

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**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 14,616.

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

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

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

**TOWN OF FRONT ROYAL, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

Fund Financial Statements

Governmental Funds

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

Proprietary Funds

	Statement of Net Assets	25 – 26
Exhibit VII	Statement of Revenues, Expenses, and Changes in Net Assets	27 – 28
Exhibit VIII	Statement of Cash Flows	29
Exhibit IX		30 – 48

Notes to Financial Statements

Supplementary Information

General Fund

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

Combining and Individual Fund Statements and Schedules

Non-Major Governmental Funds

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

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

Budget and Actual - Special Revenue Funds

	Asset Seizures	57
Schedule 5	Economic Development	58
Schedule 6	Community/Neighborhood	59
Schedule 7		

Other Supplementary Schedules

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

**TOWN OF FRONT ROYAL, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 Internal Control over Financial Reporting and on Compliance and Other Matters 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

Town Manager's Office
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Front Royal, Virginia 22630
(540) 635-8007
(540) 636-7475 Fax
www.frontroyalva.com

J. Michael Graham
Town Manager
mgraham@frontroyalva.com

November 10, 2009

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, 2009.

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, 2009, 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, 2009, 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 county in which they are located. Accordingly, the residents of an incorporated town are required to pay certain taxes, including ad valorem taxes, to both the town and the county. Certain services received by residents of a town are provided by the town with other services being provided by the county.

The government maintains a budgetary control over its spending. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the Town Council. Activities of the general fund and all enterprise funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriate amount) is established by function and activity within the individual fund. The government also maintains an encumbrance accounting system as one technique for

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

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 2009. The overall goals of risk management are to reduce the Town's losses to the lowest possible level and to protect the Town's assets from loss, theft and misuse.

Pension and other post-employment benefits. The contributes to the Virginia Retirement System (VRS) on behalf of its employees. All full-time permanent employees must participate in the system. Benefits vest after five (5) years of service so that employees are eligible for unreduced retirement at age 65 with five (5) years of service or at age 50 with 30 years of service. Benefits are actuarially reduced for employees who retire prior to becoming eligible for retirement benefits.

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

Awards and Acknowledgements. The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial to the Town of Front Royal for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2008. This is the twenty first (21) consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published and easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principals and applicable legal requirements.

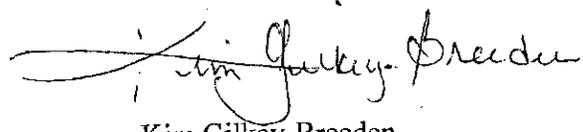
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



J. Michael Graham
Town Manager



Kim Gilkey-Breeden
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Front Royal
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

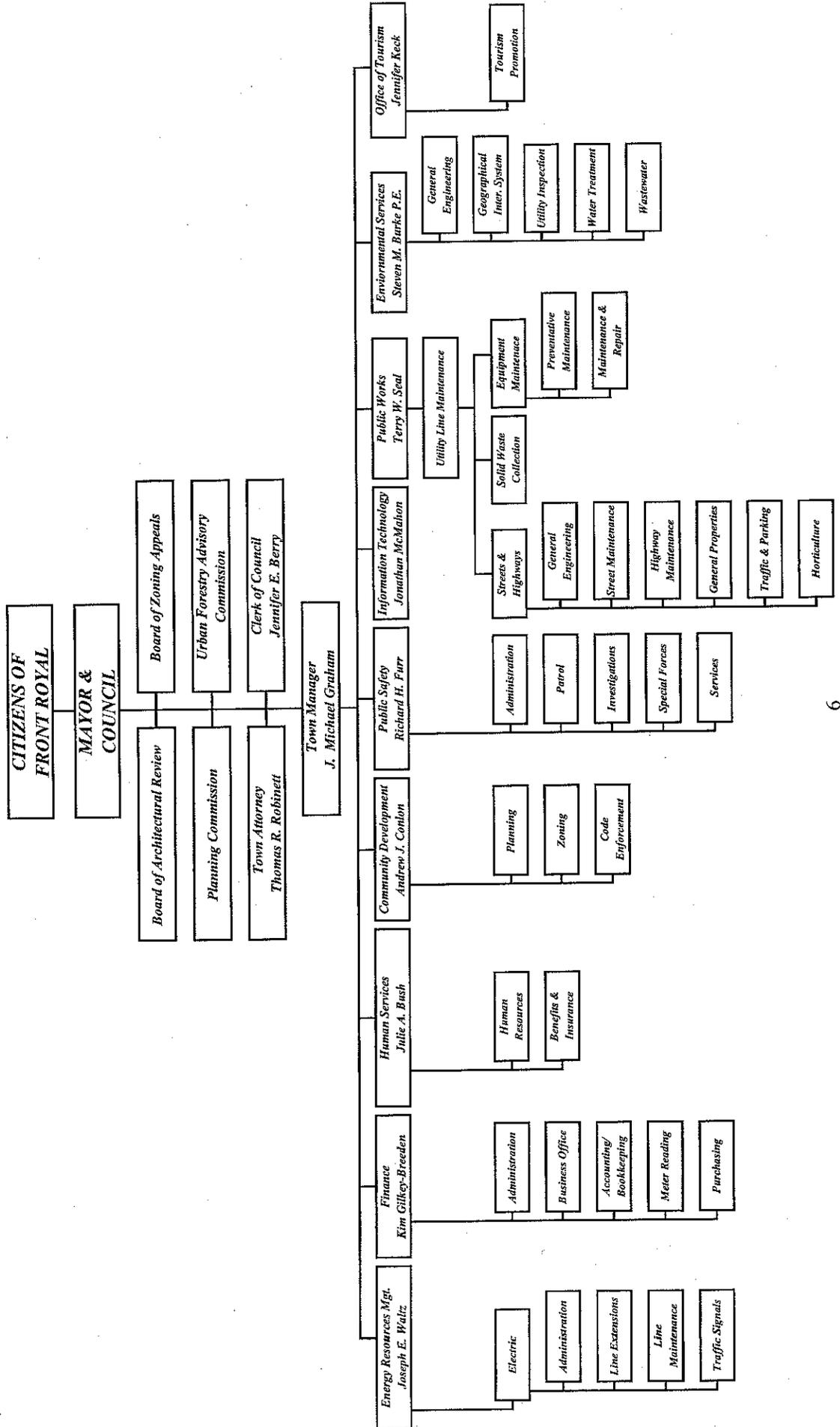
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2009**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2009**

Town Council

Eugene R. Tewalt - Mayor
Bret W. Hrbek - Vice Mayor
Thomas E. Conkey
Chris W. Holloway
Carson C. Lauder, Jr.
N. Shae Parker
Thomas H. Sayre

Town Officials

J. Michael Graham - Town Manager
Andrew J. Conlon - Director of Community Development
Thomas R. Robinett - Town Attorney
Richard H. Furr - 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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SANDRA M. TONDREAU, CPA
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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, 2009, which collectively comprise the Town of Front Royal, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Front Royal, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2009, 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 5, 2009 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.

October 5, 2009
Leesburg, Virginia

Mitchell & Co., P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Front Royal, Virginia, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Front Royal, Virginia for the fiscal year ended June 30, 2009. 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 \$123,333,865. Of this amount, \$24,544,626 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$2,975,559.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$6,467,751, an decrease of \$1,264,176 in comparison with the prior year. Most of this total amount, \$6,406,776, 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 \$5,486,609, or 48.5 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$983,249 (7.5 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 \$123,333,865 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (80 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, 2009 and 2008.

TOWN OF FRONT ROYAL -- NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 7,234,242	\$ 8,497,733	\$ 20,740,389	\$ 21,956,816	\$ 27,974,631	\$ 30,454,549
Capital assets	64,770,441	68,359,485	46,436,657	44,339,834	111,207,098	112,699,319
Total Assets	72,004,683	76,857,218	67,177,046	66,296,650	139,181,729	143,153,868
Long-term liabilities	1,095,775	1,121,548	12,401,586	13,302,788	13,497,361	14,424,336
Other liabilities	449,089	455,920	1,898,316	1,964,188	2,347,405	2,420,108
Total Liabilities	1,544,864	1,577,468	14,299,902	15,266,976	15,844,766	16,844,444
Net Assets						
Invested-capital assets, net of related debt	64,423,422	67,935,246	34,365,817	31,350,568	98,789,239	99,285,814
Unrestricted	6,033,299	7,344,504	18,511,327	19,679,106	24,544,626	27,023,610
Total Net Assets	\$ 70,456,721	\$ 75,279,750	\$ 52,877,144	\$ 51,029,674	\$ 123,333,865	\$ 126,309,424

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 \$2,975,559 during the current fiscal year.

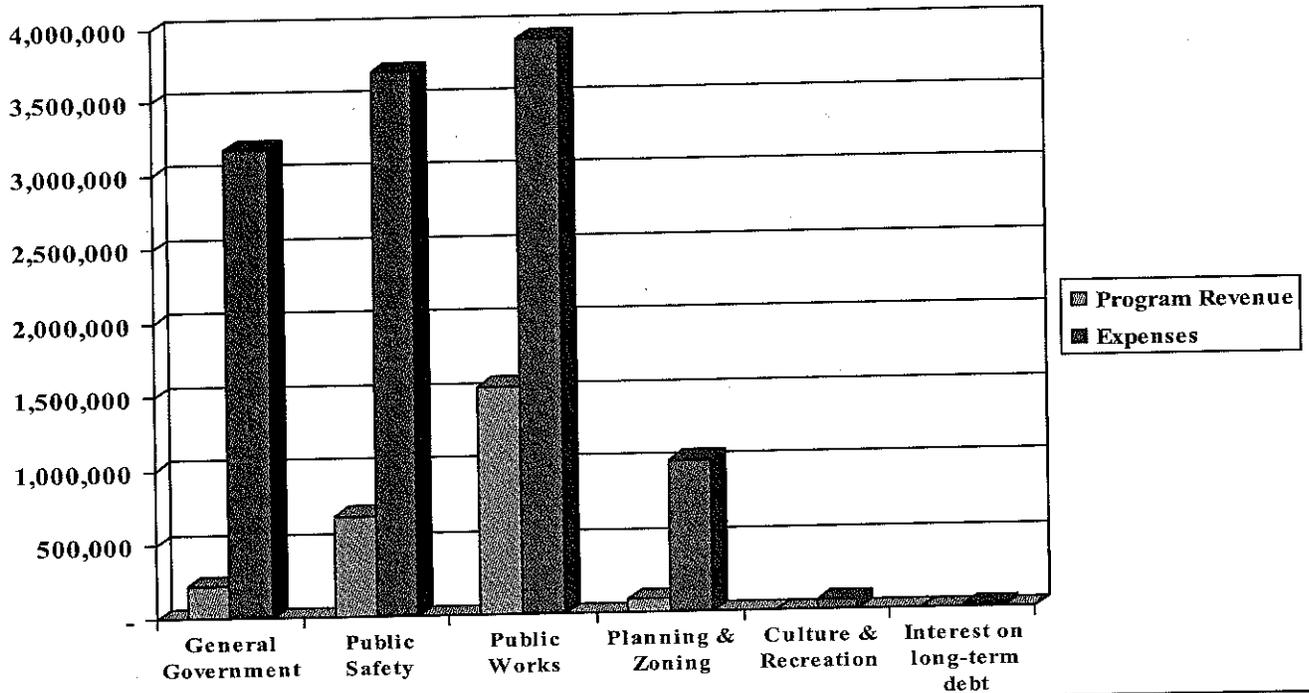
Governmental activities. Governmental activities decreased the Town of Front Royal, Virginia's net assets by \$4,823,029. These changes are presented in column one of the following table:

TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Charges for services	\$ 502,737	\$ 509,172	\$ 21,964,985	\$ 22,357,823	\$ 22,467,722	\$ 22,866,995
Operating grants and contributions	1,912,511	1,872,998	-	-	1,912,511	1,872,998
Capital grants and Contributions	121,767	115,062	798,530	646,430	920,297	761,492
General revenues						
Property taxes	1,303,327	1,330,595	-	-	1,303,327	1,330,595
Other taxes	4,905,682	4,365,192	-	-	4,905,682	4,365,192
Other	119,307	283,610	255,529	749,734	374,836	1,033,344
Total revenues	8,865,331	8,476,629	23,019,044	23,753,987	31,884,375	32,230,616
Expenses						
General government	3,172,642	2,832,009	-	-	3,172,642	2,832,009
Public safety	3,686,304	3,658,646	-	-	3,686,304	3,658,646
Public works	3,901,830	3,149,846	-	-	3,901,830	3,149,846
Planning and zoning	1,024,574	693,455	-	-	1,024,574	693,455
Culture and recreation	74,044	66,250	-	-	74,044	66,250
Interest on long-term debt	19,812	23,257	-	-	19,812	23,257
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	13,535,201	12,600,249	13,535,201	12,600,249
Water	-	-	2,231,532	2,471,839	2,231,532	2,471,839
Sewer	-	-	2,659,873	2,691,398	2,659,873	2,691,398
Solid Waste Management	-	-	963,068	856,529	963,068	856,529
Total expenses	15,470,260	14,014,517	19,389,674	18,620,015	34,859,934	32,634,532
Increase in net assets before transfers	(6,604,929)	(5,537,888)	3,629,370	5,133,972	(2,975,559)	(403,916)
Transfers	1,781,900	1,781,900	(1,781,900)	(1,781,900)	-	-
Increase (decrease) in net assets	(4,823,029)	(3,755,988)	1,847,470	3,352,072	(2,975,559)	(403,916)
Net assets - 7/1/08	75,279,750	79,035,738	51,029,674	47,677,602	126,309,424	126,713,340
Net assets - 6/30/09	\$ 70,456,721	\$ 75,279,750	\$ 52,877,144	\$ 51,029,674	\$ 123,333,865	\$ 126,309,424

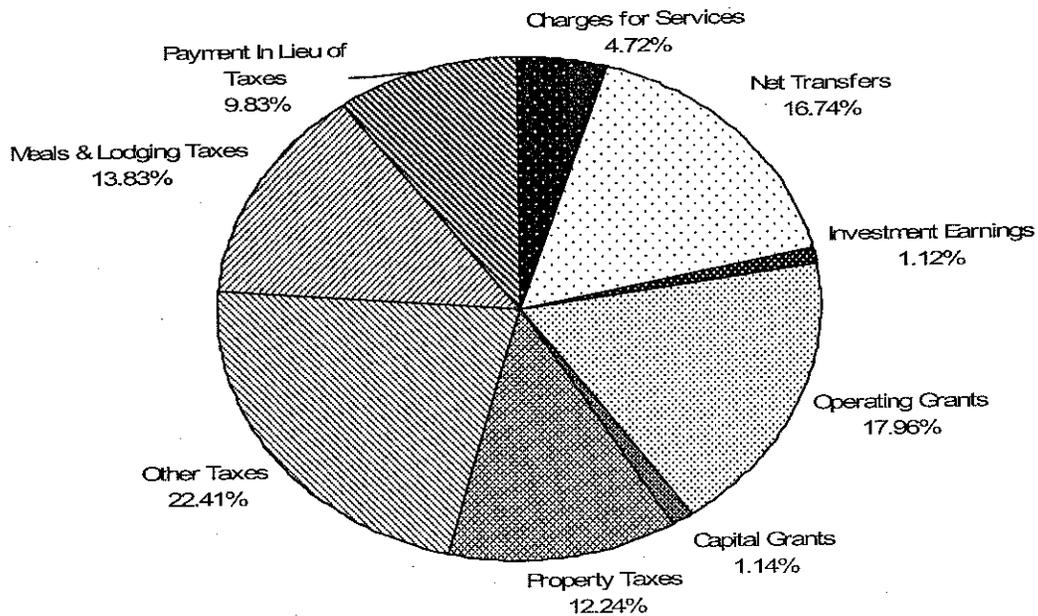
- Revenue from property taxes decreased by \$27,268 (2 percent) during the current year.
- Operating grants for governmental activities amounted to \$1,912,511, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety and public works and engineering.
- For the most part, increase in total expenses related to the increase 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 2009.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



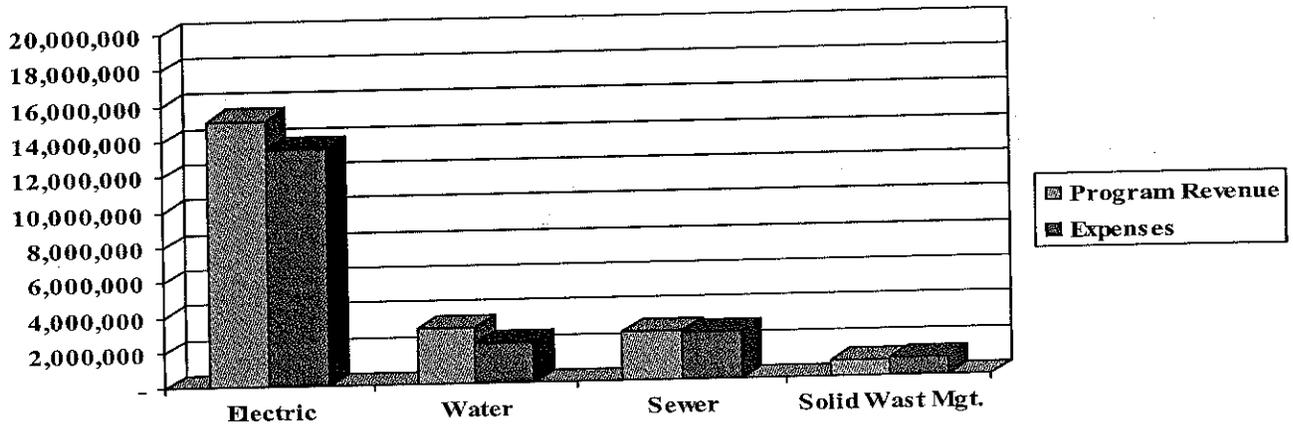
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



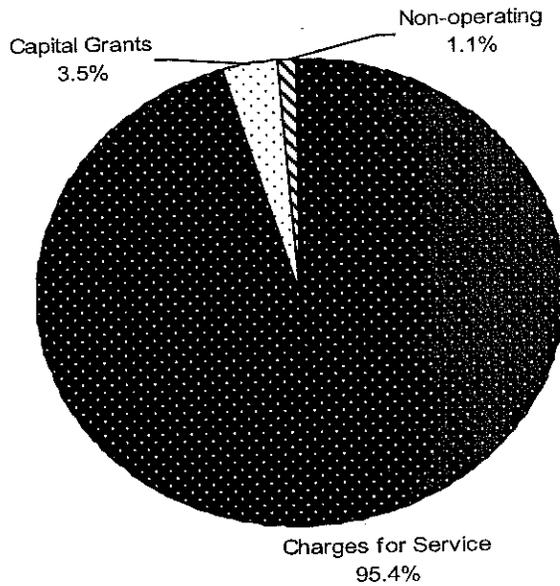
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia's net assets by \$1,847,470, accounting for all the growth in the town's net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities decreased by \$392,838.
- Capital contributions by developers are a source of water system expansion resulting in donated systems valued at \$798,530.
- Investment earnings decreased by \$494,205 for business-type activities.

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Front Royal's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$6,467,751, an decreased of \$1,264,176 in comparison with the prior year. The majority of this total amount (\$6,406,776) 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 (\$60,975 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 \$5,486,609, while total fund balance reached \$5,547,584. 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 48.10 percent of total general fund expenditures, while total fund balance represents 49 percent of that same amount.

The fund balance of the Town of Front Royal, Virginia's general fund decreased by \$700,561 during the current fiscal year. Key factors in this decrease are as follows:

- Expenditures were in excess of revenues by 2,482,461.
- 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 \$37,084,437 and those for the electric function amounted to \$15,792,707. The total growth in net assets for all enterprise funds was \$1,847,470. 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 \$2,104,763 and are noted as follows: a \$469,862 increase in Executive; a \$107,000 increase in Legal; a \$4,317 increase in Finance; a \$318,084 increase in Planning and Zoning; a \$4,000 increase in Police Department; a \$1,213,676 increase in Public works and Engineering; a \$12,176 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, 2009, amounts to \$111,207,098 (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, 2009 and 2008.

	TOWN OF FRONT ROYAL - CAPITAL ASSETS (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 1,117,508	\$ 1,117,508	\$ 1,488,822	\$ 1,488,822	\$ 2,606,330	\$ 2,606,330
Construction in progress	-	-	-	7,941,390	-	7,941,390
Buildings and Improvements	2,768,690	2,870,689	15,065,857	5,096,620	17,834,547	7,967,309
Utility distribution systems	-	-	27,349,952	27,261,932	27,349,952	27,261,932
Vehicles	490,617	413,607	1,088,570	1,165,412	1,579,187	1,579,019
Machinery and Equipment	996,832	969,833	1,443,456	1,385,658	2,440,288	2,355,491
Infrastructure	59,396,794	62,987,848	-	-	59,396,794	62,987,848
Total	\$ 64,770,441	\$ 68,359,485	\$ 46,436,657	\$ 44,339,834	\$ 111,207,098	\$ 112,699,319

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 \$12,197,090. 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	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 347,020	\$ 424,239	\$ 11,850,070	\$ 12,756,100	\$ 12,197,090	\$ 13,180,339

The Town of Front Royal's total debt decreased by \$983,249 (7.5 percent) during the current fiscal year. The majority of the debt is a \$10,745,036 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 \$163,069,796 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 7.0 percent, which is more than a year ago.
- This compares unfavorably to the state's average unemployment rate of 6.9 percent and favorably to the national average rate of 9.7 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 2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund was \$5,486,609. 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, 15 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, 2009**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,317,224	\$ 9,230,548	\$ 12,547,772
Investments	3,784,556	6,947,083	10,731,639
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	517,214	-	517,214
Accrued interest	1,300	200	1,500
Accounts	-	2,716,986	2,716,986
Other	(42,686)	42,280	(406)
Internal balances	(536,065)	536,065	-
Due from other governments	85,118	-	85,118
Inventories and other assets	107,581	921,340	1,028,921
Temporarily restricted assets			
Cash and cash equivalents	-	230,779	230,779
Deferred charges	-	115,108	115,108
Capital assets (net of accumulated depreciation)			
Land	1,117,508	1,488,822	2,606,330
Buildings and improvements	2,768,690	15,065,857	17,834,547
Utility distribution systems	-	27,349,952	27,349,952
Vehicles	490,617	1,088,570	1,579,187
Machinery and equipment	996,832	1,443,456	2,440,288
Infrastructure	59,396,794	-	59,396,794
Total Assets	72,004,683	67,177,046	139,181,729
Liabilities			
Accounts payable	449,089	1,533,938	1,983,027
Accrued interest payable	-	133,600	133,600
Liabilities payable with restricted assets	-	230,778	230,778
Noncurrent liabilities			
Due within one year	80,839	919,996	1,000,835
Due in more than one year	1,014,936	11,481,590	12,496,526
Total Liabilities	1,544,864	14,299,902	15,844,766
Net Assets			
Invested in capital assets, net of related debt	64,423,422	34,365,817	98,789,239
Unrestricted	6,033,299	18,511,327	24,544,626
Total Net Assets	\$ 70,456,721	\$ 52,877,144	\$ 123,333,865

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, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 3,172,642	\$ 95,947	\$ -	\$ 121,767	\$ (2,954,928)	\$ -	\$ (2,954,928)
Public safety	3,686,304	295,958	387,157	-	(3,003,189)	-	(3,003,189)
Public works	3,901,830	18,172	1,525,354	-	(2,358,304)	-	(2,358,304)
Planning, zoning, and community development	1,024,574	92,660	-	-	(931,914)	-	(931,914)
Culture and recreation	74,044	-	-	-	(74,044)	-	(74,044)
Interest on long-term debt	19,812	-	-	-	(19,812)	-	(19,812)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	15,470,260	502,737	1,912,511	121,767	(12,933,245)	-	(12,933,245)
Business-type activities							
Electric	13,535,201	15,125,811	-	-	-	1,590,610	1,590,610
Water	2,231,532	3,145,958	-	399,265	-	1,313,691	1,313,691
Sewer	2,659,873	2,774,605	-	399,265	-	513,997	513,997
Refuse	963,068	918,611	-	-	-	(44,457)	(44,457)
Total business-type activities	19,389,674	21,964,985	-	798,530	-	3,373,841	3,373,841
Total primary government	\$ 34,859,934	\$ 22,467,722	\$ 1,912,511	\$ 920,297	(12,933,245)	3,373,841	(9,559,404)
General Revenues							
Property taxes					1,303,327	-	1,303,327
Sales taxes					690,993	-	690,993
Business and occupational taxes					620,567	-	620,567
Franchise taxes					1,500	-	1,500
Communication taxes					177,556	-	177,556
Consumer taxes					181,779	-	181,779
Meals and lodging taxes					1,472,392	-	1,472,392
Virginia personal property tax reduction					287,863	-	287,863
Payment in lieu of taxes					1,046,893	-	1,046,893
Other general taxes					426,139	-	426,139
Unrestricted investment earnings					119,307	255,529	374,836
Transfers					1,781,900	(1,781,900)	-
Total general revenues and transfers					8,110,216	(1,526,371)	6,583,845
Change in net assets					(4,823,029)	1,847,470	(2,975,559)
Net assets - beginning					75,279,750	51,029,674	126,309,424
Net assets - ending					\$ 70,456,721	\$ 52,877,144	\$ 123,333,865

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

**TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,318,336	\$ 1,154,623	\$ 3,472,959
Investments	3,784,556	-	3,784,556
Receivables (net, where applicable, of allowance for uncollectibles)			
Delinquent taxes, including penalties	514,023	3,191	517,214
Accrued interest	1,300	-	1,300
Other	(42,686)	-	(42,686)
Due from other governments	85,118	-	85,118
Interfund advances	1,425	4,888	6,313
Inventories and other assets	106,035	1,546	107,581
Total Assets	\$ 6,768,107	\$ 1,164,248	\$ 7,932,355
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 252,386	\$ -	\$ 252,386
Banking advances	13,301	142,434	155,735
Accrued liabilities	199,801	-	199,801
Deferred revenue	311,113	3,191	314,304
Interfund advances	443,922	98,456	542,378
Total Liabilities	1,220,523	244,081	1,464,604
Fund balances			
Reserved for			
Inventory	60,975	-	60,975
Unreserved, reported in			
General fund	5,486,609	-	5,486,609
Special revenue funds	-	919,779	919,779
Capital projects funds	-	388	388
Total Fund Balances	5,547,584	920,167	6,467,751
Total Liabilities and Fund Balances	\$ 6,768,107	\$ 1,164,248	

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.	64,770,441
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	314,304
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,095,775)
Net assets of governmental activities	<u>\$ 70,456,721</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, 2009

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,298,549	\$ -	\$ 360	\$ 1,298,909
Property	690,993	-	-	690,993
Sales	620,567	-	-	620,567
Business and occupational	1,500	-	-	1,500
Franchise	181,779	-	-	181,779
Consumer	223,417	-	-	223,417
Vehicle licenses	152,245	-	-	152,245
Bank stock	1,472,392	-	-	1,472,392
Meals and lodging	1,046,893	-	-	1,046,893
Payment in lieu of taxes	92,660	-	-	92,660
Permits, fees, and licenses	252,484	-	-	252,484
Fines and forfeitures	119,307	-	-	119,307
Revenues from use of money & property	45,165	-	-	45,165
Charges for services	67,378	-	1,576	68,954
Miscellaneous	25,000	-	18,474	43,474
Recovered costs	2,550,174	-	-	2,550,174
Intergovernmental	8,840,503	-	20,410	8,860,913
Total revenues	<u>8,840,503</u>	<u>-</u>	<u>20,410</u>	<u>8,860,913</u>
Expenditures				
General government	173,189	-	-	173,189
Legislative	1,605,219	-	-	1,605,219
Executive	416,400	-	-	416,400
Legal	828,300	-	-	828,300
Finance	3,459,263	-	8,485	3,467,748
Public safety - Police	475,231	-	478,509	953,740
Planning, zoning, and community development	3,776,368	-	-	3,776,368
Engineering and public works	68,924	-	-	68,924
Parks and recreation	520,070	-	-	520,070
Nondepartmental	-	-	-	-
Debt Service	-	77,219	-	77,219
Principal	-	19,812	-	19,812
Interest	11,322,964	97,031	486,994	11,906,989
Total expenditures	<u>11,322,964</u>	<u>97,031</u>	<u>486,994</u>	<u>11,906,989</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,482,461)</u>	<u>(97,031)</u>	<u>(466,584)</u>	<u>(3,046,076)</u>
Other Financing Sources (Uses)				
Transfers in	1,781,900	97,031	-	1,878,931
Transfers (out)	-	-	(97,031)	(97,031)
Total other financing sources and uses	<u>1,781,900</u>	<u>97,031</u>	<u>(97,031)</u>	<u>1,781,900</u>
Net change in fund balances	(700,561)	-	(563,615)	(1,264,176)
Fund balances - beginning	6,248,145	-	1,483,782	7,731,927
Fund balances - ending	<u>\$ 5,547,584</u>	<u>\$ -</u>	<u>\$ 920,167</u>	<u>\$ 6,467,751</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2009**

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

Net change in fund balances - total governmental funds	\$ (1,264,176)
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.	(3,589,044)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,418
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.	77,219
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>(51,446)</u>
Change in net assets of governmental activities	<u>\$ (4,823,029)</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
General property taxes	\$ 1,528,700	\$ 1,528,700	\$ 1,298,549	\$ (230,151)
Other local taxes	4,642,000	4,642,000	4,389,786	(252,214)
Permits, fees, and licenses	85,000	85,000	92,660	7,660
Fines and forfeitures	335,000	335,000	252,484	(82,516)
Revenues from use of money & property	250,500	250,500	119,307	(131,193)
Charges for services	57,000	57,000	45,165	(11,835)
Miscellaneous	50,000	76,620	67,378	(9,242)
Recovered costs	-	25,000	25,000	-
Intergovernmental	2,569,600	2,569,600	2,550,174	(19,426)
Total revenues	9,517,800	9,569,420	8,840,503	(728,917)
Expenditures				
General Government				
Legislative	187,237	187,237	173,189	14,048
Executive	1,660,247	2,130,109	1,605,219	524,890
Legal	315,643	422,643	416,400	6,243
Finance	865,418	869,735	828,300	41,435
Total general government	3,028,545	3,609,724	3,023,108	586,616
Public Safety - Police	3,484,070	3,488,070	3,459,263	28,807
Planning and zoning	508,198	826,282	475,231	351,051
Public works and engineering	3,451,994	4,665,670	3,776,368	889,302
Parks and recreation	68,924	68,924	68,924	-
Non-departmental	632,969	620,793	520,070	100,723
Total Expenditures	11,174,700	13,279,463	11,322,964	1,956,499
Excess (Deficiency) of Revenues over (under) Expenditures	(1,656,900)	(3,710,043)	(2,482,461)	1,227,582
Other Financing Sources (Uses)				
Transfers in	1,781,900	1,781,900	1,781,900	-
Net change in fund balances	125,000	(1,928,143)	(700,561)	1,227,582
Fund balances - beginning	6,248,145	6,248,145	6,248,145	-
Fund balances - ending	\$ 6,373,145	\$ 4,320,002	\$ 5,547,584	\$ 1,227,582

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, 2009

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 4,580,552	\$ 6,291,095	\$ 3,539,614	\$ 5,343,124
Investments	2,773,212	35,819	1,919,190	2,172,458
Due from other funds	250,000	375,000	478,533	478,533
Interest receivable	200	200	-	1,872
Accounts receivable (net of allowance for uncollectibles)	1,789,026	1,915,522	487,461	479,380
Other receivables	34,317	(1,910)	480	1,995
Inventories	717,588	739,585	101,876	79,224
Total current assets	10,144,895	9,355,311	6,527,154	8,556,586
Noncurrent assets				
Restricted cash - cash equivalents	218,409	217,553	12,370	15,158
Deferred charges	-	-	87,254	98,459
	218,409	217,553	99,624	113,617
Capital assets				
Land, buildings and structures	3,072,604	2,781,045	13,291,094	3,404,336
Construction in process	-	-	-	7,941,390
Utility distribution systems	7,372,370	6,998,898	21,088,571	20,412,183
Vehicles	1,044,189	1,004,204	346,969	346,969
Equipment	914,006	871,010	533,845	442,917
Less accumulated depreciation	(5,434,220)	(5,047,241)	(10,157,875)	(9,537,983)
Total capital assets (net of accumulated depreciation)	6,968,949	6,607,916	25,102,604	23,009,812
Total noncurrent assets	7,187,358	6,825,469	25,202,228	23,123,429
Total Assets	17,332,253	16,180,780	31,729,382	31,680,015
Liabilities				
Current liabilities				
Accounts payable	1,246,658	857,968	259,528	609,714
Accrued interest payable	-	-	121,739	128,700
General obligation bonds - current	-	-	637,498	625,515
Total current liabilities	1,246,658	857,968	1,018,765	1,363,929
Noncurrent liabilities				
Customer deposits payable	218,408	219,279	12,370	15,160
Compensated absences	74,480	65,286	114,340	111,597
General obligation bonds payable	-	-	10,107,537	10,745,035
Premium on general obligation bonds payable	-	-	220,770	233,166
Total noncurrent liabilities	292,888	284,565	10,455,017	11,104,958
Total Liabilities	1,539,546	1,142,533	11,473,782	12,468,887
Net Assets				
Invested in capital assets, net of related debt	6,968,949	6,607,916	14,136,799	11,406,096
Unrestricted	8,823,758	8,430,331	6,118,801	7,805,032
Total Net Assets	\$ 15,792,707	\$ 15,038,247	\$ 20,255,600	\$ 19,211,128

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, 2009**

	Business-type Activities - Enterprise Funds				Totals Current Year
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	
Assets					
Current assets					
Cash and cash equivalents	\$ 1,110,382	\$ 1,091,636	\$ -	\$ -	\$ 9,230,548
Investments	2,354,607	2,285,611	(99,926)	(83,294)	6,947,083
Due from other funds	(192,468)	(192,468)	-	-	536,065
Interest receivable	-	-	-	-	200
Accounts receivable (net of allowance for uncollectibles)	308,237	345,146	132,262	147,547	2,716,986
Other receivables	7,440	4,120	43	663	42,280
Inventories	101,876	79,224	-	-	921,340
Total current assets	3,690,074	3,613,269	32,379	64,916	20,394,502
Noncurrent assets					
Restricted cash - cash equivalents	-	-	-	-	230,779
Deferred charges	27,854	35,564	-	-	115,108
	27,854	35,564	-	-	345,887
Capital assets					
Land, buildings and structures	4,112,787	4,112,787	-	-	20,476,485
Construction in process	-	-	-	-	-
Utility distribution systems	22,573,125	22,149,153	-	-	51,034,066
Vehicles	538,310	538,310	1,042,359	1,042,359	2,971,827
Equipment	866,716	845,980	585,084	585,084	2,899,651
Less accumulated depreciation	(14,237,486)	(13,535,212)	(1,115,791)	(1,016,355)	(30,945,372)
Total capital assets (net of accumulated depreciation)	13,853,452	14,111,018	511,652	611,088	46,436,657
Total noncurrent assets	13,881,306	14,146,582	511,652	611,088	46,782,544
Total Assets	17,571,380	17,759,851	544,031	676,004	67,177,046
Liabilities					
Current liabilities					
Accounts payable	22,274	106,225	5,478	12,270	1,533,938
Accrued interest payable	11,861	14,872	-	-	133,600
General obligation bonds - current	282,498	280,515	-	-	919,996
Total current liabilities	316,633	401,612	5,478	12,270	2,587,534
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	230,778
Compensated absences	112,409	110,956	29,517	25,683	330,746
General obligation bonds payable	822,537	1,105,035	-	-	10,930,074
Premium on general obligation bonds payable	-	-	-	-	220,770
Total noncurrent liabilities	934,946	1,215,991	29,517	25,683	11,712,368
Total Liabilities	1,251,579	1,617,603	34,995	37,953	14,299,902
Net Assets					
Invested in capital assets, net of related debt	12,748,417	12,725,468	511,652	611,088	34,365,817
Unrestricted	3,571,384	3,416,780	(2,616)	26,963	18,511,327
Total Net Assets	\$ 16,319,801	\$ 16,142,248	\$ 509,036	\$ 638,051	\$ 52,877,144

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, 2009

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Operating revenues				
Charges for sales and services				
Electric sales	\$ 14,906,183	\$ 15,049,515	\$ -	\$ -
Water and sewer sales	-	-	2,793,682	2,564,207
Installation and connection charges	200,848	166,323	304,746	502,506
Refuse service fees	-	-	-	-
Miscellaneous revenues	18,780	244,588	47,530	49,081
Total operating revenues	<u>15,125,811</u>	<u>15,460,426</u>	<u>3,145,958</u>	<u>3,115,794</u>
Operating expenses				
Personal service	861,547	759,109	839,785	778,873
Contractual service	378,339	561,625	125,262	116,207
Electric power	11,636,839	10,614,241	-	-
Depreciation	386,979	364,197	619,892	514,084
Other charges	639,274	440,634	652,487	800,971
Operating expenses capitalized	(373,472)	(147,597)	(114,075)	(97,675)
Total operating expenses	<u>13,529,506</u>	<u>12,592,209</u>	<u>2,123,351</u>	<u>2,112,460</u>
Operating income	<u>1,596,305</u>	<u>2,868,217</u>	<u>1,022,607</u>	<u>1,003,334</u>
Nonoperating revenues (expenses)				
Investment earnings	83,850	191,543	120,731	410,110
Interest expense	(5,695)	(8,040)	(96,977)	(348,175)
Bond issuance costs	-	-	(11,204)	(11,204)
Total nonoperating revenue (expenses)	<u>78,155</u>	<u>183,503</u>	<u>12,550</u>	<u>50,731</u>
Income before contributions and transfers	<u>1,674,460</u>	<u>3,051,720</u>	<u>1,035,157</u>	<u>1,054,065</u>
Transfers and contributions				
Capital contributions	-	-	399,265	539,276
Transfers in (out)	(920,000)	(920,000)	(389,950)	(389,950)
Change in net assets	<u>754,460</u>	<u>2,131,720</u>	<u>1,044,472</u>	<u>1,203,391</u>
Total net assets - beginning of year	<u>15,038,247</u>	<u>12,906,527</u>	<u>19,211,128</u>	<u>18,007,737</u>
Total net assets - end of year	<u>\$ 15,792,707</u>	<u>\$ 15,038,247</u>	<u>\$ 20,255,600</u>	<u>\$ 19,211,128</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, 2009

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Solid Waste	Solid Waste	Totals
	Current Year	Prior Year	Managment	Managment	Current Year
Operating revenues					
Charges for sales and services					\$14,906,183
Electric sales	\$ -	\$ -	\$ -	\$ -	5,317,602
Water and sewer sales	2,523,920	2,344,010	-	-	753,490
Installation and connection charges	247,896	470,049	-	-	894,884
Refuse service fees	-	-	894,884	934,936	92,826
Miscellaneous revenues	2,789	32,608	23,727	-	21,964,985
Total operating revenues	2,774,605	2,846,667	918,611	934,936	
Operating expenses					
Personal service	773,183	879,751	637,506	652,608	3,112,021
Contractual service	235,298	275,863	40,429	22,841	779,328
Electric power	357,399	-	-	-	11,994,238
Depreciation	702,273	691,156	99,437	99,437	1,808,581
Other charges	567,113	808,714	185,696	155,430	2,044,570
Operating expenses capitalized	(24,707)	(19,446)	-	(73,787)	(512,254)
Total operating expenses	2,610,559	2,636,038	963,068	856,529	19,226,484
Operating income	164,046	210,629	(44,457)	78,407	2,738,501
Nonoperating revenues (expenses)					
Investment earnings	53,506	146,110	(2,558)	1,971	255,529
Interest expense	(41,604)	(47,650)	-	-	(144,276)
Bond issuance costs	(7,710)	(7,710)	-	-	(18,914)
Total nonoperating revenue (expenses)	4,192	90,750	(2,558)	1,971	92,339
Income before contributions and transfers	168,238	301,379	(47,015)	80,378	2,830,840
Transfers and contributions					
Capital contributions	399,265	107,154	-	-	798,530
Transfers in (out)	(389,950)	(389,950)	(82,000)	(82,000)	(1,781,900)
Change in net assets	177,553	18,583	(129,015)	(1,622)	1,847,470
Total net assets - beginning of year	16,142,248	16,123,665	638,051	639,673	51,029,674
Total net assets - end of year	\$16,319,801	\$16,142,248	\$ 509,036	\$ 638,051	\$52,877,144

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, 2009**

	Business-type Activities - Enterprise Funds				
	Electric	Water	Sewer	Solid Waste Management	Totals
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 15,216,080	\$ 3,139,392	\$ 2,808,195	\$ 934,515	\$ 22,098,182
Payments to suppliers	(11,871,164)	(1,028,097)	(1,233,996)	(232,917)	(14,366,174)
Payments to employees	(852,353)	(837,042)	(771,730)	(633,672)	(3,094,797)
Net cash provided by operating activities	2,492,563	1,274,253	802,469	67,926	4,637,211
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(920,000)	(389,950)	(389,950)	(82,000)	(1,781,900)
Repayment of interfund advances	125,000	-	-	-	125,000
Net cash provided (used) by capital and related financing activities	(795,000)	(389,950)	(389,950)	(82,000)	(1,656,900)
Cash Flows from Capital and Related Financing Activities					
Capital contributions	-	399,265	399,265	-	798,530
Acquisition and construction of capital assets	(748,012)	(2,325,032)	(444,708)	-	(3,517,752)
Principal paid on capital debt	-	(625,515)	(280,515)	-	(906,030)
Interest paid	(5,695)	(515,188)	(52,325)	-	(573,208)
Net cash provided (used) by capital and related financing activities	(753,707)	(3,066,470)	(378,283)	-	(4,198,460)
Cash Flows from Investing Activities					
(Purchases)/sale of investments	(2,737,393)	253,268	(68,996)	16,632	(2,536,489)
Interest and dividends received	83,850	122,601	53,506	(2,558)	257,399
Net cash provided (used) by investing activities	(2,653,543)	375,869	(15,490)	14,074	(2,279,090)
Net increase in cash and cash equivalents	(1,709,687)	(1,806,298)	18,746	-	(3,497,239)
Cash and cash equivalents July 1, 2008	6,508,648	5,358,282	1,091,636	-	12,958,566
Cash and cash equivalents June 30, 2009	\$ 4,798,961	\$ 3,551,984	\$ 1,110,382	\$ -	\$ 9,461,327
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 1,596,305	\$ 1,022,607	\$ 164,046	\$ (44,457)	\$ 2,738,501
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	386,979	619,892	702,273	99,437	1,808,581
(Increase) decrease in accounts receivable	126,496	(8,081)	36,909	15,285	170,609
(Increase) decrease in other receivables	(36,227)	1,515	(3,319)	619	(37,412)
(Increase) decrease in inventories	21,997	(22,652)	(22,652)	-	(23,307)
(Increase) decrease in deferred charges	-	11,205	7,710	-	18,915
Increase (decrease) in customer deposits	(871)	(2,790)	-	-	(3,661)
Increase (decrease) in accounts payable	388,690	(350,186)	(83,951)	(6,792)	(52,239)
Increase (decrease) in compensated absences	9,194	2,743	1,453	3,834	17,224
Total adjustments	896,258	251,646	638,423	112,383	1,898,710
Net cash provided by operating activities	\$ 2,492,563	\$ 1,274,253	\$ 802,469	\$ 67,926	\$ 4,637,211
Noncash investing, capital, and financing activities					
Capital assets contributed by developers	\$ -	\$ 399,265	\$ 399,265	\$ -	\$ 798,530

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

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

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 2, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value, which approximates cost due to the short-term nature of the investment maturities.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

2. Receivables and Payables

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

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

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

Real estate and personal property taxes are assessed annually by Warren County, Virginia for all property of record as of January 1. The Town bills and collects its own property taxes based on the assessed values provided by the County. Real estate taxes are levied annually on January 1 and are due on December 5. Personal property taxes are levied annually on January 1 and are due December 5 with proration of personal property taxes throughout the year.

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

3. Inventories and Other Assets

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

6. **Compensated Absences**

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

7. **Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts of debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

8. **Fund Equity**

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

9. **Comparative Data/Reclassifications**

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

II. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,095,775 are as follows:

Description	Amount
Bonds payable	\$ 347,020
Compensated absences	748,755
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,095,775</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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

The governmental statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$3,589,044 difference is as follows:

Description	Amount
Capital outlay	\$ 268,366
Depreciation expense	(3,857,410)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	\$ (3,589,044)

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 \$77,219 difference are as follows:

Description	Amount
Principal debt retirements of bonded debt	\$ 77,219
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	\$ 77,219

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several general fund budgetary appropriations throughout the year, totaling \$2,104,763.

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, 2009, expenditures did not exceed appropriations in any of the general fund departments.

C. Deficit Fund Equity

At June 30, 2009 Special Revenue Fund had a deficit fund balance as noted below:

<u>Fund</u>	<u>Deficit</u>
Downtown Service District	\$ 1,834
Economic Development	136,100

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2009, the carrying amount of the Town's deposits with banks and savings institutions was \$5,079,449 and the bank balance was \$5,430,017. 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, 2009, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Treasury & agency securities	\$ 9,416,195	\$ 9,416,195	\$ -
Corporate bonds	352,979	352,979	-
Banking repurchase agreements	2,342,140	2,342,140	-
Repurchase agreements	118,557	118,557	-
LGIP Pool	2,909,047	2,909,047	-
SNAP Pool	1,721,624	1,721,624	-
SunTrust US Government Fund	1,568,709	1,568,709	-
Total	\$ 18,429,251	\$ 18,429,251	\$ -

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, 2009, 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	5,079,449	5,079,449	-
Investments	18,429,253	7,697,614	10,731,639
Total	\$ 23,510,190	\$ 12,778,551	\$ 10,731,639

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2009. 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, 2009, the amount of unbilled service recorded was \$1,472,537.

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	\$ 514,023	\$ -	\$ -	\$ -	\$ -	\$ 3,191	\$ 517,214
Accounts	-	2,069,433	316,447	271,447	133,957	-	2,791,284
Interest	1,300	200	-	-	-	-	1,500
Intergovernmental	85,118	-	-	-	-	-	85,118
Unbilled	-	948,508	317,582	143,681	62,766	-	1,472,537
Other	(42,686)	47,039	3,219	12,699	93	-	20,364
Less: allowance for uncollectibles	-	(1,241,637)	(149,307)	(112,150)	(64,511)	-	(1,567,605)
Net total receivables	\$ 557,755	\$ 1,823,543	\$ 487,941	\$ 315,677	\$ 132,305	\$ 3,191	\$ 3,320,412

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	\$ 311,113	\$ -
Special Revenue Fund - Property Taxes	3,191	-
	\$ 314,304	\$ -

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

D. Due from Other Governments

At June 30, 2009 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	\$ 25,770
Communication Tax	59,348
Warren County, Virginia - Sales Tax	<u>\$ 85,118</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,117,508	\$ -	\$ -	\$ 1,117,508
Total capital assets, not being depreciated	<u>\$ 1,117,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117,508</u>
Capital assets, being depreciated				
Buildings and improvements	\$ 3,951,968	\$ -	\$ -	\$ 3,951,968
Vehicles	1,548,281	183,073	-	1,731,354
Equipment	2,720,165	85,293	-	2,805,458
Infrastructure	109,527,139	-	-	109,527,139
Total capital assets being depreciated	<u>117,747,553</u>	<u>268,366</u>	<u>-</u>	<u>118,015,919</u>
Less accumulated depreciation for				
Buildings and improvements	(1,081,279)	(101,999)	-	(1,183,278)
Vehicles	(1,134,674)	(106,063)	-	(1,240,737)
Equipment	(1,750,332)	(58,294)	-	(1,808,626)
Infrastructure	(46,539,291)	(3,591,054)	-	(50,130,345)
Total accumulated depreciation	<u>(50,505,576)</u>	<u>(3,857,410)</u>	<u>-</u>	<u>(54,362,986)</u>
Net capital assets being depreciated	<u>67,241,977</u>	<u>(3,589,044)</u>	<u>-</u>	<u>63,652,933</u>
Governmental capital assets, net	<u>\$ 68,359,485</u>	<u>\$ (3,589,044)</u>	<u>\$ -</u>	<u>\$ 64,770,441</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Construction in process	7,941,370	1,798,763	(9,740,133)	-
Total capital assets not being depreciated	9,430,192	1,798,763	(9,740,133)	1,488,822
Capital assets, being depreciated				
Buildings and improvements	8,809,346	10,341,364	-	19,150,710
Utility Distribution Systems	49,560,234	1,310,785	-	50,871,019
Vehicles	2,931,842	39,984	-	2,971,826
Equipment	2,744,991	154,661	-	2,899,652
Total capital assets, being depreciated	64,046,413	11,846,794	-	75,893,207
Less accumulated depreciation for				
Buildings and improvements	(3,712,727)	(372,125)	-	(4,084,852)
Utility Distribution Systems	(22,298,302)	(1,222,765)	-	(23,521,067)
Vehicles	(1,766,429)	(116,828)	-	(1,883,257)
Equipment	(1,359,333)	(96,863)	-	(1,456,196)
Total accumulated depreciation	(29,136,791)	(1,808,581)	-	(30,945,372)
Net capital assets being depreciated	34,909,622	10,038,213	-	44,947,835
Business-type activities	\$ 44,339,814	\$ 11,836,976	\$ (9,740,133)	\$ 46,436,657

2009 Bonded debt interest expense capitalized as part of the water plant expansion project amounted to \$387,652. Total capitalized interest reported to the water plant expansion was \$542,023.

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

Activity	Depreciation
Governmental activities:	
General government	\$ 71,376
Public safety	81,674
Public works	89,161
Planning, zoning, and community development	22,518
Culture and recreation	1,627
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	\$ 3,857,410
Business-type activities:	
Electric	\$ 386,979
Water	619,892
Sewer	702,273
Solid Waste Management	99,437
Total depreciation expense - business-type activities	\$ 1,808,581

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

F. Interfund Advances/Transfers

The composition and activity of interfund advances/transfers for 2009 is as follows:

Advanced to	Advanced from	Amount
General Fund	Electric	\$ 250,000
General Fund	Water	97,032
General Fund	Sewer	96,502
Special Revenue	Water	46,266
Special Revenue	Sewer	46,265
		<u>\$ 536,065</u>

G. Long-Term Debt

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

General obligation bonds and notes outstanding at June 30, 2009 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%.	\$ 2,210,070
\$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%.	347,020
\$10,315,000, 2006 series general obligation bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%.	<u>9,640,000</u>
Total General Obligation Debt	<u>\$ 12,197,090</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

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

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	93,000	4,329	902,674	414,492
2014	-	-	420,000	378,980
Thereafter	-	-	7,709,998	2,699,527
Total	\$ 347,020	\$ 44,403	\$ 11,850,070	\$ 4,946,151

The legal debt limit mandated by the Commonwealth of Virginia is \$131,479,178.

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, 2009 was as follows:

	June 30, 2008	Additions	Retirements	June 30, 2009	One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 424,239	\$ -	\$ (77,219)	\$ 347,020	\$ 80,839
Compensated absences	697,309	748,755	(697,309)	748,755	-
Governmental activity					
Long-term liabilities	\$ 1,121,548	\$ 748,755	\$ (774,528)	\$ 1,095,775	\$ 80,839
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 12,756,100	\$ -	\$ (906,030)	\$ 11,850,070	\$ 919,996
Unamortized premium	233,166	-	(12,396)	220,770	-
Compensated absences	313,522	54,373	(37,149)	330,746	-
Business-type activity					
Long-term liabilities	\$ 13,302,788	\$ 54,373	\$ (955,575)	\$ 12,401,586	\$ 919,996

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	\$ -	\$ 748,755
Electric	-	74,480
Water	-	114,340
Sewer	-	112,409
Refuse	-	29,517
	\$ -	\$ 330,746

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 2009 the Town paid premiums of approximately \$140,819 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 2009, the Town paid contributions of approximately \$337,971 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%	\$ 2,350,000
Town of Front Royal support agreement obligation – 20%	\$ 470,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
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
2014	300,000	39,669	60,000	7,934	67,934
Thereafter	955,000	52,325	191,000	10,465	201,465
	<u>\$ 2,350,000</u>	<u>\$ 352,359</u>	<u>\$ 470,000</u>	<u>\$ 70,472</u>	<u>\$ 540,472</u>

D. Post Employment Benefits Other Than Pensions

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

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

Funding Policy: Payments are made monthly to cover the Town's portion of the retiree health insurance premiums. For fiscal year 2009, 23 retirees had a benefit under this policy with a total cost to the Town of \$30,282.

Annual OPEB Cost and Net OPEB Obligation: The Town has retained an actuary to develop and calculate the unfunded future retiree benefit obligation. The preliminary estimate of the future liability obligation was determined not to be material to the financial statements due to limited costs and employee coverage.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

The Town's annual OPEB costs with covered employees for the current and past two years is as follows:

FYE June 30	No. Employees Covered	Annual OPEB Cost
2007	30	22,300
2008	25	25,530
2009	23	30,282

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 VRS 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 Virginia Retirement 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 2009 was 14.80% of annual covered payroll.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

Annual Pension Cost

For 2009, the Town's annual pension cost of \$1,002,397 was equal to the Town's and employee's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases that range between 3.50% and 5.60% per year, payroll growth rate of 3.00% and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method 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

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

Fiscal Year Ended	Annual	% APC	Net Pension
2009	\$ 1,002,397	100	None
2008	945,511	100	None
2007	795,405	100	None
2006	695,723	100	None
2005	677,061	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, 2008	\$ 23,160,592	\$ 26,997,676	\$ 3,837,085	85.79%	\$ 6,218,074	61.71%
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%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

F. Deferred Compensation Plan

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

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

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 1,091,000	\$ 1,091,000	\$ 975,176	\$ (115,824)
Delinquent taxes, including penalties	19,000	19,000	20,013	1,013
Personal property taxes				
Current taxes, including penalties	390,000	390,000	282,609	(107,391)
Public service corporation taxes	11,700	11,700	10,740	(960)
Interest on delinquent taxes	17,000	17,000	10,011	(6,989)
Total General Property Taxes	<u>1,528,700</u>	<u>1,528,700</u>	<u>1,298,549</u>	<u>(230,151)</u>
Other Local Taxes				
Warren County sales tax	750,000	750,000	690,993	(59,007)
Business and occupational taxes and penalties	712,000	712,000	620,567	(91,433)
Franchise taxes	-	-	1,500	1,500
Consumer taxes - electric deregulation	240,000	240,000	181,779	(58,221)
Vehicle licenses	240,000	240,000	223,417	(16,583)
Bank stock taxes	200,000	200,000	152,245	(47,755)
Lodging taxes	370,000	370,000	277,217	(92,783)
Meal taxes	1,255,000	1,255,000	1,195,175	(59,825)
Payment in lieu of taxes	875,000	875,000	1,046,893	171,893
Total Other Local Taxes	<u>4,642,000</u>	<u>4,642,000</u>	<u>4,389,786</u>	<u>(252,214)</u>
Permits, Fees and Licenses				
Zoning income	35,000	35,000	33,625	(1,375)
Public ROW use fees	50,000	50,000	59,035	9,035
Total Permits, Fees and Licenses	<u>85,000</u>	<u>85,000</u>	<u>92,660</u>	<u>7,660</u>
Fines and Forfeitures				
Fines and forfeitures - county	315,000	315,000	237,885	(77,115)
Fines and forfeitures - town	20,000	20,000	14,599	(5,401)
Total Fines and Forfeitures	<u>335,000</u>	<u>335,000</u>	<u>252,484</u>	<u>(82,516)</u>
Revenues from Use of Money and Property				
Interest on bank deposits	240,000	240,000	109,140	(130,860)
Interest on accounts receivable	1,500	1,500	539	(961)
Rental - Comcast property	9,000	9,000	9,628	628
Total Revenues from Use of Money and Property	<u>250,500</u>	<u>250,500</u>	<u>119,307</u>	<u>(131,193)</u>

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

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Charges for Services				
Curb and gutter charges	\$ 48,000	\$ 45,000	\$ 10,324	\$ (34,676)
Street & walk assessment	-	3,000	7,848	4,848
Credit card fees	-	-	(3,001)	(3,001)
Sales at Visitors' Center	7,500	7,500	29,698	22,198
Sales of publications	1,500	1,500	296	(1,204)
Total Charges for Services	<u>57,000</u>	<u>57,000</u>	<u>45,165</u>	<u>(11,835)</u>
Miscellaneous Revenue				
Miscellaneous	<u>50,000</u>	<u>76,620</u>	<u>67,378</u>	<u>(9,242)</u>
Recovered Costs				
Warren County Recreation Program	-	25,000	25,000	-
Total Recovered Costs	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Intergovernmental				
Rolling stock tax	12,600	12,600	14,036	1,436
Virginia personal property tax reduction	287,000	287,000	287,863	863
Communication tax	240,000	240,000	177,556	(62,444)
Rental tax vehicles	50,000	50,000	36,441	(13,559)
State aid for police and fire	410,000	410,000	387,157	(22,843)
Highway maintenance	1,540,000	1,540,000	1,525,354	(14,646)
Grants	30,000	30,000	121,767	91,767
Total Intergovernmental	<u>2,569,600</u>	<u>2,569,600</u>	<u>2,550,174</u>	<u>(19,426)</u>
Total General Fund Revenues	<u>9,517,800</u>	<u>9,569,420</u>	<u>8,840,503</u>	<u>(728,917)</u>
Other Financing Sources				
Transfers from other funds	<u>1,781,900</u>	<u>1,781,900</u>	<u>1,781,900</u>	<u>-</u>
Total Other Financing Sources	<u>1,781,900</u>	<u>1,781,900</u>	<u>1,781,900</u>	<u>-</u>
Total General Fund Revenues and Other Financing Sources	<u>\$ 11,299,700</u>	<u>\$ 11,351,320</u>	<u>\$ 10,622,403</u>	<u>\$ (728,917)</u>

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 60,284	\$ 60,284	\$ 59,730	\$ 554
Contractual service	51,500	51,500	35,795	15,705
Materials and supplies	500	500	89	411
Travel and communications	13,300	13,300	13,503	(203)
Total Town Council	<u>125,584</u>	<u>125,584</u>	<u>109,117</u>	<u>16,467</u>
Clerk of Council				
Personal service	52,003	52,003	55,803	(3,800)
Contractual service	4,100	4,100	5,467	(1,367)
Materials and supplies	1,300	1,300	524	776
Travel and communications	3,900	3,900	2,043	1,857
Dues and memberships	350	350	235	115
Total Clerk of Council	<u>61,653</u>	<u>61,653</u>	<u>64,072</u>	<u>(2,419)</u>
Total Legislative	<u>187,237</u>	<u>187,237</u>	<u>173,189</u>	<u>14,048</u>
Executive				
Town Manager				
Personal service	246,645	244,745	234,941	9,804
Contractual service	9,800	8,505	7,387	1,118
Materials and supplies	5,700	6,873	3,256	3,617
Travel and communications	9,300	10,372	6,358	4,014
Dues and memberships	1,600	1,600	1,441	159
Total Town Manager	<u>273,045</u>	<u>272,095</u>	<u>253,383</u>	<u>18,712</u>
Management Services				
Personal service	189,893	198,953	197,597	1,356
Contractual service	42,700	37,440	22,042	15,398
Materials and supplies	2,350	4,550	3,321	1,229
Travel and communications	2,100	2,100	1,257	843
Total Management Services	<u>237,043</u>	<u>243,043</u>	<u>224,217</u>	<u>18,826</u>
Auto/Motorpool				
Personal service	299,455	299,455	284,308	15,147
Contractual service	(159,275)	(158,275)	(153,199)	(5,076)
Materials and supplies	225,050	231,568	201,030	30,538
Travel and communications	2,800	2,800	1,350	1,450
Utilities	2,000	1,000	1,133	(133)
Capital outlays	25,000	46,000	20,555	25,445
Total Auto/Motorpool	<u>395,030</u>	<u>422,548</u>	<u>355,177</u>	<u>67,371</u>
Office of Information Technology				
Personal service	62,955	68,351	63,432	4,919
Contractual service	144,300	137,222	106,381	30,841
Materials and supplies	5,500	31,200	23,757	7,443
Travel and communications	44,050	52,050	51,736	314
Dues and memberships	500	500	-	500
Capital outlays	150,000	524,448	236,586	287,862
Total Office of Information Technology	<u>407,305</u>	<u>813,771</u>	<u>481,892</u>	<u>331,879</u>

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Tourism				
Personal service	\$ 113,497	\$ 116,478	\$ 107,403	\$ 9,075
Contractual service	86,300	106,250	99,607	6,643
Materials and supplies	10,700	7,362	5,079	2,283
Utilities	250	250	122	128
Travel and communications	18,300	20,110	16,350	3,760
Dues and memberships	2,500	2,500	925	1,575
Cultural Activities	10,000	10,000	10,000	-
Capital outlays	106,277	115,702	51,189	64,513
Total Office of Tourism	347,824	378,652	290,675	87,977
Board of Elections				
Contractual service	-	-	(125)	125
Total Executive	1,660,247	2,130,109	1,605,219	524,890
Legal				
Town Attorney				
Personal service	292,293	293,293	280,398	12,895
Contractual service	11,000	118,000	124,836	(6,836)
Materials and supplies	7,050	7,050	5,892	1,158
Travel and communications	4,050	3,050	4,314	(1,264)
Dues and memberships	1,250	1,250	960	290
Total Legal	315,643	422,643	416,400	6,243
Finance				
Finance Department				
Personal service	747,738	745,878	726,406	19,472
Contractual service	41,400	38,577	24,039	14,538
Materials and supplies	19,850	23,050	19,465	3,585
Travel and communications	56,030	61,830	58,191	3,639
Dues and memberships	400	400	199	201
Total Finance Department	865,418	869,735	828,300	41,435
Total General Government	3,028,545	3,609,724	3,023,108	586,616
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	414,662	401,152	387,992	13,160
Contractual service	42,300	129,423	2,473	126,950
Materials and supplies	4,950	6,800	5,217	1,583
Travel and communications	3,500	4,500	4,172	328
Dues and memberships	600	4,660	710	3,950
Capital outlays	-	196,044	-	196,044
Total Planning and Zoning	466,012	742,579	400,564	342,015
Economic Development				
Contributions to other entities	10,519	41,436	40,741	695
Total Economic Development	10,519	41,436	40,741	695

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance
Boards and Commissions				
Personal service	\$ 10,443	\$ 19,143	\$ 17,924	\$ 1,219
Contractual service	5,095	5,795	2,962	2,833
Materials and supplies	700	700	367	333
Travel and communications	2,800	4,000	4,228	(228)
Joint operations	12,629	12,629	8,445	4,184
Total Boards and Commissions	31,667	42,267	33,926	8,341
Total Planning, Zoning and Community Development	508,198	826,282	475,231	351,051
Police				
Police Department				
Personal service	3,201,340	3,193,665	3,143,915	49,750
Contractual service	26,275	13,095	12,859	236
Materials and supplies	181,575	201,625	189,779	11,846
Travel and communications	38,750	43,225	38,839	4,386
Dues and memberships	2,350	950	905	45
Joint operations	26,780	28,610	66,071	(37,461)
Capital outlays	7,000	6,900	6,895	5
Total Police Department	3,484,070	3,488,070	3,459,263	28,807
Total Public Safety	3,484,070	3,488,070	3,459,263	28,807
Engineering and Public Works				
Engineering				
Personal service	118,690	116,390	97,671	18,719
Contractual service	16,050	11,450	7,444	4,006
Materials and supplies	22,180	24,180	22,739	1,441
Travel and communications	9,000	13,700	9,204	4,496
Dues and memberships	2,500	2,700	868	1,832
Total Engineering	168,420	168,420	137,926	30,494
Streets and Sidewalks				
Personal service	855,082	857,582	797,216	60,366
Contractual service	566,800	1,280,504	991,989	288,515
Materials and supplies	627,750	825,741	678,432	147,309
Travel and communications	5,700	6,900	6,246	654
Utilities	32,000	32,000	29,894	2,106
Dues and memberships	300	300	-	300
Capital outlays	503,500	849,651	571,783	277,868
Total Streets and Sidewalks	2,591,132	3,852,678	3,075,560	777,118

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual	Variance
General Properties				
Personal service	\$ 81,636	\$ 81,636	\$ 52,350	\$ 29,286
Contractual service	90,300	79,810	58,281	21,529
Materials and supplies	26,800	26,600	11,631	14,969
Travel and communications	2,000	2,400	2,349	51
Utilities	54,600	65,600	67,305	(1,705)
Capital outlays	100,000	26,000	699	25,301
Total General Properties	355,336	282,046	192,615	89,431
Horticulture				
Personal service	275,731	276,931	280,042	(3,111)
Contractual service	3,150	8,630	11,818	(3,188)
Materials and supplies	17,175	19,275	21,452	(2,177)
Travel and communications	1,050	650	819	(169)
Capital outlays	40,000	57,040	56,136	904
Total Horticulture	337,106	362,526	370,267	(7,741)
Total Engineering and Public Works	3,451,994	4,665,670	3,776,368	889,302
Parks and Recreation				
Library	68,924	68,924	68,924	-
Total Parks and Recreation	68,924	68,924	68,924	-
Nondepartmental				
Fringe Benefits	238,000	238,000	182,099	55,901
Insurance	333,000	381,741	337,971	43,770
Reserves	61,969	1,052	-	1,052
Total Nondepartmental	632,969	620,793	520,070	100,723
Total General Fund Expenditures	\$ 11,174,700	\$ 13,279,463	\$ 11,322,964	\$ 1,956,499

TOWN OF FRONT ROYAL, VIRGINIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue					Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities		
Assets								
Cash and cash equivalents	\$ -	\$ 103,226	\$ -	\$ 1,051,397	\$ 1,154,623	\$ -	\$ -	\$ 1,154,623
Accounts receivable - real estate taxes	3,191	-	-	-	3,191	-	-	3,191
Other	-	-	-	1,546	1,546	-	-	1,546
Interfund advances	-	-	4,500	-	4,500	388	-	4,888
Total Assets	\$ 3,191	\$ 103,226	\$ 4,500	\$ 1,052,943	\$ 1,163,860	\$ 388	\$ -	\$ 1,164,248
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank advances	1,834	-	140,600	-	142,434	-	-	142,434
Deferred revenue	3,191	-	-	-	3,191	-	-	3,191
Interfund advances	-	1,425	-	97,031	98,456	-	-	98,456
Total Liabilities	5,025	1,425	140,600	97,031	244,081	-	-	244,081
Fund Balances								
Unreserved, undesignated	(1,834)	101,801	(136,100)	955,912	919,779	388	-	920,167
Total Fund Balances	(1,834)	101,801	(136,100)	955,912	919,779	388	-	920,167
Total Liabilities and Fund Balances	\$ 3,191	\$ 103,226	\$ 4,500	\$ 1,052,943	\$ 1,163,860	\$ 388	\$ -	\$ 1,164,248

TOWN OF FRONT ROYAL, VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
Revenues							
Real estate taxes	360	\$ -	\$ -	\$ -	360	\$ -	360
Asset Forfeitures	-	18,474	-	-	18,474	-	18,474
Miscellaneous	-	-	-	1,576	1,576	-	1,576
Total revenues	360	18,474	-	1,576	20,410	-	20,410
Expenditures							
Current							
Payment in support of EDA debt issue	-	-	67,770	-	67,770	-	67,770
Contractual service	-	-	-	377,363	377,363	-	377,363
Contributions to other entities	-	-	33,376	-	33,376	-	33,376
Capital outlays	-	8,485	-	-	8,485	-	8,485
Total expenditures	-	8,485	101,146	377,363	486,994	-	486,994
Excess (deficiency) of revenues over (under) expenditures	360	9,989	(101,146)	(375,787)	(466,584)	-	(466,584)
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	-	-
Transfers (out)	-	-	(97,031)	-	(97,031)	-	(97,031)
Total other financing sources (uses)	-	-	(97,031)	-	(97,031)	-	(97,031)
Net change in fund balances	360	9,989	(198,177)	(375,787)	(563,615)	-	(563,615)
Fund balances - beginning	(2,194)	91,812	62,077	1,331,699	1,483,394	388	1,483,782
Fund balances - ending	\$ (1,834)	\$ 101,801	\$ (136,100)	\$ 955,912	\$ 919,779	\$ 388	\$ 920,167

**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, 2009**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 12,000	\$ 18,474	\$ 6,474
Expenditures			
Capital outlays	12,000	8,485	3,515
Excess (deficiency) of revenues over (under) expenditures	-	9,989	9,989
Fund balances - beginning	91,812	91,812	-
Fund balances - ending	<u>\$ 91,812</u>	<u>\$ 101,801</u>	<u>\$ 9,989</u>

**TOWN OF FRONT ROYAL, VIRGINIA
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 134,506	\$ -	\$ (134,506)
Expenditures			
Payments in support of EDA debt issue	-	67,770	(67,770)
Contributions to other entities	37,475	33,376	4,099
Total Expenditures	37,475	101,146	(63,671)
Excess (deficiency) of revenues over (under) expenditures	97,031	(101,146)	(198,177)
Other Financing Sources (Uses)			
Transfers (out) - debt service	97,031	97,031	-
Net change in fund balances	-	(198,177)	(198,177)
Fund balances - beginning	62,077	62,077	-
Fund balances - ending	<u>\$ 62,077</u>	<u>\$ (136,100)</u>	<u>\$ (198,177)</u>

**TOWN OF FRONT ROYAL, VIRGINIA
 COMMUNITY/NEIGHBORHOOD REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2009**

	Revised Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ -	\$ -	\$ -
Meals taxes	-	-	-
Miscellaneous	4,000	1,576	(2,424)
Total Revenues	<u>4,000</u>	<u>1,576</u>	<u>(2,424)</u>
Expenditures			
Contractual services	1,033,267	377,363	655,904
Total Expenditures	<u>1,033,267</u>	<u>377,363</u>	<u>655,904</u>
Excess (deficiency) of revenues over (under) expenditures	(1,029,267)	(375,787)	653,480
Fund balances - beginning	<u>1,331,699</u>	<u>1,331,699</u>	<u>-</u>
Fund balances - ending	<u>\$ 302,432</u>	<u>\$ 955,912</u>	<u>\$ 653,480</u>

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2009

Assets held by the Director of Finance

Cash on hand		\$	1,488
Cash in Banks			
Checking - SunTrust			1,127,130
Checking - Rappahannock National Bank			(350,568)
Certificates of Deposit			
BB&T Bank	\$	350,000	
Greater Atlantic Bank		118,771	
Rappahannock National Bank		2,729,341	
Wachovia Bank		83,089	
Virginia Savings Bank		21,686	
Total Certificates of Deposit			3,302,887
Virginia Local Government Investment Pool			2,909,047
Repurchase Agreements - Wachovia			118,557
Repurchase Agreements - Rappahannock National Bank			2,342,140
SunTrust Government & Agency Fund			1,568,709
SNAP Pool			1,721,624
Union Investment Account			10,769,176
Total Assets			<u><u>\$23,510,190</u></u>

At June 30, 2009, 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, 2009

	Governmental Funds					2009 Totals (Memorandum Only)	2008 Totals (Memorandum Only)
	General	Debt Service	Special Revenue	Capital Projects	Proprietary Funds		
Balance July 1, 2008	\$ 7,136,742	\$ -	\$ 1,575,950	\$ -	\$ 17,369,160	\$ 26,081,852	\$ 28,670,202
Revised Totals	7,136,742	-	1,575,950	-	17,369,160	26,081,852	28,670,202
Receipts (net)							
Interfund advances/receipts	-	-	-	-	125,000	125,000	29,393
General property taxes	1,068,259	-	214	-	-	1,068,473	1,313,772
Other local taxes	3,359,615	-	-	-	-	3,359,615	3,879,615
Permits, fees and licenses	92,660	-	-	-	-	92,660	103,277
Fines and forfeitures	252,484	-	-	-	-	252,484	246,650
Revenues from use of money and property	119,307	-	-	-	257,399	376,706	1,033,344
Charges for services	45,165	-	-	-	22,005,358	22,050,523	22,429,988
Capital contributed	-	-	-	-	798,530	798,530	646,430
Miscellaneous	67,378	-	1,576	-	92,826	161,780	375,858
Recovered costs	25,000	-	18,474	-	-	43,474	36,550
Payment in lieu of taxes	1,046,893	-	-	-	-	1,046,893	229,098
Intergovernmental	2,555,145	-	-	-	-	2,555,145	2,350,766
Total Receipts	8,631,906	-	20,264	-	23,279,113	31,931,283	32,674,741
Total Available	15,768,648	-	1,596,214	-	40,648,273	58,013,135	61,344,943
Disbursements (net)							
Warrants (checks) issued	11,335,957	-	486,994	-	21,366,375	33,189,326	33,797,546
Retirement of indebtedness	125,000	77,219	-	-	918,426	1,120,645	1,098,917
Interfund advance payments	-	-	-	-	-	-	(95,607)
Interest on other debt costs	-	19,812	-	-	173,162	192,974	462,235
Total Disbursements	11,460,957	97,031	486,994	-	22,457,963	34,502,945	35,263,091
Transfers in	1,781,900	97,031	-	-	-	1,878,931	1,878,931
Transfers (out)	-	-	(97,031)	-	(1,781,900)	(1,878,931)	(1,878,931)
Total Transfers In (Out)	1,781,900	97,031	(97,031)	-	(1,781,900)	-	-
Balance June 30, 2009	\$ 6,089,591	\$ -	\$ 1,012,189	\$ -	\$ 16,408,410	\$ 23,510,190	\$ 26,081,852

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2009**

Taxable assessed value of real property	<u>\$ 1,752,668,860</u>
Debt limit (10 percent of assessed value)	\$ 175,266,886
Amount of debt applicable to debt limit:	
Gross Bonded debt	12,197,090
Less: Qualified Article VII debt	<u>-</u>
Total amount of debt applicable to debt limitation	<u>(12,197,090)</u>
Legal debt margin	<u>\$ 163,069,796</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.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the town's financial performance and well-being have changed over time.</i>	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 SEVEN FISCAL YEARS
(accrual basis of accounting)**

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
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	\$ 64,423,422
Restricted	-	-	-	-	-	-	-
Unrestricted	2,280,133	5,304,430	5,450,254	6,691,369	7,580,388	7,344,504	6,033,299
Total Governmental Activities Net Assets	\$ 88,039,341	\$ 86,147,403	\$ 83,649,627	\$ 81,315,962	\$ 79,035,738	\$ 75,279,750	\$ 70,456,721
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	\$ 34,365,817
Restricted	-	-	-	-	-	-	-
Unrestricted	2,280,133	2,649,403	3,873,842	26,004,470	23,052,300	19,679,106	18,511,327
Total Business-type Activities Net Assets	\$ 88,039,341	\$ 42,262,590	\$ 43,405,441	\$ 45,755,838	\$ 47,677,602	\$ 51,029,674	\$ 52,877,144
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	\$ 98,789,239
Restricted	-	-	-	-	-	-	-
Unrestricted	3,936,229	7,953,833	9,324,096	32,695,839	30,632,688	27,023,610	24,544,626
Total Primary Government Net Assets	\$ 129,116,927	\$ 128,409,993	\$ 127,055,068	\$ 127,071,800	\$ 126,713,340	\$ 126,309,424	\$ 123,333,865

Additional years will be added as information is available

TABLE II

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

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Expenses							
Governmental Activities:							
General government and administration	\$ 2,139,086	\$ 2,213,302	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597	\$ 2,832,009	\$ 3,172,642
Public safety	2,951,792	2,857,066	3,150,426	3,276,981	3,513,253	3,658,646	3,686,304
Public works	1,851,599	2,103,729	2,086,799	2,574,487	2,206,629	3,149,846	3,901,830
Planning, zoning, and community development	609,091	501,250	652,296	484,132	567,708	693,455	1,024,574
Culture and recreation	95,770	43,625	45,142	52,985	62,456	66,250	74,044
Interest on long term debt	41,299	3,788	69,567	28,180	26,549	23,257	19,812
Infrastructure depreciation	3,588,522	3,588,522	3,588,522	3,591,054	3,591,054	3,591,054	3,591,054
Total Governmental Activities Expenses	11,277,159	11,311,282	12,086,475	12,334,530	12,614,246	14,014,517	15,470,260
Business-Type Activities:							
Electric	6,631,457	9,173,662	9,082,609	9,523,363	16,250,138	12,600,249	13,535,201
Water	1,581,502	1,851,233	2,328,499	1,964,023	2,343,905	2,471,839	2,231,532
Sewer	2,228,065	2,061,542	2,636,183	2,285,966	2,752,915	2,691,398	2,659,873
Refuse	685,242	649,323	739,132	828,583	876,481	856,529	963,068
Total Business-Type Activities Expenses	11,126,266	13,735,760	14,786,423	14,601,935	22,223,439	18,620,015	19,389,674
Total Primary Government Expenses	22,403,425	25,047,042	26,872,898	26,936,465	34,837,685	32,634,532	34,859,934
Program Revenues							
Governmental Activities:							
Charges for services:							
General government	7,397	88,891	71,572	131,037	141,719	111,776	95,947
Public safety	251,882	308,337	235,282	406,081	361,844	283,200	295,958
Public works	50,918	46,761	45,371	18,759	27,757	10,919	18,172
Planning, zoning, and community development	73,943	80,864	93,957	77,858	101,763	103,277	92,660
Operating grants and contributions	1,634,435	1,618,991	1,704,613	1,447,990	1,858,205	1,872,998	1,912,511
Capital grants and contributions	50,189	64,156	80,484	43,416	170,526	115,062	121,767
Total Governmental Activities Program Revenues	2,068,764	2,208,000	2,231,279	2,125,141	2,661,814	2,497,232	2,537,015
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	15,125,811
Water	2,241,254	2,450,850	2,856,329	3,198,691	3,695,001	3,115,794	3,145,958
Sewer	2,153,905	2,330,077	2,674,149	3,011,979	3,645,537	2,846,667	2,774,605
Refuse	730,938	770,344	779,275	806,968	801,974	934,936	918,611
Operating grants and contributions	-	-	-	-	-	-	-
Capital grants and contributions	396,743	316,543	226,919	71,706	1,094,499	646,430	798,530
Total Business-Type Activities Program Revenues	15,140,745	16,826,957	17,883,433	18,596,582	24,691,141	23,004,253	22,763,515
Total Primary Government Program Revenues	17,209,509	19,034,957	20,114,712	20,721,723	27,352,955	25,501,485	25,300,530

Table II
(Continued)

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

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Net (Expense) Revenue							
Governmental Activities	\$ (9,208,395)	\$ (9,103,282)	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)	\$ (11,517,285)	\$ (12,933,245)
Business-Type Activities	4,014,479	3,091,197	3,097,010	3,994,647	2,467,702	4,384,238	3,373,841
Total Primary Government Net Expense	(5,193,916)	(6,012,085)	(6,758,186)	(6,214,742)	(7,484,730)	(7,133,047)	(9,559,404)
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Property taxes	1,029,043	1,258,013	1,213,101	1,280,730	1,335,686	1,330,595	1,303,327
Sales taxes	448,086	507,804	570,926	586,133	613,495	683,974	690,993
Business and occupational taxes	539,916	611,617	624,511	740,268	721,486	708,018	620,567
Franchise taxes	179,371	309,497	211,544	213,601	206,989	150,318	1,500
Communication taxes	-	-	-	-	-	-	177,556
Consumer taxes	182,303	178,879	178,423	191,554	240,682	228,828	181,779
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	1,472,392
Virginia personal property tax reduction	254,979	285,334	262,457	280,041	287,878	287,863	287,863
Payment in lieu of taxes	-	-	-	-	-	229,098	1,046,893
Other general taxes	495,708	507,664	559,315	583,928	541,073	438,560	426,139
Unrestricted investment earnings	77,910	73,089	101,589	209,469	284,273	283,610	119,307
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	1,781,900
Total Governmental Activities	6,535,853	7,211,344	7,357,420	7,875,724	7,672,208	7,761,297	8,110,216
Business-Type Activities:							
Unrestricted investment earnings	219,843	114,857	173,241	497,182	1,097,679	749,734	255,529
Transfers	(1,957,860)	(2,021,050)	(2,127,400)	(2,141,432)	(1,643,617)	(1,781,900)	(1,781,900)
Total Business-Type Activities	(1,738,017)	(1,906,193)	(1,954,159)	(1,644,250)	(545,938)	(1,032,166)	(1,526,371)
Total Primary Government	4,797,836	5,305,151	5,403,261	6,231,474	7,126,270	6,729,131	6,583,845
Change in Net Assets							
Governmental Activities	(2,672,542)	(1,891,938)	(2,497,776)	(2,333,665)	(2,280,224)	(3,755,988)	(4,823,029)
Business-Type Activities	2,276,462	1,185,004	1,142,851	2,350,397	1,921,764	3,352,072	1,847,470
Total Primary Government	(396,080)	(706,934)	(1,354,925)	16,732	(358,460)	(403,916)	(2,975,559)

Additional years will be added as information is available

TABLE III

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

Fiscal Year	Property	Sales	Business and Occupational	Comm. and Franchise	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	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	229,098	438,560	5,695,787
2009	1,303,327	690,993	620,567	179,056	181,779	-	1,472,392	287,863	1,046,893	426,139	6,209,009

Additional years will be added as information is available

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

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
General Fund							
Reserved for other	\$ 2,646,710	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975
Unreserved	2,219,482	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609
Total General Fund	\$ 4,866,192	\$ 4,473,580	\$ 4,544,285	\$ 5,492,562	\$ 6,508,606	\$ 6,248,145	\$ 5,547,584
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	919,779
Capital funds	706,945	974,884	7,634	388	388	388	388
Total all other governmental funds	\$ 729,737	\$ 952,609	\$ 1,058,593	\$ 1,461,308	\$ 1,447,711	\$ 1,483,782	\$ 920,167

Additional years will be added as information is available

TABLE V

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

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
REVENUES:							
Taxes:							
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909
Sales	448,086	507,804	570,926	586,133	613,495	683,974	690,993
Business and occupational	539,916	611,617	624,511	740,268	721,486	708,018	620,567
Franchise	179,371	309,497	211,544	213,601	206,989	150,318	1,500
Consumer	182,303	178,879	178,423	191,554	240,682	228,828	181,779
Vehicle licenses	226,033	230,743	236,441	246,458	239,854	226,689	223,417
Bank stock	143,828	143,065	166,904	197,212	159,285	160,640	152,245
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763	103,277	92,660
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631	246,650	252,484
Revenues from use of money and property	77,910	73,089	101,589	209,469	284,273	283,610	119,307
Charges for services	101,107	111,143	101,343	84,363	100,909	73,114	45,165
Miscellaneous	7,397	16,055	74,017	118,667	68,567	49,581	68,954
Recovered costs	145,000	104,433	15,569	98,806	5,213	36,550	43,474
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215	229,098	1,046,893
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174
Total Revenues	6,492,885	7,376,987	7,509,382	7,927,931	8,564,116	8,437,289	8,860,913
EXPENDITURES:							
General government							
Legislative	165,682	188,630	205,523	135,379	156,788	175,717	173,189
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219
Legal	187,413	215,643	246,472	215,991	248,934	257,621	416,400
Finance	664,008	779,038	670,026	673,576	748,380	801,115	828,300
Public Safety							
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748
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	953,740
Engineering and public works	2,154,147	2,688,013	2,285,996	2,312,554	2,493,932	3,033,398	3,776,368
Parks and recreation	88,131	41,000	41,000	47,596	56,594	61,208	68,924
Nondepartmental	291,714	385,770	621,043	584,781	532,993	513,067	520,070
Debt Service							
Principal	325,927	18,196	144,742	75,410	70,483	73,774	77,219
Interest	41,299	3,788	69,567	28,180	26,549	23,257	19,812
Capital outlay	1,025,638	24,201	77,927	7,246	-	4,415	-
Total Expenditures	9,300,522	8,632,972	9,460,093	8,718,371	9,352,276	10,443,579	11,906,989
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,807,637)	(1,255,985)	(1,950,711)	(790,440)	(788,160)	(2,006,290)	(3,046,076)
OTHER FINANCING SOURCES (USES):							
Transfers in	2,348,562	2,058,450	2,348,709	2,245,022	1,740,649	1,878,931	1,878,931
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)	(97,031)
Special revenue	-	8,454	-	-	-	-	-
Interfund borrowing proceeds	1,250,000	-	-	-	-	-	-
Sale of capital assets	100,711	46,162	-	-	-	-	-
Other sources	-	-	-	-	146,990	-	-
Total Other Financing Sources (Uses)	3,308,571	2,075,666	2,127,400	2,141,432	1,790,607	1,781,900	1,781,900
NET CHANGE IN FUND BALANCES	\$ 500,934	\$ 819,681	\$ 176,689	\$ 1,350,992	\$ 1,002,447	\$ (224,390)	\$ (1,264,176)
Debt service as a percentage of noncapital expenditures	4.44%	0.26%	2.28%	1.19%	1.04%	0.93%	0.81%

Additional years will be added as information is available

TABLE VI

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

Fiscal Year	Real Property		Personal Property			Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Business Equipment	Other		Real Estate	Personal Property
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
2009	1,429,456,286	14,984,060	103,750,195	16,769,150	2,082,305	1,567,041,996	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	
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
2009	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56

Source: Town of Front Royal and Warren County

TABLE VIII

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2000**

Taxpayer	2009		Taxpayer	2000	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family	\$ 23,994,000	1.66%	PW & Bosseau Rudacille, L.P.	\$ 8,026,700	1.49%
Ramsey Inc.	12,909,800	0.89%	Gateway Plaza Shopping Center	5,318,600	0.99%
Gateway Plaza Shopping Center	7,678,000	0.53%	Home Life, Inc.	5,046,300	0.94%
Shenandoah Square LP	6,947,000	0.48%	Shenandoah Properties	3,232,700	0.60%
HLI Endowment	6,845,200	0.47%	James E. Corr	2,717,100	0.50%
Williams Land co Inc.	6,728,700	0.47%	Cogil Corporation	2,696,000	0.50%
Cogil Corporation	6,114,500	0.42%	Front Royal Associates	2,628,100	0.49%
Corr Family	5,416,300	0.37%	Southerlands	2,623,800	0.49%
Royal Arms Associates	4,765,100	0.33%	Royal Hills Limited	2,597,700	0.48%
Puja Properties	4,294,800	0.30%	Rappawan, Inc.	1,599,645	0.30%
Total	<u>\$ 85,693,400</u>	<u>5.93%</u>		<u>\$ 36,486,645</u>	<u>6.78%</u>

Source: Warren County property assessors office

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collection as Percent of Current Levy
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%
2009	1,598,477	1,539,151	96.29%	17,598	1,556,749	97.39%

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

TABLE X

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

Fiscal Year	Governmental Activities	Business Type Activities	Total Primary Government	Personal Income (in \$1,000)	Percentage of Personal Income	Population	Per Capita
	General Obligation Bonds	General Obligation Bonds					
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
2009	347,020	11,850,070	12,197,090	483,029	2.53%	14,616	835

DNA - Data not available

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

Fiscal Year	General Obligation Bonds	Debt Payable from Enterprise Revenues	Net Bonded Debt	Assessed Value in \$1,000	Percentage of Actual Taxable Value of Property	Population	Per Capita
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	1,552,674	0.03%	14,475	29.31
2009	12,197,150	11,850,070	347,080	1,567,042	0.02%	14,616	23.75

**TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2009**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	\$ 3,800,000		
Warren County School Board	8,478,108		
Subtotal, overlapping debt	<u>12,278,108</u>	49%	\$ 6,016,273
Town of Front Royal (direct debt)	<u>12,197,090</u>	100%	<u>12,197,090</u>
Total direct and overlapping debt			<u><u>18,213,363</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 EIGHT FISCAL YEARS**

TABLE XIII

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	\$ 58,590,810	\$ 71,147,598	\$ 56,191,727	\$ 76,458,758	\$ 78,458,758	\$ 143,323,827	\$ 145,212,163	\$ 175,266,886
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	12,197,090
Legal debt margin	\$ 50,806,175	\$ 64,170,362	\$ 49,985,091	\$ 71,158,234	\$ 63,693,504	\$ 129,182,523	\$ 132,031,822	\$ 163,069,796
Total net debt applicable to the limit as a percentage of debt limit	15%	11%	12%	7%	23%	11%	10%	7%

Additional years will be added as information is available

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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
2009	22,220,514	17,417,903	4,802,611	906,030	531,927	1,437,957	3.34

¹Gross revenue includes operating revenues and investment earnings

²Total operating expenses exclusive of depreciation

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

Year	Estimated Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
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	*	5,252	3.4%
2009	14,616	483,029	33,048	37	*	5,240	7.0%

*Median age and education level only available in census years

Source: Town of Front Royal and Warren County School Board

DNA: Data not available

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND 2000**

2009		2000	
<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>
Warren Co. School Board	953	Warren Co. School Board	650
Family Dollar Stores Distribution Center	530	Family Dollar Stores Distribution Center	600
Valley Health System	480	E.I. Dupont De Nemours & Co.	370
E.I. Dupont De Nemours & Co.	372	Valley System	325
Warren County	278	Pen Tab Industries	280
FDR Services	200	Town of Front Royal	180
Town of Front Royal	193	FDR Services	175
Martin's Food Market	175	Toray Plastics	140
Randolph - Macon Academy	151	United Parcel Service	115
VIA Satellite	135	Kmart Corporation	115
		Randolph - Macon Academy	115

Source: Estimates from Warren County Economic Development Authority

TOWN OF FRONT ROYAL, VIRGINIA
FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST SEVEN 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>	<u>2009</u>
General Government	26	29	27	29	29	41	40
Fire Protection	3	1	1	1	1	0	0
Police Protection	43	45	45	45	45	47	47
Highway - Streets	21	20	20	19	22	17	17
Sanitation	13	13	14	13	14	15	13
Water	12	13	13	13	12	13	14
Sewer	17	17	16	18	17	15	14.5
Electrical	15	15	14	12	14	11	12
Culture and Recreation	1	1	1	1	1	0	0
	<u>151</u>	<u>154</u>	<u>151</u>	<u>151</u>	<u>155</u>	<u>159</u>	<u>157.5</u>

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST SEVEN 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>	<u>2009</u>
Public Safety							
Police							
Physical arrests				1,398	1,443	1,436	1,108
Parking violations				1,074	1,063	678	752
Traffic violations				3,739	3,844	3,560	4,379
Wastewater							
New service connections					320	48	33
Average daily treatment in gallons	2,100,000	3,490,755	3,523,000	3,523,000	3,069,310	2,988,613	3,399,715
Water System							
New connections					320	52	32
Average daily consumption	1,750,000	1,678,000	1,708,000	1,708,000	1,708,000	1,976,953	2,143,041
Electric Distribution							
New Connections					320	25	16
Average daily KWH consumption			472,041	492,688	493,095	576,589	545,482
Sanitation							
Refuse collected (tons/day)	40	40	40	40	40	22	15
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	0.25	2	2
Highway and Streets							
Repair services				55	60	65	55
Street resurfacing (miles)				15	27	35	5

Additional years will be added as information is available

**TOWN OF FRONT ROYAL, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST SEVEN 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>	<u>2009</u>
Public Safety							
Police							
Stations	1	1	2	2	2	2	2
Patrol Units	6	6	9	12	12	12	12
Fire Stations	1	1	1	1	1	1	1
Highways and Streets							
Streets (miles)	143	143	143	143	143	133	133
Streetlights	1,430	1,430	1,430	1,430	1,430	1,430	1,450
Traffic signals	14	14	14	15	15	15	14
Culture and Recreation							
Community centers	1	1	1	1	1	1	1
Parks	13	13	13	13	13	13	13
Park acreage	165	165	165	165	165	165	165
Swimming pools	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	9
Sewer System							
Sanitary sewers (miles)	117	117	117	196	196	198	198
Storm sewers (miles)	27	27	27	90	90	92	92
Treatment plants	1	1	1	1	1	1	1
Maximum daily capacity				4,000,000	4,000,000	4,000,000	4,000,000
Water System							
Facilities	1	1	1	1	1	1	1
Fire Hydrants	555	555	555	560	560	582	618
Maximum daily capacity				3,000,000	3,000,000	3,000,000	6,000,000
Electric System							
Miles of service lines	140	140	140	140	140	140	140
Distribution stations	3	3	3	3	3	3	4
Sanitation							
Collection Trucks	5	5	5	5	5	5	5

Additional years will be added as information is available

COMPLIANCE SECTION

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PATRICIA L. BARRETT, CPA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2009, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated October 5, 2009. 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.

October 5, 2009
Leesburg, Virginia

Mitchell & Co., P.C.