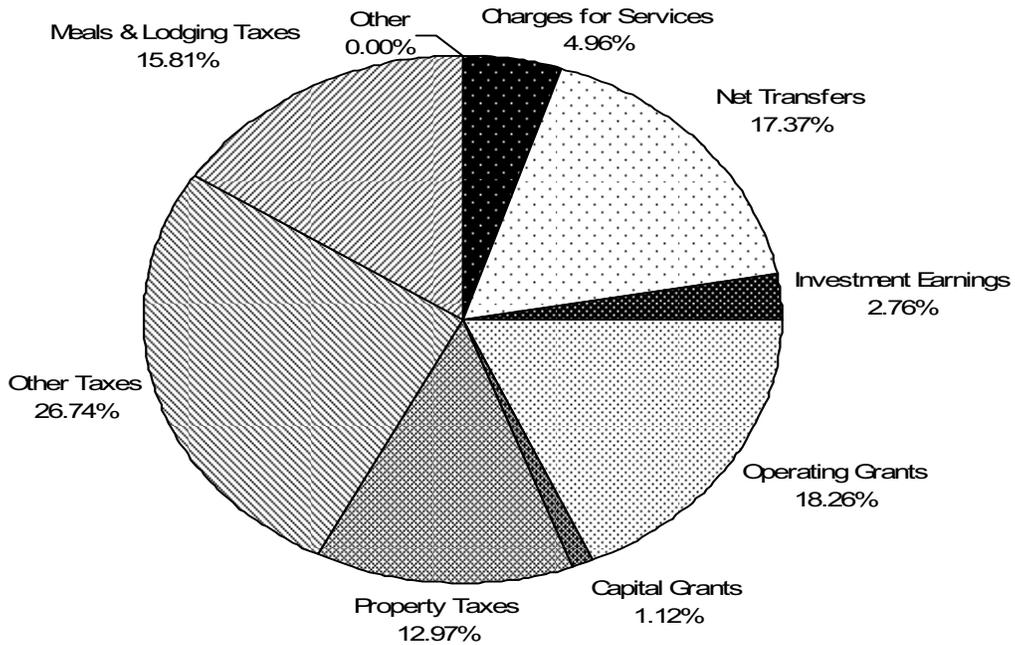
- Revenue from property taxes decreased by \$5,091 (0.4 percent) during the current year.
- Operating grants for governmental activities amounted to \$1,872,998, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town’s primary functions: public safety and public works and engineering.
- For the most part, decrease in total expenses related to the decrease in purchased electric power costs.

The following charts present a graphic representation of the Town's Governmental activities and the related revenue structure for fiscal year 2008.

**EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES**



**REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES**

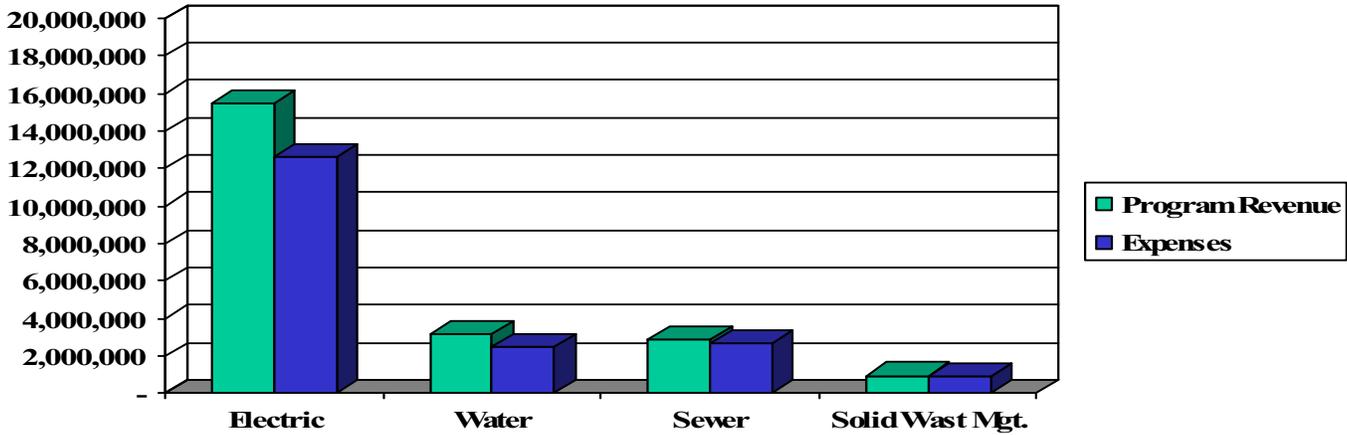


**Business-type activities.** Business-type activities increased the Town of Front Royal, Virginia’s net assets by \$3,352,072, accounting for all the growth in the town’s net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities decreased by \$1,238,819.
- Capital contributions by developers are a source of water system expansion resulting in donated systems valued at \$646,430.
- Investment earnings decreased by \$347,945 for business-type activities.

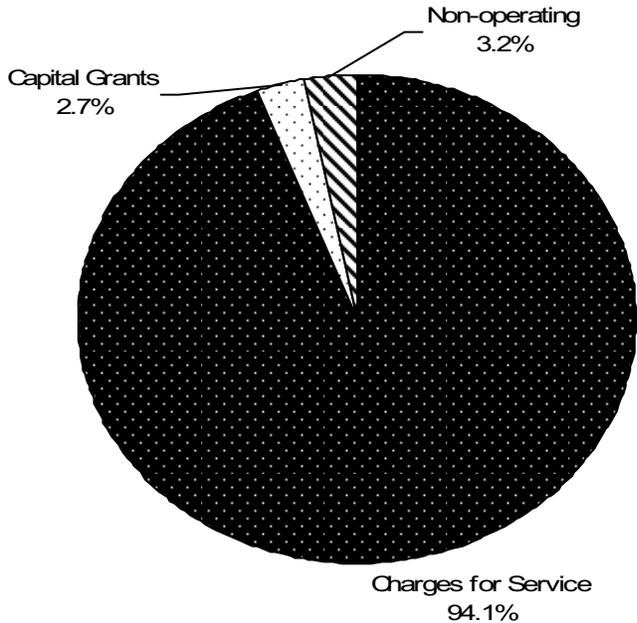
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**EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES**




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**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 \$7,731,927, an decreased of \$224,390 in comparison with the prior year. More than half of this total amount (\$7,630,952) 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 \$6,147,170, while total fund balance reached \$6,248,145. 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 60.2 percent of total general fund expenditures, while total fund balance represents 61.2 percent of that same amount.

The fund balance of the Town of Front Royal, Virginia's general fund decreased by \$260,461 during the current fiscal year. Key factors in this increase are as follows:

- Expenditures were in excess of revenues by 1,945,330.
- The general fund received its annual transfers from the proprietary funds. These net transfers of \$1,781,900 are used to reimburse the general fund for support of proprietary fund operations.

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

Net assets of the water, sewer and solid waste management functions at the end of the year amounted to \$35,991,427 and those for the electric function amounted to \$15,038,247. The total growth in net assets for all enterprise funds was \$3,352,072. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

## General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$1,504,330 and are noted as follows: a \$141,519 increase in Executive; a \$5,205 decrease in Legal; a \$12,605 increase in Finance; a \$226,570 increase in Planning and Zoning; a \$60,014 increase in Police Department; a \$1,113,628 increase in Public Works and Engineering; a \$44,801 decrease 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, 2008, amounts to \$112,699,319 (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, 2008 and 2007.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,117,508	\$ 1,117,508	\$ 1,488,822	\$ 1,488,822	\$ 2,606,330	\$ 2,606,330
Construction in progress	-	77,927	7,941,390	-	7,941,390	77,927
Buildings and Improvements	2,870,689	2,878,911	5,096,620	7,562,718	7,967,309	10,441,629
Utility distribution systems	-	-	27,261,932	27,545,883	27,261,932	27,545,883
Vehicles	413,607	323,495	1,165,412	891,678	1,579,019	1,215,173
Machinery and Equipment	969,833	976,620	1,385,658	779,491	2,355,491	1,756,111
Infrastructure	62,987,848	66,578,902	-	-	62,987,848	66,578,902
<b>Total</b>	<b>\$ 68,359,485</b>	<b>\$ 71,953,363</b>	<b>\$ 44,339,834</b>	<b>\$ 38,268,592</b>	<b>\$ 112,699,319</b>	<b>\$ 110,221,955</b>

Additional information on the Town of Front Royal's capital assets can be found in note IV. E on pages 40 – 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 \$13,180,339. 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.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (General Obligation Bonds)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 424,239	\$ 498,013	\$ 12,756,100	\$ 13,643,291	\$ 13,180,339	\$ 14,141,304

The Town of Front Royal's total debt decreased by \$960,965 (7.3 percent) during the current fiscal year. The majority of the debt is a \$11,370,550 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 \$145,212,163 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 4.6 percent, which is more than a year ago.
- This compares favorably to the state's average unemployment rate of 4.2 percent and the national average rate of 6.0 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 2008 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$6,147,170. Town of Front Royal has appropriated none of this amount for spending in the 2009 fiscal year budget. It also is available to offset the need for additional resources to be generated by the general 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, 2008**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,840,425	\$ 12,725,855	\$ 15,566,280
Investments	5,872,267	4,410,594	10,282,861
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	282,357	-	282,357
Accrued interest	1,300	2,072	3,372
Accounts	-	2,887,595	2,887,595
Other	(25,964)	4,868	(21,096)
Internal balances	(661,065)	661,065	-
Due from other governments	90,089	-	90,089
Inventories and other assets	98,324	898,033	996,357
Temporarily restricted assets			
Cash and cash equivalents	-	232,711	232,711
Deferred charges	-	134,023	134,023
Capital assets (net of accumulated depreciation)			
Land	1,117,508	1,488,822	2,606,330
Construction in progress	-	7,941,390	7,941,390
Buildings and improvements	2,870,689	5,096,620	7,967,309
Utility distribution systems	-	27,261,932	27,261,932
Vehicles	413,607	1,165,412	1,579,019
Machinery and equipment	969,833	1,385,658	2,355,491
Infrastructure	62,987,848	-	62,987,848
<b>Total Assets</b>	<b>76,857,218</b>	<b>66,296,650</b>	<b>143,153,868</b>
<b>Liabilities</b>			
Accounts payable	455,920	1,586,177	2,042,097
Accrued interest payable	-	143,572	143,572
Liabilities payable with restricted assets	-	234,439	234,439
Noncurrent liabilities			
Due within one year	77,258	906,030	983,288
Due in more than one year	1,044,290	12,396,758	13,441,048
<b>Total Liabilities</b>	<b>1,577,468</b>	<b>15,266,976</b>	<b>16,844,444</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	67,935,246	31,350,568	99,285,814
Unrestricted	7,344,504	19,679,106	27,023,610
<b>Total Net Assets</b>	<b>\$ 75,279,750</b>	<b>\$ 51,029,674</b>	<b>\$ 126,309,424</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, 2008**

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	\$ 2,832,009	\$ 111,776	\$ -	\$ 115,062	\$ (2,605,171)	\$ -	\$ (2,605,171)
Public safety	3,658,646	283,200	402,278	-	(2,973,168)	-	(2,973,168)
Public works	3,149,846	10,919	1,470,720	-	(1,668,207)	-	(1,668,207)
Planning, zoning, and community development	693,455	103,277	-	-	(590,178)	-	(590,178)
Culture and recreation	66,250	-	-	-	(66,250)	-	(66,250)
Interest on long-term debt	23,257	-	-	-	(23,257)	-	(23,257)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	14,014,517	509,172	1,872,998	115,062	(11,517,285)	-	(11,517,285)
Business-type activities							
Electric	12,600,249	15,460,426	-	-	-	2,860,177	2,860,177
Water	2,471,839	3,115,794	-	539,276	-	1,183,231	1,183,231
Sewer	2,691,398	2,846,667	-	107,154	-	262,423	262,423
Refuse	856,529	934,936	-	-	-	78,407	78,407
Total business-type activities	18,620,015	22,357,823	-	646,430	-	4,384,238	4,384,238
Total primary government	\$ 32,634,532	\$ 22,866,995	\$ 1,872,998	\$ 761,492	(11,517,285)	4,384,238	(7,133,047)
General Revenues							
Property taxes					1,330,595	-	1,330,595
Sales taxes					683,974	-	683,974
Business and occupational taxes					708,018	-	708,018
Franchise taxes					150,318	-	150,318
Consumer taxes					228,828	-	228,828
Alcoholic beverage taxes					16,316	-	16,316
Meals and lodging taxes					1,622,217	-	1,622,217
Virginia personal property tax reduction					287,863	-	287,863
Other general taxes					667,658	-	667,658
Unrestricted investment earnings					283,610	749,734	1,033,344
Transfers					1,781,900	(1,781,900)	-
Total general revenues and transfers					7,761,297	(1,032,166)	6,729,131
Change in net assets					(3,755,988)	3,352,072	(403,916)
Net assets - beginning					79,035,738	47,677,602	126,713,340
Net assets - ending					\$ 75,279,750	\$ 51,029,674	\$ 126,309,424

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,289,628	\$ 1,577,998	\$ 2,867,626
Investments	5,872,267	-	5,872,267
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	278,954	3,403	282,357
Accrued interest	1,300	-	1,300
Other	(25,964)	-	(25,964)
Due from other governments	90,089	-	90,089
Interfund advances	1,425	4,888	6,313
Inventories and other assets	98,324	-	98,324
<b>Total Assets</b>	<b>7,606,023</b>	<b>1,586,289</b>	<b>9,192,312</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	245,321	(1,549)	243,772
Cash advances	25,153	2,048	27,201
Accrued liabilities	212,148	-	212,148
Deferred revenue	306,334	3,552	309,886
Interfund advances	568,922	98,456	667,378
<b>Total Liabilities</b>	<b>1,357,878</b>	<b>102,507</b>	<b>1,460,385</b>
<b>Fund balances</b>			
Reserved for			
Inventory	60,975	-	60,975
Restricted use	40,000	-	40,000
Unreserved, reported in			
General fund	6,147,170	-	6,147,170
Special revenue funds	-	1,483,394	1,483,394
Capital projects funds	-	388	388
<b>Total Fund Balances</b>	<b>6,248,145</b>	<b>1,483,782</b>	<b>7,731,927</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,606,023</b>	<b>\$ 1,586,289</b>	

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.	68,359,485
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	309,886
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,121,548)</u>
Net assets of governmental activities	<u>\$ 75,279,750</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, 2008**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes				
Property	\$ 1,161,255	\$ -	\$ 130,000	\$ 1,291,255
Sales	683,974	-	-	683,974
Business and occupational	708,018	-	-	708,018
Franchise	150,318	-	-	150,318
Consumer	228,828	-	-	228,828
Vehicle licenses	226,689	-	-	226,689
Bank stock	160,640	-	-	160,640
Meals and lodging	1,622,217	-	-	1,622,217
Permits, fees, and licenses	103,277	-	-	103,277
Fines and forfeitures	246,650	-	-	246,650
Revenues from use of money & property	283,610	-	-	283,610
Charges for services	73,114	-	-	73,114
Miscellaneous	46,256	-	3,325	49,581
Recovered costs	-	-	36,550	36,550
Payment in lieu of taxes	229,098	-	-	229,098
Intergovernmental	2,343,470	-	-	2,343,470
Total revenues	<u>8,267,414</u>	<u>-</u>	<u>169,875</u>	<u>8,437,289</u>
<b>Expenditures</b>				
General government				
Legislative	175,717	-	-	175,717
Executive	1,401,822	-	-	1,401,822
Legal	257,621	-	-	257,621
Finance	801,115	-	-	801,115
Public safety				
Police	3,439,362	-	-	3,439,362
Fire protection	18,139	-	-	18,139
Planning, zoning, and community development	511,295	-	129,389	640,684
Engineering and public works	3,033,398	-	-	3,033,398
Parks and recreation	61,208	-	-	61,208
Nondepartmental	513,067	-	-	513,067
Debt Service				
Principal	-	73,774	-	73,774
Interest	-	23,257	-	23,257
Capital outlay	-	-	4,415	4,415
Total expenditures	<u>10,212,744</u>	<u>97,031</u>	<u>133,804</u>	<u>10,443,579</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,945,330)</u>	<u>(97,031)</u>	<u>36,071</u>	<u>(2,006,290)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,781,900	97,031	-	1,878,931
Transfers (out)	(97,031)	-	-	(97,031)
Total other financing sources and uses	<u>1,684,869</u>	<u>97,031</u>	<u>-</u>	<u>1,781,900</u>
<b>Net change in fund balances</b>	<b>(260,461)</b>	<b>-</b>	<b>36,071</b>	<b>(224,390)</b>
<b>Fund balances - beginning</b>	<b>6,508,606</b>	<b>-</b>	<b>1,447,711</b>	<b>7,956,317</b>
<b>Fund balances - ending</b>	<b><u>\$ 6,248,145</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,483,782</u></b>	<b><u>\$ 7,731,927</u></b>

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, 2008**

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

Net change in fund balances - total governmental funds	\$ (224,390)
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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.	(3,593,878)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	39,340
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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.	73,774
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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>(50,834)</u>
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Change in net assets of governmental activities	<u><u>\$ (3,755,988)</u></u>
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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, 2008**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues</b>				
General property taxes	\$ 1,869,259	\$ 1,869,259	\$ 1,161,255	\$ (708,004)
Other local taxes	4,119,300	4,119,300	4,009,782	(109,518)
Permits, fees, and licenses	105,500	105,500	103,277	(2,223)
Fines and forfeitures	410,000	410,000	246,650	(163,350)
Revenues from use of money & property	179,800	179,800	283,610	103,810
Charges for services	125,200	125,200	73,114	(52,086)
Miscellaneous	29,000	29,000	46,256	17,256
Recovered costs	50,000	50,000	-	(50,000)
Intergovernmental	2,315,910	2,315,910	2,343,470	27,560
<b>Total revenues</b>	<b>9,203,969</b>	<b>9,203,969</b>	<b>8,267,414</b>	<b>(936,555)</b>
<b>Expenditures</b>				
General Government				
Legislative	188,961	188,961	175,717	13,244
Executive	1,882,689	2,024,208	1,401,822	622,386
Legal	273,302	268,097	257,621	10,476
Finance	851,206	863,811	801,115	62,696
Total general government	3,196,158	3,345,077	2,636,275	708,802
Public Safety				
Police	3,272,326	3,332,340	3,439,362	(107,022)
Fire protection	50,000	50,000	18,139	31,861
Total public safety	3,322,326	3,382,340	3,457,501	(75,161)
Subtotal	6,518,484	6,727,417	6,093,776	633,641
Planning and zoning	583,102	809,672	511,295	298,377
Public works and engineering	3,559,315	4,672,943	3,033,398	1,639,545
Parks and recreation	61,208	61,208	61,208	-
Non-departmental	638,760	593,959	513,067	80,892
<b>Total Expenditures</b>	<b>11,360,869</b>	<b>12,865,199</b>	<b>10,212,744</b>	<b>2,652,455</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(2,156,900)</b>	<b>(3,661,230)</b>	<b>(1,945,330)</b>	<b>1,715,900</b>
<b>Other Financing Sources (Uses)</b>				
Other Sources	500,000	500,000	-	(500,000)
Transfers in	1,781,900	1,781,900	1,781,900	-
Transfers (out)	-	-	(97,031)	(97,031)
<b>Total other financing sources (uses)</b>	<b>2,281,900</b>	<b>2,281,900</b>	<b>1,684,869</b>	<b>(597,031)</b>
<b>Net change in fund balances</b>	<b>125,000</b>	<b>(1,379,330)</b>	<b>(260,461)</b>	<b>1,118,869</b>
<b>Fund balances - beginning</b>	<b>6,508,606</b>	<b>6,508,606</b>	<b>6,508,606</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 6,633,606</b>	<b>\$ 5,129,276</b>	<b>\$ 6,248,145</b>	<b>\$ 1,118,869</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, 2008**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Electric Current Year</b>	<b>Electric Prior Year</b>	<b>Water Current Year</b>	<b>Water Prior Year</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 6,291,095	\$ 1,414,272	\$ 5,343,124	\$ 12,136,773
Investments	35,819	2,544,911	2,172,458	-
Due from other funds	375,000	500,000	478,533	403,199
Interest receivable	200	200	1,872	2,250
Accounts receivable (net of allowance for uncollectibles)	1,915,522	1,903,342	479,380	591,524
Other receivables	(1,910)	11,678	1,995	8,700
Inventories	739,585	594,769	79,224	76,652
Total current assets	<u>9,355,311</u>	<u>6,969,172</u>	<u>8,556,586</u>	<u>13,219,098</u>
Noncurrent assets				
Restricted cash - cash equivalents	217,553	182,674	15,158	11,190
Deferred charges	-	-	98,459	109,663
	<u>217,553</u>	<u>182,674</u>	<u>113,617</u>	<u>120,853</u>
Capital assets				
Land, buildings and structures	2,781,045	2,355,914	3,404,336	6,082,833
Construction in process	-	-	7,941,390	-
Utility distribution systems	6,998,898	7,356,144	20,412,183	19,775,233
Vehicles	1,004,204	1,004,204	346,969	320,282
Equipment	871,010	626,888	442,917	384,860
Less accumulated depreciation	(5,047,241)	(5,187,886)	(9,537,983)	(9,023,899)
Total capital assets (net of accumulated depreciation)	<u>6,607,916</u>	<u>6,155,264</u>	<u>23,009,812</u>	<u>17,539,309</u>
Total noncurrent assets	<u>6,825,469</u>	<u>6,337,938</u>	<u>23,123,429</u>	<u>17,660,162</u>
<b>Total Assets</b>	<u>16,180,780</u>	<u>13,307,110</u>	<u>31,680,015</u>	<u>30,879,260</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	857,968	174,895	609,714	386,318
Accrued interest payable	-	-	128,700	138,939
General obligation bonds - current	-	-	625,515	608,595
Total current liabilities	<u>857,968</u>	<u>174,895</u>	<u>1,363,929</u>	<u>1,133,852</u>
Noncurrent liabilities				
Customer deposits payable	219,279	182,674	15,160	11,190
Compensated absences	65,286	43,014	111,597	109,812
General obligation bonds payable	-	-	10,745,035	11,370,550
Premium on general obligation bonds payable	-	-	233,166	246,119
Total noncurrent liabilities	<u>284,565</u>	<u>225,688</u>	<u>11,104,958</u>	<u>11,737,671</u>
<b>Total Liabilities</b>	<u>1,142,533</u>	<u>400,583</u>	<u>12,468,887</u>	<u>12,871,523</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,607,916	6,155,264	11,406,096	5,560,164
Unrestricted	8,430,331	6,751,263	7,805,032	12,447,573
<b>Total Net Assets</b>	<u>\$ 15,038,247</u>	<u>\$ 12,906,527</u>	<u>\$ 19,211,128</u>	<u>\$ 18,007,737</u>

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, 2008**

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 1,091,636	\$ 1,046,623	\$ -	\$ 15,519	\$ 12,725,855
Investments	2,285,611	2,352,211	(83,294)	73,009	4,410,594
Due from other funds	(192,468)	(214,166)	-	-	661,065
Interest receivable	-	-	-	-	2,072
Accounts receivable (net of allowance for uncollectibles)	345,146	572,523	147,547	120,420	2,887,595
Other receivables	4,120	7,840	663	1,386	4,868
Inventories	79,224	76,652	-	-	898,033
Total current assets	3,613,269	3,841,683	64,916	210,334	21,590,082
Noncurrent assets					
Restricted cash - cash equivalents	-	-	-	-	232,711
Deferred charges	35,564	43,274	-	-	134,023
	35,564	43,274	-	-	366,734
Capital assets					
Land, buildings and structures	4,112,787	4,061,137	-	-	10,298,168
Construction in process	-	-	-	-	7,941,390
Utility distribution systems	22,149,153	22,022,552	-	-	49,560,234
Vehicles	538,310	320,282	1,042,359	897,359	2,931,842
Equipment	845,980	542,558	585,084	491,105	2,744,991
Less accumulated depreciation	(13,535,212)	(12,844,056)	(1,016,355)	(916,918)	(29,136,791)
Total capital assets (net of accumulated depreciation)	14,111,018	14,102,473	611,088	471,546	44,339,834
Total noncurrent assets	14,146,582	14,145,747	611,088	471,546	44,706,568
<b>Total Assets</b>	<b>17,759,851</b>	<b>17,987,430</b>	<b>676,004</b>	<b>681,880</b>	<b>66,296,650</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	106,225	67,876	12,270	6,348	1,586,177
Accrued interest payable	14,872	20,832	-	-	143,572
General obligation bonds - current	280,515	278,594	-	-	906,030
Total current liabilities	401,612	367,302	12,270	6,348	2,635,779
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	234,439
Compensated absences	110,956	110,912	25,683	35,859	313,522
General obligation bonds payable	1,105,035	1,385,551	-	-	11,850,070
Premium on general obligation bonds payable	-	-	-	-	233,166
Total noncurrent liabilities	1,215,991	1,496,463	25,683	35,859	12,631,197
<b>Total Liabilities</b>	<b>1,617,603</b>	<b>1,863,765</b>	<b>37,953</b>	<b>42,207</b>	<b>15,266,976</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	12,725,468	12,438,328	611,088	471,546	31,350,568
Unrestricted	3,416,780	3,685,337	26,963	168,127	19,679,106
<b>Total Net Assets</b>	<b>\$ 16,142,248</b>	<b>\$ 16,123,665</b>	<b>\$ 638,051</b>	<b>\$ 639,673</b>	<b>\$ 51,029,674</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, 2008**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Electric Current Year</b>	<b>Electric Prior Year</b>	<b>Water Current Year</b>	<b>Water Prior Year</b>
<b>Operating revenues</b>				
Charges for sales and services				
Electric sales	\$ 15,049,515	\$ 15,259,385	\$ -	\$ -
Water and sewer sales	-	-	2,564,207	2,742,246
Installation and connection charges	166,323	177,269	502,506	935,664
Refuse service fees	-	-	-	-
Miscellaneous revenues	244,588	17,476	49,081	17,091
Total operating revenues	<u>15,460,426</u>	<u>15,454,130</u>	<u>3,115,794</u>	<u>3,695,001</u>
<b>Operating expenses</b>				
Personal service	759,109	686,223	778,873	749,553
Contractual service	561,625	578,931	116,207	108,399
Electric power	10,614,241	14,396,124	-	-
Depreciation	364,197	349,422	514,084	494,076
Other charges	440,634	515,374	800,971	500,257
Operating expenses capitalized	(147,597)	(283,107)	(97,675)	(88,755)
Total operating expenses	<u>12,592,209</u>	<u>16,242,967</u>	<u>2,112,460</u>	<u>1,763,530</u>
Operating income	<u>2,868,217</u>	<u>(788,837)</u>	<u>1,003,334</u>	<u>1,931,471</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	191,543	279,943	410,110	688,821
Interest expense	(8,040)	(7,171)	(348,175)	(559,807)
Bond issuance costs	-	-	(11,204)	(20,568)
Total nonoperating revenue (expenses)	<u>183,503</u>	<u>272,772</u>	<u>50,731</u>	<u>108,446</u>
Income before contributions and transfers	3,051,720	(516,065)	1,054,065	2,039,917
<b>Transfers and contributions</b>				
Capital contributions	-	-	539,276	697,193
Transfers in (out)	(920,000)	(1,053,750)	(389,950)	(319,284)
<b>Change in net assets</b>	2,131,720	(1,569,815)	1,203,391	2,417,826
<b>Total net assets - beginning of year</b>	<u>12,906,527</u>	<u>14,476,342</u>	<u>18,007,737</u>	<u>15,589,911</u>
<b>Total net assets - end of year</b>	<u>\$ 15,038,247</u>	<u>\$ 12,906,527</u>	<u>\$ 19,211,128</u>	<u>\$ 18,007,737</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, 2008**

	<b>Business-type Activities - Enterprise Funds</b>				
			<b>Solid Waste</b>	<b>Solid Waste</b>	<b>Totals</b>
	<b>Sewer</b>	<b>Sewer</b>	<b>Managment</b>	<b>Managment</b>	
<b>Current Year</b>	<b>Prior Year</b>	<b>Current Year</b>	<b>Prior Year</b>	<b>Current Year</b>	
<b>Operating revenues</b>					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$15,049,515
Water and sewer sales	2,344,010	2,832,037	-	-	4,908,217
Installation and connection charges	470,049	813,500	-	-	1,138,878
Refuse service fees	-	-	934,936	801,974	934,936
Miscellaneous revenues	32,608	-	-	-	326,277
Total operating revenues	<u>2,846,667</u>	<u>3,645,537</u>	<u>934,936</u>	<u>801,974</u>	<u>22,357,823</u>
<b>Operating expenses</b>					
Personal service	879,751	888,200	652,608	643,804	3,070,341
Contractual service	275,863	231,477	22,841	5,933	976,536
Electric power	-	-	-	-	10,614,241
Depreciation	691,156	673,664	99,437	84,835	1,668,874
Other charges	808,714	900,468	155,430	147,309	2,205,749
Operating expenses capitalized	(19,446)	(14,095)	(73,787)	(5,400)	(338,505)
Total operating expenses	<u>2,636,038</u>	<u>2,679,714</u>	<u>856,529</u>	<u>876,481</u>	<u>18,197,236</u>
Operating income	<u>210,629</u>	<u>965,823</u>	<u>78,407</u>	<u>(74,507)</u>	<u>4,160,587</u>
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	146,110	121,545	1,971	7,370	749,734
Interest expense	(47,650)	(65,491)	-	-	(403,865)
Bond issuance costs	(7,710)	(7,710)	-	-	(18,914)
Total nonoperating revenue (expenses)	<u>90,750</u>	<u>48,344</u>	<u>1,971</u>	<u>7,370</u>	<u>326,955</u>
Income before contributions and transfers	301,379	1,014,167	80,378	(67,137)	4,487,542
<b>Transfers and contributions</b>					
Capital contributions	107,154	397,306	-	-	646,430
Transfers in (out)	(389,950)	(193,258)	(82,000)	(77,325)	(1,781,900)
<b>Change in net assets</b>	18,583	1,218,215	(1,622)	(144,462)	3,352,072
<b>Total net assets - beginning of year</b>	<u>16,123,665</u>	<u>14,905,450</u>	<u>639,673</u>	<u>784,135</u>	<u>47,677,602</u>
<b>Total net assets - end of year</b>	<u>\$16,142,248</u>	<u>\$16,123,665</u>	<u>\$ 638,051</u>	<u>\$ 639,673</u>	<u>\$51,029,674</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, 2008**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste Management</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 15,461,834	\$ 3,235,021	\$ 3,077,764	\$ 908,532	\$ 22,683,151
Payments to suppliers	(10,894,041)	(583,505)	(1,021,644)	(98,562)	(12,597,752)
Payments to employees	(736,837)	(777,088)	(879,707)	(662,784)	(3,056,416)
Net cash provided by operating activities	<u>3,830,956</u>	<u>1,874,428</u>	<u>1,176,413</u>	<u>147,186</u>	<u>7,028,983</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers to other funds	(920,000)	(389,950)	(389,950)	(82,000)	(1,781,900)
Repayment of interfund advances	125,000	(75,334)	(21,698)	-	27,968
Net cash provided (used) by capital and related financing activities	<u>(795,000)</u>	<u>(465,284)</u>	<u>(411,648)</u>	<u>(82,000)</u>	<u>(1,753,932)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital contributions	-	539,276	107,154	-	646,430
Acquisition and construction of capital assets	(816,849)	(5,984,587)	(699,701)	(238,979)	(7,740,116)
Principal paid on capital debt	-	(608,595)	(278,595)	-	(887,190)
Interest paid	(8,040)	(382,571)	(61,320)	-	(451,931)
Net cash provided (used) by capital and related financing activities	<u>(824,889)</u>	<u>(6,436,477)</u>	<u>(932,462)</u>	<u>(238,979)</u>	<u>(8,432,807)</u>
<b>Cash Flows from Investing Activities</b>					
(Purchases)/sale of investments	2,509,092	(2,172,458)	66,600	156,303	559,537
Interest and dividends received	191,543	410,110	146,110	1,971	749,734
Net cash provided (used) by investing activities	<u>2,700,635</u>	<u>(1,762,348)</u>	<u>212,710</u>	<u>158,274</u>	<u>1,309,271</u>
Net increase in cash and cash equivalents	4,911,702	(6,789,681)	45,013	(15,519)	(1,848,485)
Cash and cash equivalents July 1, 2007	1,596,946	12,147,963	1,046,623	15,519	14,807,051
Cash and cash equivalents June 30, 2008	<u>\$ 6,508,648</u>	<u>\$ 5,358,282</u>	<u>\$ 1,091,636</u>	<u>\$ -</u>	<u>\$ 12,958,566</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income	\$ 2,868,217	\$ 1,003,334	\$ 210,629	\$ 78,407	\$ 4,160,587
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	364,197	514,084	691,156	99,437	1,668,874
(Increase) decrease in accounts receivable	(12,180)	112,144	227,377	(27,127)	300,214
(Increase) decrease in other receivables	13,588	7,083	3,720	723	25,114
(Increase) decrease in inventories	(144,816)	(2,572)	(2,572)	-	(149,960)
(Increase) decrease in deferred charges	-	11,204	7,710	-	18,914
Increase (decrease) in customer deposits	36,605	3,970	-	-	40,575
Increase (decrease) in accounts payable	683,073	223,396	38,349	5,922	950,740
Increase (decrease) in compensated absences	22,272	1,785	44	(10,176)	13,925
Total adjustments	<u>962,739</u>	<u>871,094</u>	<u>965,784</u>	<u>68,779</u>	<u>2,868,396</u>
Net cash provided by operating activities	<u>\$ 3,830,956</u>	<u>\$ 1,874,428</u>	<u>\$ 1,176,413</u>	<u>\$ 147,186</u>	<u>\$ 7,028,983</u>
<b>Noncash investing, capital, and financing activities</b>					
Capital assets contributed by developers	<u>\$ -</u>	<u>\$ 539,276</u>	<u>\$ 107,154</u>	<u>\$ -</u>	<u>\$ 646,430</u>

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

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#### 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 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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

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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

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#### 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.

#### 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.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

**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 capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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			
	Replacement	Deflated 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**

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**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:

<u>Description</u>	<u>Amount</u>
Bonds payable	\$ 424,239
Compensated absences	<u>697,309</u>
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$ 1,121,548</u>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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**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 \$3,593,878 difference is as follows:

Description	Amount
Capital outlay	\$ 242,850
Depreciation expense	<u>(3,836,728)</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>\$ (3,593,878)</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	\$ 73,774
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>\$ 73,774</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**

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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 \$1,504,330.

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, 2008, expenditures exceeded appropriations in the following general fund department:

<u>Department</u>	<u>Excess Expenditures Over Appropriations</u>
Police	<u><u>\$ 107,022</u></u>

**C. Deficit Fund Equity**

At June 30, 2008 Special Revenue Fund - Downtown Service District had a deficit fund balance as noted below:

<u>Fund</u>	<u>Deficit</u>
Downtown Service District	<u><u>\$ 2,194</u></u>

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Deposits

As of June 30, 2008, the carrying amount of the Town's deposits with banks and savings institutions was 4,216,789 and the bank balance was \$4,435,779. 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**

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, 2008, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
SunTrust US Government MM Fund	\$ 2,787,130	\$ 2,787,130	\$ -
Commercial Paper	8,959,962	8,959,962	-
Government and agency bonds/notes	1,322,898	1,322,898	-
Repurchase agreements	122,883	122,883	-
LGIP Pool	2,859,934	2,859,934	-
SNAP Pool	4,251,488	4,251,488	-
SunTrust US Government Fund	1,559,280	1,559,280	-
Total	<u>\$ 21,863,575</u>	<u>\$ 21,863,575</u>	<u>\$ -</u>

*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, 2008, 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	4,216,789	4,216,789	-
Investments	21,863,575	11,580,714	10,282,861
<b>Total</b>	<b>\$ 26,081,852</b>	<b>\$ 15,798,991</b>	<b>\$ 10,282,861</b>

**B. Estimated Unbilled Revenue**

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2008. 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, 2008, the amount of unbilled service recorded was \$1,327,452.

**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	Solid Waste Management	Nonmajor	Total
Receivables:							
Delinquent taxes	\$ 278,954	\$ -	\$ -	\$ -	\$ -	\$ 3,403	\$ 282,357
Accounts	-	2,100,628	328,449	278,435	143,967	-	2,851,479
Interest	1,300	200	1,872	-	-	-	3,372
Intergovernmental	90,089	-	-	-	-	-	90,089
Unbilled	-	843,353	273,952	157,229	52,918	-	1,327,452
Other	(25,964)	10,812	4,733	9,378	725	-	(316)
Less: allowance for uncollectibles	-	(1,041,181)	(125,759)	(95,776)	(49,400)	-	(1,312,116)
Net total receivables	\$ 344,379	\$ 1,913,812	\$ 483,247	\$ 349,266	\$ 148,210	\$ 3,403	\$ 3,242,317

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	\$ 306,334	\$ -
Special Revenue Fund - Property Taxes	3,552	-
	<b>\$ 309,886</b>	<b>\$ -</b>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

**D. Due from Other Governments**

At June 30, 2008 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Communication Tax	\$ 31,398
Warren County, Virginia - Sales Tax	58,691
	\$ 90,089

**E. Capital Assets**

Capital asset activity for the year ended June 30, 2008 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	1,195,435	-	(77,927)	1,117,508
Capital assets, being depreciated				
Buildings and improvements	3,858,191	93,777	-	3,951,968
Vehicles	1,370,948	177,333	-	1,548,281
Equipment	2,688,270	49,667	(17,772)	2,720,165
Infrastructure	109,527,139	-	-	109,527,139
Total capital assets being depreciated	117,444,548	320,777	(17,772)	117,747,553
Less accumulated depreciation for				
Buildings and improvements	(979,280)	(101,999)	-	(1,081,279)
Vehicles	(1,047,453)	(87,221)	-	(1,134,674)
Equipment	(1,711,650)	(56,454)	17,772	(1,750,332)
Infrastructure	(42,948,237)	(3,591,054)	-	(46,539,291)
Total accumulated depreciation	(46,686,620)	(3,836,728)	17,772	(50,505,576)
Net capital assets being depreciated	70,757,928	(3,515,951)	-	67,241,977
Governmental capital assets, net	\$ 71,953,363	\$ (3,515,951)	\$ (77,927)	\$ 68,359,485

**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	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Total capital assets not being depreciated	1,488,822	-	-	1,488,822
Capital assets, being depreciated				
Buildings and improvements	11,011,063	665,499	(2,867,216)	8,809,346
Construction in process	-	7,941,390	-	7,941,390
Utility Distribution Systems	49,153,929	911,148	(504,843)	49,560,234
Vehicles	2,542,127	389,715	-	2,931,842
Equipment	2,045,411	699,580	-	2,744,991
Total capital assets, being depreciated	64,752,530	10,607,332	(3,372,059)	71,987,803
Less accumulated depreciation for				
Buildings and improvements	(3,448,346)	(264,381)	-	(3,712,727)
Utility Distribution Systems	(21,608,046)	(1,195,099)	504,843	(22,298,302)
Vehicles	(1,650,448)	(115,981)	-	(1,766,429)
Equipment	(1,265,920)	(93,413)	-	(1,359,333)
Total accumulated depreciation	(27,972,760)	(1,668,874)	504,843	(29,136,791)
Net capital assets being depreciated	36,779,770	8,938,458	(2,867,216)	42,851,012
Business-type activities	\$ 38,268,592	\$ 8,938,458	\$ (2,867,216)	\$ 44,339,834

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

Activity	Depreciation
<b>Governmental activities:</b>	
General government	\$ 65,893
Public safety	86,419
Public works	75,819
Planning, zoning, and community development	16,014
Culture and recreation	1,529
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	\$ 3,836,728
<b>Business-type activities:</b>	
Electric	\$ 364,197
Water	514,084
Sewer	691,156
Solid Waste Management	99,437
Total depreciation expense - business-type activities	\$ 1,668,874

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

**F. Interfund Advances/Transfers**

The composition and activity of interfund advances/transfers for 2008 is as follows:

Advanced to	Advanced from	Amount
General Fund	Electric	\$ 375,000
General Fund	Water	97,032
General Fund	Sewer	96,502
Special Revenue	Water	46,266
Special Revenue	Sewer	46,265
		\$ 661,065

**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, 2008 are as follows:

Description	Amount
\$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%.	\$ 2,771,100
\$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%.	424,239
\$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%.	9,985,000
Total General Obligation Debt	\$ 13,180,339

**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
2009	77,258	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
2013	92,961	4,329	902,674	414,492
Thereafter	-	-	8,129,998	3,078,507
Total	\$ 424,239	\$ 64,202	\$ 12,756,100	\$ 5,494,752

The legal debt limit mandated by the Commonwealth of Virginia is \$145,212,163.

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, 2008 was as follows:

	June 30, 2007	Additions	Retirements	June 30, 2008	One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 498,013	\$ -	\$ (73,774)	\$ 424,239	\$ 77,258
Compensated absences	646,475	212,453	(161,619)	697,309	-
Governmental activity					
Long-term liabilities	\$ 1,144,488	\$ 212,453	\$ (235,393)	\$ 1,121,548	\$ 77,258
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 13,643,291	\$ -	\$ (887,191)	\$ 12,756,100	\$ 906,030
Unamortized premium	246,119	-	(12,953)	233,166	-
Compensated absences	299,596	88,825	(74,899)	313,522	-
Business-type activity					
Long-term liabilities	\$ 14,189,006	\$ 88,825	\$ (975,043)	\$ 13,302,788	\$ 906,030

**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	\$ -	\$ 697,309
Electric	-	65,286
Water	-	111,597
Sewer	-	110,956
Refuse	-	25,683
	\$ -	\$ 313,522

**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 2008 the Town paid premiums of approximately \$167,761 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 2008, the Town paid contributions of approximately \$293,019 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%	\$ 2,600,000
Town of Front Royal support agreement obligation – 20%	\$ 520,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
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
2013	285,000	50,170	57,000	10,034	67,034
Thereafter	1,255,000	91,994	251,000	18,399	269,399
	\$ 2,600,000	\$ 441,212	\$ 520,000	\$ 88,243	\$ 608,243

**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 2008 those costs totaled approximately \$45,530 covering approximately 12 employees.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE FINANCIAL STATEMENTS

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#### **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 2008 was 15.17% of annual covered payroll.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

Annual Pension Cost

For 2008, the Town’s annual pension cost of \$945,511 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) 7.5% investment rate of return, (b) projected salary increases that range between 3.5% and 5.6% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. 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
2008	\$ 945,511	100	None
2007	795,405	100	None
2006	695,723	100	None
2005	677,061	100	None
2004	501,074	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 30, 2007	\$ 21,064,235	\$ 23,601,590	\$ 2,537,355	89.25%	\$ 5,735,604	44.24%
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%

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO THE FINANCIAL STATEMENTS**

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**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, 2008

	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	\$ 1,451,559	\$ 1,451,559	\$ 813,492	\$ (638,067)
Delinquent taxes, including penalties	19,000	19,000	24,242	5,242
Personal property taxes				
Current taxes, including penalties	370,000	370,000	295,671	(74,329)
Delinquent taxes, including penalties	-	-	11,064	11,064
Mobile home taxes				
Current taxes, including penalties	-	-	-	-
Public service corporation taxes	11,700	11,700	11,042	(658)
Interest on delinquent taxes	17,000	17,000	5,744	(11,256)
Total General Property Taxes	<u>1,869,259</u>	<u>1,869,259</u>	<u>1,161,255</u>	<u>(708,004)</u>
<b>Other Local Taxes</b>				
Warren County sales tax	700,000	700,000	683,974	(16,026)
Business and occupational taxes and penalties	706,000	706,000	708,018	2,018
Franchise taxes	240,000	240,000	150,318	(89,682)
Consumer taxes - electric deregulation	208,300	208,300	228,828	20,528
Vehicle licenses	240,000	240,000	226,689	(13,311)
Bank stock taxes	200,000	200,000	160,640	(39,360)
Lodging taxes	370,000	370,000	341,906	(28,094)
Meal taxes	1,255,000	1,255,000	1,280,311	25,311
Payment in lieu of taxes	200,000	200,000	229,098	29,098
Total Other Local Taxes	<u>4,119,300</u>	<u>4,119,300</u>	<u>4,009,782</u>	<u>(109,518)</u>
<b>Permits, Fees and Licenses</b>				
Zoning income	60,000	60,000	41,514	(18,486)
Public ROW use fees	45,000	45,000	61,674	16,674
Sign permits	500	500	89	(411)
Total Permits, Fees and Licenses	<u>105,500</u>	<u>105,500</u>	<u>103,277</u>	<u>(2,223)</u>
<b>Fines and Forfeitures</b>				
Fines and forfeitures - county	380,000	380,000	232,869	(147,131)
Fines and forfeitures - town	30,000	30,000	13,781	(16,219)
Total Fines and Forfeitures	<u>410,000</u>	<u>410,000</u>	<u>246,650</u>	<u>(163,350)</u>
<b>Revenues from Use of Money and Property</b>				
Interest on bank deposits	170,000	170,000	266,834	96,834
Interest on accounts receivable	1,000	1,000	1,165	165
Rental - general property	-	-	816	816
Rental - Adelphia property	8,800	8,800	14,795	5,995
Total Revenues from Use of Money and Property	<u>\$ 179,800</u>	<u>\$ 179,800</u>	<u>\$ 283,610</u>	<u>\$ 103,810</u>

## TOWN OF FRONT ROYAL, VIRGINIA

## GENERAL FUND

## SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Charges for Services</b>				
Curb and gutter charges	\$ 45,000	\$ 45,000	\$ 8,419	\$ (36,581)
Street & walk assessment	2,000	2,000	2,500	500
Credit card fees	2,000	2,000	(116)	(2,116)
Sales at Visitors' Center	75,000	75,000	61,208	(13,792)
Sales of publications	1,200	1,200	1,103	(97)
Total Charges for Services	<u>125,200</u>	<u>125,200</u>	<u>73,114</u>	<u>(52,086)</u>
<b>Miscellaneous Revenue</b>				
Miscellaneous	<u>29,000</u>	<u>29,000</u>	<u>46,256</u>	<u>17,256</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	12,600	12,600	12,670	70
Virginia personal property tax reduction	287,000	287,000	287,863	863
Rental tax vehicles	55,000	55,000	37,779	(17,221)
Mobile home taxes	-	-	782	782
State aid for police and fire	440,000	440,000	402,278	(37,722)
Highway maintenance	1,500,000	1,500,000	1,470,720	(29,280)
Grants	5,000	5,000	115,062	110,062
Total Intergovernmental	<u>2,315,910</u>	<u>2,315,910</u>	<u>2,343,470</u>	<u>27,560</u>
Total General Fund Revenues	<u>9,203,969</u>	<u>9,203,969</u>	<u>8,267,414</u>	<u>(936,555)</u>
<b>Other Financing Sources</b>				
Other Sources	500,000	500,000	-	(500,000)
Transfers from other funds	1,781,900	1,781,900	1,781,900	-
Total Other Financing Sources	<u>2,281,900</u>	<u>2,281,900</u>	<u>1,781,900</u>	<u>(500,000)</u>
Total General Fund Revenues and Other Financing Sources	<u>\$ 11,485,869</u>	<u>\$ 11,485,869</u>	<u>\$ 10,049,314</u>	<u>\$ (1,436,555)</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Legislative</b>				
Town Council				
Personal service	\$ 58,780	\$ 58,780	\$ 58,765	\$ 15
Contractual service	54,000	49,800	39,062	10,738
Materials and supplies	1,000	625	642	(17)
Travel and communications	14,800	11,866	10,638	1,228
Total Town Council	<u>128,580</u>	<u>121,071</u>	<u>109,107</u>	<u>11,964</u>
Clerk of Council				
Personal service	49,531	53,822	55,049	(1,227)
Contractual service	5,500	6,979	5,656	1,323
Materials and supplies	1,300	1,959	1,926	33
Travel and communications	3,700	4,780	3,749	1,031
Dues and memberships	350	350	230	120
Total Clerk of Council	<u>60,381</u>	<u>67,890</u>	<u>66,610</u>	<u>1,280</u>
Total Legislative	<u>188,961</u>	<u>188,961</u>	<u>175,717</u>	<u>13,244</u>
<b>Executive</b>				
Town Manager				
Personal service	247,957	246,032	232,426	13,606
Contractual service	5,400	7,470	7,487	(17)
Materials and supplies	10,500	8,330	4,644	3,686
Travel and communications	9,250	8,350	7,008	1,342
Dues and memberships	1,500	1,500	1,407	93
Total Town Manager	<u>274,607</u>	<u>271,682</u>	<u>252,972</u>	<u>18,710</u>
Management Services				
Personal service	186,876	187,621	188,414	(793)
Contractual service	43,450	48,990	42,496	6,494
Materials and supplies	3,300	3,102	3,100	2
Travel and communications	2,350	1,425	1,266	159
Dues and memberships	-	318	314	4
Total Management Services	<u>235,976</u>	<u>241,456</u>	<u>235,590</u>	<u>5,866</u>
Auto/Motorpool				
Personal service	297,091	297,091	289,793	7,298
Contractual service	(159,800)	(159,800)	(133,013)	(26,787)
Materials and supplies	225,050	245,663	204,869	40,794
Travel and communications	2,800	2,800	2,043	757
Utilities	2,000	2,500	3,226	(726)
Dues and memberships	-	150	143	7
Capital outlays	40,000	49,590	12,589	37,001
Total Auto/Motorpool	<u>407,141</u>	<u>437,994</u>	<u>379,650</u>	<u>58,344</u>
Office of Information Technology				
Personal service	76,655	58,690	28,122	30,568
Contractual service	166,500	156,495	118,021	38,474
Materials and supplies	4,000	6,965	3,830	3,135
Travel and communications	50,550	36,710	37,346	(636)
Dues and memberships	250	250	-	250
Capital outlays	326,430	472,986	75,691	397,295
Total Office of Information Technology	<u>\$ 624,385</u>	<u>\$ 732,096</u>	<u>\$ 263,010</u>	<u>\$ 469,086</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Tourism				
Personal service	\$ 133,380	\$ 133,861	\$ 132,104	\$ 1,757
Contractual service	90,800	90,749	53,325	37,424
Materials and supplies	45,300	43,460	35,784	7,676
Utilities	100	100	109	(9)
Travel and communications	17,900	19,710	17,037	2,673
Dues and memberships	2,500	2,500	2,639	(139)
Contributions to other entities	500	500	368	132
Capital outlays	42,000	42,000	21,728	20,272
Total Office of Tourism	<u>332,480</u>	<u>332,880</u>	<u>263,094</u>	<u>69,786</u>
Board of Elections				
Contractual service	8,100	8,100	7,506	594
Total Executive	<u>1,882,689</u>	<u>2,024,208</u>	<u>1,401,822</u>	<u>622,386</u>
<b>Legal</b>				
Town Attorney				
Personal service	206,502	239,402	239,025	377
Contractual service	53,000	14,895	8,665	6,230
Materials and supplies	7,050	7,050	6,645	405
Travel and communications	5,550	5,400	1,971	3,429
Dues and memberships	1,200	1,350	1,315	35
Total Legal	<u>273,302</u>	<u>268,097</u>	<u>257,621</u>	<u>10,476</u>
<b>Finance</b>				
Finance Department				
Personal service	717,166	716,966	666,923	50,043
Contractual service	47,300	45,505	44,973	532
Materials and supplies	19,250	25,400	22,178	3,222
Travel and communications	52,090	64,040	55,468	8,572
Dues and memberships	400	400	169	231
Capital outlays	15,000	11,500	11,404	96
Total Finance Department	<u>851,206</u>	<u>863,811</u>	<u>801,115</u>	<u>62,696</u>
Total General Government	<u>3,196,158</u>	<u>3,345,077</u>	<u>2,636,275</u>	<u>708,802</u>
<b>Planning, Zoning and Community Development</b>				
Planning and Zoning				
Personal service	435,322	432,132	383,198	48,934
Contractual service	42,505	156,222	14,648	141,574
Materials and supplies	5,150	5,150	6,844	(1,694)
Travel and communications	3,600	3,600	4,261	(661)
Dues and memberships	700	4,700	575	4,125
Capital outlays	-	100,000	4,694	95,306
Total Planning and Zoning	<u>487,277</u>	<u>701,804</u>	<u>414,220</u>	<u>287,584</u>
Economic Development				
Contractual service	-	8,378	275	8,103
Contributions to other entities	66,400	66,400	65,529	871
Total Economic Development	<u>66,400</u>	<u>74,778</u>	<u>65,804</u>	<u>8,974</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Variance
Boards and Commissions				
Personal service	-	14,615	14,615	-
Contractual service	17,615	5,915	4,781	1,134
Materials and supplies	700	700	63	637
Travel and communications	2,800	3,550	3,627	(77)
Dues and memberships	200	200	157	43
Joint operations	8,110	8,110	8,028	82
Total Boards and Commissions	29,425	33,090	31,271	1,819
Total Planning, Zoning and Community Development	\$ 583,102	\$ 809,672	\$ 511,295	\$ 298,377
<b>Police</b>				
Police Department				
Personal service	\$ 2,941,369	\$ 2,990,734	\$ 3,074,636	\$ (83,902)
Contractual service	27,950	17,010	17,013	(3)
Materials and supplies	157,097	177,667	186,813	(9,146)
Travel and communications	35,950	38,005	37,382	623
Dues and memberships	3,000	1,684	1,641	43
Joint operations	25,960	26,240	37,123	(10,883)
Capital outlays	81,000	81,000	84,754	(3,754)
Total Police Department	3,272,326	3,332,340	3,439,362	(107,022)
<b>Fire Protection</b>				
Fire Department				
Personal service	-	-	18,139	(18,139)
Materials and supplies	50,000	50,000	-	50,000
Total Fire Department	50,000	50,000	18,139	31,861
Total Public Safety	3,322,326	3,382,340	3,457,501	(75,161)
<b>Engineering and Public Works</b>				
Engineering				
Personal service	45,537	53,937	65,684	(11,747)
Contractual service	6,000	1,050	1,607	(557)
Materials and supplies	4,000	4,400	7,278	(2,878)
Travel and communications	5,025	2,925	4,628	(1,703)
Dues and memberships	-	250	200	50
Capital outlays	33,280	33,280	33,280	-
Total Engineering	93,842	95,842	112,677	(16,835)
Streets and Sidewalks				
Personal service	1,000,202	998,202	890,745	107,457
Contractual service	517,250	854,461	170,101	684,360
Materials and supplies	587,250	655,549	423,718	231,831
Travel and communications	3,850	8,250	7,966	284
Utilities	34,000	42,000	41,736	264
Dues and memberships	300	300	-	300
Capital outlays	735,700	1,406,177	943,566	462,611
Total Streets and Sidewalks	2,878,552	3,964,939	2,477,832	1,487,107

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Variance
<b>General Properties</b>				
Personal service	70,317	71,317	65,253	6,064
Contractual service	105,300	103,650	81,149	22,501
Materials and supplies	20,525	24,450	18,161	6,289
Travel and communications	2,400	2,400	1,392	1,008
Utilities	40,000	58,300	56,689	1,611
Capital outlays	150,000	150,000	14,981	135,019
<b>Total General Properties</b>	<b>388,542</b>	<b>410,117</b>	<b>237,625</b>	<b>172,492</b>
<b>Horticulture</b>				
Personal service	103,204	125,204	126,573	(1,369)
Contractual service	1,800	3,850	3,548	302
Materials and supplies	15,325	15,225	16,160	(935)
Travel and communications	1,050	1,100	1,029	71
Capital outlays	77,000	56,666	57,954	(1,288)
<b>Total Horticulture</b>	<b>198,379</b>	<b>202,045</b>	<b>205,264</b>	<b>(3,219)</b>
<b>Total Engineering and Public Works</b>	<b>3,559,315</b>	<b>4,672,943</b>	<b>3,033,398</b>	<b>1,639,545</b>
<b>Parks and Recreation</b>				
Library	61,208	61,208	61,208	-
<b>Total Parks and Recreation</b>	<b>\$ 61,208</b>	<b>\$ 61,208</b>	<b>\$ 61,208</b>	<b>\$ -</b>
<b>Nondepartmental</b>				
Fringe Benefits	\$ 270,510	\$ 222,245	\$ 206,078	\$ 16,167
Insurance	308,000	308,000	294,715	13,285
Contractual services	-	3,464	1,159	2,305
Bad debt	-	-	1,115	(1,115)
Joint operations	10,250	10,250	10,000	250
Reserves	50,000	50,000	-	50,000
<b>Total Nondepartmental</b>	<b>638,760</b>	<b>593,959</b>	<b>513,067</b>	<b>80,892</b>
<b>Subtotal</b>	<b>11,360,869</b>	<b>12,865,199</b>	<b>10,212,744</b>	<b>2,652,455</b>
<b>Transfers to Other Funds</b>				
Debt Service Fund	-	-	97,031	(97,031)
<b>Total Transfers</b>	<b>-</b>	<b>-</b>	<b>97,031</b>	<b>(97,031)</b>
<b>Total General Fund Expenditures</b>	<b>\$ 11,360,869</b>	<b>\$ 12,865,199</b>	<b>\$ 10,309,775</b>	<b>\$ 2,555,424</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008**

	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	\$ -	\$ 93,237	\$ 57,577	\$ 1,427,184	\$ 1,577,998	\$ -	\$ 1,577,998
Accounts receivable - real estate taxes	3,406	-	-	(3)	3,403	-	3,403
Interfund advances	-	-	4,500	-	4,500	388	4,888
<b>Total Assets</b>	<b>3,406</b>	<b>93,237</b>	<b>62,077</b>	<b>1,427,181</b>	<b>1,585,901</b>	<b>388</b>	<b>1,586,289</b>
<b>Liabilities</b>							
Accounts payable	-	-	-	(1,549)	(1,549)	-	(1,549)
Overdraft	2,048	-	-	-	2,048	-	2,048
Deferred revenue	3,552	-	-	-	3,552	-	3,552
Interfund advances	-	1,425	-	97,031	98,456	-	98,456
<b>Total Liabilities</b>	<b>5,600</b>	<b>1,425</b>	<b>-</b>	<b>95,482</b>	<b>102,507</b>	<b>-</b>	<b>102,507</b>
<b>Fund Balances</b>							
Unreserved, undesignated	(2,194)	91,812	62,077	1,331,699	1,483,394	388	1,483,782
<b>Total Fund Balances</b>	<b>(2,194)</b>	<b>91,812</b>	<b>62,077</b>	<b>1,331,699</b>	<b>1,483,394</b>	<b>388</b>	<b>1,483,782</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,406</b>	<b>\$ 93,237</b>	<b>\$ 62,077</b>	<b>\$ 1,427,181</b>	<b>\$ 1,585,901</b>	<b>\$ 388</b>	<b>\$ 1,586,289</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, 2008**

	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	\$ -	\$ -	\$ 130,000	\$ -	\$ 130,000	\$ -	\$ -	\$ 130,000
Asset Forfeitures	-	36,550	-	-	36,550	-	-	36,550
Miscellaneous	-	-	-	3,325	3,325	-	-	3,325
Total revenues	-	36,550	130,000	3,325	169,875	-	-	169,875
<b>Expenditures</b>								
Current								
Payment in support of EDA debt issue	-	-	67,529	-	67,529	-	-	67,529
Contractual service	-	-	-	8,398	8,398	-	-	8,398
Contributions to other entities	-	-	53,462	-	53,462	-	-	53,462
Capital outlays	-	4,415	-	-	4,415	-	-	4,415
Total expenditures	-	4,415	120,991	8,398	133,804	-	-	133,804
Excess (deficiency) of revenues over (under) expenditures	-	32,135	9,009	(5,073)	36,071	-	-	36,071
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balances	-	32,135	9,009	(5,073)	36,071	-	-	36,071
Fund balances - beginning	(2,194)	59,677	53,068	1,336,772	1,447,323	388	-	1,447,711
Fund balances - ending	\$ (2,194)	\$ 91,812	\$ 62,077	\$ 1,331,699	\$ 1,483,394	\$ 388	\$ -	\$ 1,483,782

**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, 2008**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Asset forfeitures	\$ 12,000	\$ 36,550	\$ 24,550
<b>Expenditures</b>			
Capital outlays	12,000	4,415	7,585
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	32,135	32,135
Fund balances - beginning	59,677	59,677	-
Fund balances - ending	\$ 59,677	\$ 91,812	\$ 32,135

**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, 2008**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 153,327	\$ 130,000	\$ (23,327)
<b>Expenditures</b>			
Payments in support of EDA debt issue	97,031	67,529	29,502
Contributions to other entities	56,296	53,462	2,834
Total Expenditures	153,327	120,991	32,336
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	9,009	9,009
Fund balances - beginning	53,068	53,068	-
Fund balances - ending	\$ 53,068	\$ 62,077	\$ 9,009

**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, 2008**

	Revised 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	8,398	1,035,602
Total Expenditures	<u>1,044,000</u>	<u>8,398</u>	<u>1,035,602</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(1,037,000)	(5,073)	(1,039,277)
Fund balances - beginning	<u>1,336,772</u>	<u>1,336,772</u>	<u>-</u>
Fund balances - ending	<u>\$ 299,772</u>	<u>\$ 1,331,699</u>	<u>\$ (1,039,277)</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY**  
**JUNE 30, 2008**

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**Assets held by the Director of Finance**

Cash on hand		\$	1,488
Cash in Banks			
Checking - SunTrust			3,647,871
Certificates of Deposit			
BB&T Bank	\$	350,000	
Greater Atlantic Bank		116,291	
Wachovia Bank		81,775	
Virginia Savings Bank		20,852	
Total Certificates of Deposit			568,918
Virginia Local Government Investment Pool			2,859,934
Repurchase Agreements - Wachovia			122,884
SunTrust Government & Agency Fund			1,559,280
SNAP Pool			4,251,488
SunTrust Investment Account			13,069,989
			<u>13,069,989</u>
<b>Total Assets</b>			<u><u>\$26,081,852</u></u>

At June 30, 2008, 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, 2008**

	Governmental Funds						2007 Totals (Memorandum Only)
	General	Debt Service	Special Revenue	Capital Projects	Proprietary Funds	2008 Totals (Memorandum Only)	
Balance July 1, 2007	\$ 7,354,715	\$ -	\$ 1,538,305	\$ -	\$ 19,777,182	\$ 28,670,202	\$ 32,211,947
Revised Totals	7,354,715	-	1,538,305	-	19,777,182	28,670,202	32,211,947
Receipts (net)							
Interfund advances/receipts	-	-	1,425	-	27,968	29,393	28,498
General property taxes	1,183,623	-	130,149	-	-	1,313,772	1,302,145
Other local taxes	3,879,615	-	-	-	-	3,879,615	3,765,674
Permits, fees and licenses	103,277	-	-	-	-	103,277	101,763
Fines and forfeitures	246,650	-	-	-	-	246,650	356,631
Revenues from use of money and property	283,610	-	-	-	749,734	1,033,344	1,381,952
Charges for services	73,114	-	-	-	22,356,874	22,429,988	22,462,696
Capital contributed	-	-	-	-	646,430	646,430	1,094,499
Miscellaneous	46,256	-	3,325	-	326,277	375,858	103,134
Recovered costs	-	-	36,550	-	-	36,550	5,213
Payment in lieu of taxes	229,098	-	-	-	-	229,098	90,215
Intergovernmental	2,350,766	-	-	-	-	2,350,766	2,338,375
Other Sources	-	-	-	-	-	-	146,990
Total Receipts	8,396,009	-	171,449	-	24,107,283	32,674,741	33,177,785
Total Available	15,750,724	-	1,709,754	-	43,884,465	61,344,943	65,389,732
Disbursements (net)							
Warrants (checks) issued	10,269,458	-	133,804	-	23,394,284	33,797,546	35,451,948
Retirement of indebtedness	125,000	73,774	-	-	900,143	1,098,917	761,903
Interfund advance payments	(95,607)	-	-	-	-	(95,607)	(96,890)
Interest on other debt costs	-	23,257	-	-	438,978	462,235	602,569
Total Disbursements	10,298,851	97,031	133,804	-	24,733,405	35,263,091	36,719,550
Transfers in	1,781,900	97,031	-	-	-	1,878,931	1,740,649
Transfers (out)	(97,031)	-	-	-	(1,781,900)	(1,878,931)	(1,740,649)
Total Transfers In (Out)	1,684,869	97,031	-	-	(1,781,900)	-	-
Balance June 30, 2008	\$ 7,136,742	\$ -	\$ 1,575,950	\$ -	\$ 17,369,160	\$ 26,081,852	\$ 28,670,202

**TOWN OF FRONT ROYAL, VIRGINIA**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 2008**

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Taxable assessed value of real property	<u>\$ 1,452,121,632</u>
Debt limit (10 percent of assessed value)	145,212,163
Amount of debt applicable to debt limit:	
Gross Bonded debt	13,180,341
Less: Qualified Article VII debt	<u>-</u>
Total amount of debt applicable to debt limitation	<u>(13,180,341)</u>
Legal debt margin	<u>\$ 132,031,822</u>

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

# STATISTICAL SECTION

This part of the Town of Front Royal's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, 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>	63
Revenue Capacity <i>These schedules contain information to help the reader assess the town's most significant local revenue source, the property tax.</i>	69
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>	73
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>	78
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>	80

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 Six Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental Activities						
Invested in capital assets, net of related debt	\$ 85,759,208	\$ 80,842,973	\$ 78,199,373	\$ 74,624,593	\$ 71,455,350	\$ 67,935,246
Restricted	-	-	-	-	-	-
Unrestricted	2,280,133	5,304,430	5,450,254	6,691,369	7,580,388	7,344,504
Total Governmental Activities Net Assets	\$ 88,039,341	\$ 86,147,403	\$ 83,649,627	\$ 81,315,962	\$ 79,035,738	\$ 75,279,750
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	\$ 31,350,568
Restricted	-	-	-	-	-	-
Unrestricted	2,280,133	2,649,403	3,873,842	26,004,470	23,052,300	19,679,106
Total Business-type Activities Net Assets	\$ 88,039,341	\$ 42,262,590	\$ 43,405,441	\$ 45,755,838	\$ 47,677,602	\$ 51,029,674
Primary Government						
Invested in capital assets, net of related debt	\$ 125,180,698	\$ 120,456,160	\$ 117,730,972	\$ 94,375,961	\$ 96,080,652	\$ 99,285,814
Restricted	-	-	-	-	-	-
Unrestricted	3,936,229	7,953,833	9,324,096	32,695,839	30,632,688	27,023,610
Total Primary Government Net Assets	\$ 129,116,927	\$ 128,409,993	\$ 127,055,068	\$ 127,071,800	\$ 126,713,340	\$ 126,309,424

Additional years will be added as information is available

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

	Fiscal Year					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Expenses</b>						
Governmental Activities:						
General government and administration	\$ 2,139,086	\$ 2,213,302	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597	\$ 2,832,009
Public safety	2,951,792	2,857,066	3,150,426	3,276,981	3,513,253	3,658,646
Public works	1,851,599	2,103,729	2,086,799	2,574,487	2,206,629	3,149,846
Planning, zoning, and community development	609,091	501,250	652,296	484,132	567,708	693,455
Culture and recreation	95,770	43,625	45,142	52,985	62,456	66,250
Interest on long term debt	41,299	3,788	69,567	28,180	26,549	23,257
Infrastructure depreciation	3,588,522	3,588,522	3,588,522	3,591,054	3,591,054	3,591,054
Total Governmental Activities Expenses	<u>11,277,159</u>	<u>11,311,282</u>	<u>12,086,475</u>	<u>12,334,530</u>	<u>12,614,246</u>	<u>14,014,517</u>
Business-Type Activities:						
Electric	6,631,457	9,173,662	9,082,609	9,523,363	16,250,138	12,600,249
Water	1,581,502	1,851,233	2,328,499	1,964,023	2,343,905	2,471,839
Sewer	2,228,065	2,061,542	2,636,183	2,285,966	2,752,915	2,691,398
Refuse	685,242	649,323	739,132	828,583	876,481	856,529
Total Business-Type Activities Expenses	<u>11,126,266</u>	<u>13,735,760</u>	<u>14,786,423</u>	<u>14,601,935</u>	<u>22,223,439</u>	<u>18,620,015</u>
Total Primary Government Expenses	<u>22,403,425</u>	<u>25,047,042</u>	<u>26,872,898</u>	<u>26,936,465</u>	<u>34,837,685</u>	<u>32,634,532</u>
<b>Program Revenues</b>						
Governmental Activities:						
Charges for services:						
General government	7,397	88,891	71,572	131,037	141,719	111,776
Public safety	251,882	308,337	235,282	406,081	361,844	283,200
Public works	50,918	46,761	45,371	18,759	27,757	10,919
Planning, zoning, and community development	73,943	80,864	93,957	77,858	101,763	103,277
Operating grants and contributions	1,634,435	1,618,991	1,704,613	1,447,990	1,858,205	1,872,998
Capital grants and contributions	50,189	64,156	80,484	43,416	170,526	115,062
Total Governmental Activities Program Revenues	<u>2,068,764</u>	<u>2,208,000</u>	<u>2,231,279</u>	<u>2,125,141</u>	<u>2,661,814</u>	<u>2,497,232</u>
Business-Type Activities:						
Charges for services:						
Electric	9,617,905	10,959,143	11,346,761	11,507,238	15,454,130	15,460,426
Water	2,241,254	2,450,850	2,856,329	3,198,691	3,695,001	3,115,794
Sewer	2,153,905	2,330,077	2,674,149	3,011,979	3,645,537	2,846,667
Refuse	730,938	770,344	779,275	806,968	801,974	934,936
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	396,743	316,543	226,919	71,706	1,094,499	646,430
Total Business-Type Activities Program Revenues	<u>15,140,745</u>	<u>16,826,957</u>	<u>17,883,433</u>	<u>18,596,582</u>	<u>24,691,141</u>	<u>23,004,253</u>
Total Primary Government Program Revenues	<u>17,209,509</u>	<u>19,034,957</u>	<u>20,114,712</u>	<u>20,721,723</u>	<u>27,352,955</u>	<u>25,501,485</u>

(continued)

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>Net (Expense) Revenue</b>						
Governmental Activities	\$ (9,208,395)	\$ (9,103,282)	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)	(11,517,285)
Business-Type Activities	4,014,479	3,091,197	3,097,010	3,994,647	2,467,702	4,384,238
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>	<u>(7,133,047)</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	1,330,595
Sales taxes	448,086	507,804	570,926	586,133	613,495	683,974
Business and occupational taxes	539,916	611,617	624,511	740,268	721,486	708,018
Franchise taxes	179,371	309,497	211,544	213,601	206,989	150,318
Consumer taxes	182,303	178,879	178,423	191,554	240,682	228,828
Alcoholic beverage taxes	31,668	33,569	16,317	16,316	16,316	16,316
Meals and lodging taxes	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217
Virginia personal property tax reduction	254,979	285,334	262,457	280,041	287,878	287,863
Other general taxes	495,708	507,664	559,315	583,928	541,073	667,658
Unrestricted investment earnings	77,910	73,089	101,589	209,469	284,273	283,610
Gain on sale of capital assets and other recoveries	100,711	46,162	58,417	53,342	146,990	-
Transfers	1,957,860	2,021,050	2,127,400	2,141,432	1,643,617	1,781,900
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>	<u>7,761,297</u>
Business-Type Activities:						
Unrestricted investment earnings	219,843	114,857	173,241	497,182	1,097,679	749,734
Transfers	<u>(1,957,860)</u>	<u>(2,021,050)</u>	<u>(2,127,400)</u>	<u>(2,141,432)</u>	<u>(1,643,617)</u>	<u>(1,781,900)</u>
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>	<u>(1,032,166)</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>	<u>6,729,131</u>
<b>Change in Net Assets</b>						
Governmental Activities	(2,672,542)	(1,891,938)	(2,497,776)	(2,333,665)	(2,280,224)	(3,755,988)
Business-Type Activities	2,276,462	1,185,004	1,142,851	2,350,397	1,921,764	3,352,072
Total Primary Government	<u>\$ (396,080)</u>	<u>\$ (706,934)</u>	<u>\$ (1,354,925)</u>	<u>\$ 16,732</u>	<u>\$ (358,460)</u>	<u>\$ (403,916)</u>

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA  
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
LAST SIX 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
2008	1,330,595	683,974	708,018	150,318	228,828	16,316	1,622,217	287,863	667,658	5,695,787

Additional years will be added as information is available

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund						
Reserved for other	\$ 2,646,710	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975
Unreserved	2,219,482	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170
Total General Fund	<u>\$ 4,866,192</u>	<u>\$ 4,473,580</u>	<u>\$ 4,544,285</u>	<u>\$ 5,492,562</u>	<u>\$ 6,508,606</u>	<u>\$ 6,248,145</u>
All Other Governmental Funds						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Unreserved, reported in:						
Special revenue funds	22,792	(22,275)	1,050,959	1,460,920	1,447,323	1,483,394
Capital funds	706,945	974,884	7,634	388	388	388
Total all other governmental funds	<u>\$ 729,737</u>	<u>\$ 952,609</u>	<u>\$ 1,058,593</u>	<u>\$ 1,461,308</u>	<u>\$ 1,447,711</u>	<u>\$ 1,483,782</u>

Additional years will be added as information is available

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>REVENUES:</b>						
Taxes:						
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255
Sales	448,086	507,804	570,926	586,133	613,495	683,974
Business and occupational	539,916	611,617	624,511	740,268	721,486	708,018
Franchise	179,371	309,497	211,544	213,601	206,989	150,318
Consumer	182,303	178,879	178,423	191,554	240,682	228,828
Vehicle licenses	226,033	230,743	236,441	246,458	239,854	226,689
Bank stock	143,828	143,065	166,904	197,212	159,285	160,640
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763	103,277
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631	246,650
Revenues from use of money and property	77,910	73,089	101,589	209,469	284,273	283,610
Charges for services	101,107	111,143	101,343	84,363	100,909	73,114
Miscellaneous	7,397	16,055	74,017	118,667	68,567	49,581
Recovered costs	145,000	104,433	15,569	98,806	5,213	36,550
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215	229,098
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470
<b>Total Revenues</b>	<b>6,492,885</b>	<b>7,376,987</b>	<b>7,509,382</b>	<b>7,927,931</b>	<b>8,564,116</b>	<b>8,437,289</b>
<b>EXPENDITURES:</b>						
General government						
Legislative	165,682	188,630	205,523	135,379	156,788	175,717
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995	1,401,822
Legal	187,413	215,643	246,472	215,991	248,934	257,621
Finance	664,008	779,038	670,026	673,576	748,380	801,115
Public Safety						
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362
Fire protection	191,125	78,900	100,005	88,073	105,403	18,139
Planning, zoning, and community development	601,409	471,241	894,911	434,876	514,404	640,684
Engineering and public works	2,154,147	2,688,013	2,285,996	2,312,554	2,493,932	3,033,398
Parks and recreation	88,131	41,000	41,000	47,596	56,594	61,208
Nondepartmental	291,714	385,770	621,043	584,781	532,993	513,067
Debt Service						
Principal	325,927	18,196	144,742	75,410	70,483	73,774
Interest	41,299	3,788	69,567	28,180	26,549	23,257
Capital outlay	1,025,638	24,201	77,927	7,246	-	4,415
<b>Total Expenditures</b>	<b>9,300,522</b>	<b>8,632,972</b>	<b>9,460,093</b>	<b>8,718,371</b>	<b>9,352,276</b>	<b>10,443,579</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,807,637)</b>	<b>(1,255,985)</b>	<b>(1,950,711)</b>	<b>(790,440)</b>	<b>(788,160)</b>	<b>(2,006,290)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	2,348,562	2,058,450	2,348,709	2,245,022	1,740,649	1,878,931
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)
Special revenue	-	8,454	-	-	-	-
Interfund borrowing proceeds	1,250,000	-	-	-	-	-
Sale of capital assets	100,711	46,162	-	-	-	-
Other sources	-	-	-	-	146,990	#REF!
<b>Total Other Financing Sources (Uses)</b>	<b>3,308,571</b>	<b>2,075,666</b>	<b>2,127,400</b>	<b>2,141,432</b>	<b>1,790,607</b>	<b>#REF!</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 500,934</b>	<b>\$ 819,681</b>	<b>\$ 176,689</b>	<b>\$ 1,350,992</b>	<b>\$ 1,002,447</b>	<b>#REF!</b>
Debt service as a percentage of noncapital expenditures	4.44%	0.26%	2.28%	1.19%	1.04%	0.93%

Additional years will be added as information is available

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

Fiscal Year	Real Property		Personal Property			Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Business Equipment	Other		Real Estate	Personal Property
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	15,358,932	103,206,048	-	965,665	888,289,845	0.13	0.60
2008	1,409,727,643	14,984,060	106,118,951	19,346,220	2,170,520	1,552,347,394	0.07	0.60

Source: Warren County property assessors office

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

Fiscal Year	Town Direct Rates				Overlapping Rates					Total Direct & Overlapping Rates	
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery Tools	Mobile Homes		Total Overlapping Rate
1999	0.14	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	0.13	1.46	0.73	3.15	2.00	0.73	6.61	8.07
2001	0.13	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	0.13	1.46	0.86	3.15	2.25	0.86	7.12	8.58
2003	0.13	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	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2005	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2006	0.13	0.60	0.60	0.13	1.46	0.82	3.15	2.25	0.82	7.04	8.50
2007	0.13	0.60	0.60	0.13	1.46	0.82	3.15	1.30	0.82	6.09	7.55
2008	0.07	0.60	0.60	0.07	1.34	0.68	3.25	2.00	0.68	6.61	7.95

Source: Town of Front Royal and Warren County

**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND 1999**

Taxpayer	2008		Taxpayer	1999	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family	\$ 20,763,000	1.46%	PW & Bosseau Rudacille, L.P.	\$ 8,026,700	1.49%
Ramsey Inc.	9,895,205	0.69%	Gateway Plaza Shopping Center	5,318,600	0.99%
Gateway Plaza	7,678,000	0.54%	Home Life, Inc.	5,046,300	0.94%
Shenandoah Square LP	6,947,000	0.49%	Shenandoah Square, L.P.	4,286,500	0.80%
Cogil Corporation	6,096,500	0.43%	Shenandoah Properties	3,254,600	0.60%
Corr Family	5,416,300	0.38%	Cogil Corporation	2,813,200	0.50%
Royal Arms Associates	4,765,100	0.33%	James E. Corr	2,717,100	0.52%
CCC Enterprises	3,672,100	0.26%	Front Royal Associates	2,628,100	0.49%
Shenandoah Properties II	2,142,900	0.15%	Southerlands	2,623,800	0.49%
Richmond Homes	1,797,300	0.13%	Royal Hills Limited	2,597,700	0.48%
Total	<u>\$ 69,173,405</u>	<u>4.86%</u>		<u>\$ 39,312,600</u>	<u>7.30%</u>

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>
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	1,537,604	93.53%	76,919	1,614,523	98.21%
2008	1,631,275	1,531,421	93.88%	35,452	1,566,873	96.05%

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

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

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

Fiscal Year	Governmental	Business Type	Total Primary	Personal	Percentage of	Population	Per Capita
	Activities	Activities					
	General	General	Government	Income	Personal		
	Obligation	Obligation		(in \$1,000)	Income		
	Bonds	Bonds					
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
2008	424,239	12,756,102	13,180,341	461,432	2.86%	14,475	911

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>
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
2008	13,180,341	12,756,102	424,239	1,552,722	0.03%	14,475	29.31

**TOWN OF FRONT ROYAL, VIRGINIA  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF JUNE 30, 2008**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Debt repaid with property taxes</b>			
Warren County	3,980,000		
Warren County School Board	9,791,847		
Subtotal, overlapping debt	<u>13,771,847</u>	49%	6,748,205
<b>Town of Front Royal (direct debt)</b>	<u>13,180,341</u>	100%	<u>13,180,341</u>
<b>Total direct and overlapping debt</b>			<u><u>19,928,546</u></u>

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

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

TABLE XIII

	Fiscal Year						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt limit	58,590,810	71,147,598	56,191,727	76,458,758	78,458,758	143,323,827	\$ 145,212,163
Total net debt applicable to limit	7,784,635	6,977,236	6,206,636	5,300,524	14,765,254	14,141,304	13,180,341
Legal debt margin	50,806,175	64,170,362	49,985,091	71,158,234	63,693,504	129,182,523	132,031,822
Total net debt applicable to the limit as a percentage of debt limit	15%	11%	12%	7%	23%	11%	10%

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA  
PLEDGED-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			
				Principal	Interest	Total	Coverage
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
2008	23,107,557	16,528,362	6,579,195	887,189	578,849	1,466,038	4.49

<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>
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%
2008	14,475	461,420	31,877	37	DNA	5,252	3.4%

\*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 1999**

2008		1999	
<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>
Warren Co. School Board	801	Warren Co. School Board	650
Valley Health System	509	Family Dollar Stores Distrib	600
Warren County	276	E.I. Dupont De Nernours & C	370
Martin's Food Market	175	Vally Health Systemb	325
Randolph - Macon Academy	165	Pen Tab Industries	280
Town of Front Royal	156	Town of Front Royal	183
United Parcel Serives, Inc.	145	FDR Services	175
VIA Satellite	135	United Parcel Service	165
Kmart Corporation	75	Kmart Corporation	150
Northwest Community Mental Health	65	Randolph - Macon Academy	150

Source: Estimates from Warren County Economic Development Authority

**TOWN OF FRONT ROYAL, VIRGINIA  
 FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
 LAST SIX 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>	<u>2008</u>
General Government	26	29	27	29	29	41
Fire Protection	3	1	1	1	1	0
Police Protection	43	45	45	45	45	47
Highway - Streets	21	20	20	19	22	17
Sanitation	13	13	14	13	14	15
Water	12	13	13	13	12	13
Sewer	17	17	16	18	17	15
Electrical	15	15	14	12	14	11
Culture and Recreation	1	1	1	1	1	0
	151	154	151	151	155	159

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST SIX 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>	<u>2008</u>
<b>Public Safety</b>						
Police						
Physical arrests				1,398	1,443	1,436
Parking violations				1,074	1,063	678
Traffic violations				3,739	3,844	3,560
<b>Wastewater</b>						
New service connections					320	48
Average daily treatment in gallons	2,100,000	3,490,755	3,523,000	3,523,000	3,069,310	2,988,613
<b>Water System</b>						
New connections					320	52
Average daily consumption	1,750,000	1,678,000	1,708,000	1,708,000	1,708,000	1,976,953
<b>Electric Distribution</b>						
New Connections					320	25
Average daily KWH consumption			472,041	492,688	493,095	576,589
<b>Sanitation</b>						
Refuse collected (tons/day)	40	40	40	40	40	22
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	0.25	2
<b>Highway and Streets</b>						
Repair services				55	60	65
Street resurfacing (miles)				15	27	35

Additional years will be added as information is available

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

TABLE XIX

<u>Function/Program</u>	<u>Fiscal Year</u>					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Public Safety</b>						
Police						
Stations	1	1	2	2	2	2
Patrol Units	6	6	9	12	12	12
Fire Stations	1	1	1	1	1	1
<b>Highways and Streets</b>						
Streets (miles)	143	143	143	143	143	133
Streetlights	1,430	1,430	1,430	1,430	1,430	1,430
Traffic signals	14	14	14	15	15	15
<b>Culture and Recreation</b>						
Community centers	1	1	1	1	1	1
Parks	13	13	13	13	13	13
Park acreage	165	165	165	165	165	165
Swimming pools	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9
<b>Sewer System</b>						
Sanitary sewers (miles)	117	117	117	196	196	198
Storm sewers (miles)	27	27	27	90	90	92
Treatment plants	1	1	1	1	1	1
Maximum daily capacity				4,000,000	4,000,000	4,000,000
<b>Water System</b>						
Facilities	1	1	1	1	1	1
Fire Hydrants	555	555	555	560	560	582
Maximum daily capacity				3,000,000	3,000,000	3,000,000
<b>Electric System</b>						
Miles of service lines	140	140	140	140	140	140
Distribution stations	3	3	3	3	3	3
<b>Sanitation</b>						
Collection Trucks	5	5	5	5	5	5

Additional years will be added as information is available

# **COMPLIANCE SECTION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATERIALS 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, 2008, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated October 08, 2008. 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 Town of Front Royal, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## 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.

Leesburg, Virginia  
October 8, 2008

*Mitchell & Co., P.C.*